

January 23, 2023

Lendingkart Finance Limited: Rating reaffirmed for PTCs issued under unsecured business loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
SBL Rudolph 2021	Series A1 PTC	41.10	NA	8.62	[ICRA]A+(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of unsecured business loans originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+ (Stable)}. The rating for the SBL Rudolph 2021 (Rudolph) transaction has been reaffirmed on account of the healthy amortisation and good performance, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency for the pool is likely to be comfortable compared to the actual collection efficiency seen in the pool even after resetting the CE in the transaction.

Pool performance summary

A summary of the performance of the pool till the November 2022 collection month (December 2022 payout month) has been tabulated below.

Parameter	Rudolph
Months post securitisation	12
Pool amortisation	58.80%
PTC amortisation – Series A1 PTC	79.03%
Cumulative collection efficiency ¹	96.75%
Loss-cum-0+ (% of initial pool principal) ²	5.48%
Loss-cum-30+ (% of initial pool principal) ³	4.09%
Loss-cum-90+ (% of initial pool principal) ⁴	3.21%
Breakeven collection efficiency ⁵ – Series A1 PTC	22.24%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	19.42%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) – Series A1 ⁶ PTC	14.89%
Principal subordination (% of balance pool principal) – Series A1 PTC	55.72%
Cumulative prepayment rate ⁷	20.54%

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² POS on contracts aged 0+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

⁵ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁶ (Pool Interest – Interest payments to PTC investors) / Pool principal outstanding

⁷ Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

Reset of CE

At Lendingkart's request for resetting the CE, ICRA has analysed the Rudolph transaction at a cash collateral (CC) of Rs. 1.13 crore against the currently available CC of Rs. 3.78 crore (after December 2022 payouts). Based on the pool's performance, the rating for the tranche will remain unchanged even after resetting the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- Healthy amortisation of pool resulting in build-up of CC, principal subordination and excess interest spread (EIS) cover available for the balance PTC payouts

Credit challenges

- Stress in asset quality due to Covid-19 pandemic as reflected in higher restructuring and write-offs
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 96.8% till the December 2022 payout month, despite some dip in the monthly collections over the last few months. This is due to the lower collections from overdue contracts, which resulted in some slippages in the delinquencies. While the loss-cum-90+ days past due (dpd) has been increasing over the last few months, it remains moderate at 3.2%. The pool has seen moderate prepayments with an average monthly prepayment rate of 1.9% and it has amortised by ~59%. There has been no CC utilisation in the pool till the December 2022 payout month. Due to the healthy amortisation and nil CC utilisation till date, there has been a CE build-up in the pool with respect to the balance pool principal. The pool would be exposed to the inherent credit risks associated with the unsecured nature of the asset class and their performance would remain exposed to any macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors (after downward reset of the CC) is sufficient to reaffirm the rating at the current rating level in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated 35 pools originated by Lendingkart. The performance of the live pools (which have completed at least 2 months post securitisation) has been healthy till date with the cumulative collection efficiency in the range of 94-99% for all the transactions. No CC has been utilised till the December 2022 payout.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transaction involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pool, as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA

believes could impact the performance of the underlying pool of contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pool are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	SBL Rudolph 2021	4-5%	6-18% p.a.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to ~19% of the outstanding pool principal amount (pre-proposed reset). Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the promised PTC payouts for the balance expected tenure of the PTCs.

Rating sensitivities

Positive factors – The rating could be upgraded if the CC fully covers the future PTC payouts.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the pool's performance till November 2022 (collection month), the present delinquency level analysis of the performance of Lendingkart's portfolio till September 2022, the performance expected over the balance tenure of the pool and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Lendingkart provides unsecured small and medium-sized enterprise (SME) loans. Lendingkart Technologies Private Limited (LTPL), the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in Lendingkart. Fullerton Financial Holdings Pte Limited (FFH) had a 39.15% stake in LTPL as on March 31, 2022. The Group was started in 2014 by one of the co-founders, Mr. Harshvardhan Lunia, and raised funds from FFH, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Sistema Asia Fund and Darrin Capital Management.

The Lendingkart Group is a part of the rapidly evolving fintech industry and it leverages technology to underwrite credit to extend loans to the SME segment, which distinguishes its algorithm-driven credit capabilities from the physical credit underwriting performed by various industry players. Loans are given to micro and small enterprises for meeting their working capital needs. The underwriting is based on the scoring by a proprietary algorithm.

Key financial indicators (standalone)

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Total income	464	510	639
Profit after tax (PAT)*	30	18	(141)
Total managed assets	2,601	2,832	3,721
Gross stage 3	2.2%	2.5%	3.9%
Net stage 3	1.0%	0.9%	1.6%

Source: Lendingkart, ICRA Research; All ratios as per ICRA's calculations

*Adjusting for one-time restructured loan impairment of Rs. 59 crore in FY2021 and Rs. 275 crore in FY2022, adjusted PAT was Rs. 77 crore and Rs. 133 crore in FY2021 and FY2022, respectively

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Jan 23, 2023	Mar 22, 2022^	Jan 03, 2022*	-	-
1	SBL Rudolph 2021	Series A1 PTC	41.10	8.62	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

*Provisional rating assigned

^Provisional rating finalised

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
SBL Rudolph 2021	Series A1 PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
SBL Rudolph 2021	Series A1 PTC	December 2021	10.20%	May 2024	8.62	[ICRA]A+(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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