

April 19, 2023

Lendingkart Finance Limited: Ratings 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
Northern Arc 2021 SBL Chicago	Series A1a PTC	40.60	NA	0.24	[ICRA]A+(SO); Reaffirmed
	Series A1b PTC	4.47	NA	4.47	[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 ratings factor in the healthy amortisation of the pool with moderate delinquency levels, leading to the build-up of the credit enhancement (CE) cover over the future PTC payouts. Nonetheless, the ratings remain constrained by the credit profile of the cash collateral (CC)-holding financial institution. ICRA notes that the breakeven collection efficiency remains comfortable compared to the actual collection levels observed in the pool.

Pool performance summary

A summary of the performance of the pool till the February 2023 collection month (March 2023 payout month) has been tabulated below.

Parameter	Northern Arc 2021 SBL Chicago
Months post securitisation	15
Pool amortisation	72.07%
PTC amortisation – Series A1a PTC	99.41%
Series A1b PTC	0.00%
Cumulative collection efficiency ¹	96.64%
Loss-cum-0+ (% of initial pool principal) ²	6.72%
Loss-cum-30+ (% of initial pool principal) ³	5.36%
Loss-cum-90+ (% of initial pool principal) ⁴	3.57%
Breakeven collection efficiency ⁵ – Series A1a PTC	0.00%
Series A1b PTC	9.80%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	21.48%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) ⁶ – Series A1a PTC	14.05%
Series A1b PTC	14.05%
Principal subordination (% of balance pool principal) – Series A1a PTC	98.36%
Series A1b PTC	67.92%
Cumulative prepayment rate	22.46%

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

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 Lendingkart's 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 96.6% till the March 2023 payout month, despite a dip in the monthly collections over the last few months. The drop was due to lower collections from overdue contracts, which resulted in some slippages into the harder delinquency buckets. While the loss-cum-90+ days past due (dpd) has been increasing over the last few months, it remains moderate at 3.6%. The pool has seen moderate prepayments with an average monthly prepayment rate of 1.6% and it has amortised by ~72%. There has been no CC utilisation in the pool till the March 2023 payout month. Due to the healthy amortisation and nil CC utilisation till date, there has been a build-up of the CE in the transaction with respect to the balance principal. Nonetheless, the ratings remain constrained by the credit profile of the CC-holding financial institution, which is a non-banking financial company (NBFC) rated [ICRA]A+ (Stable). Going forward, the pool would remain exposed to the inherent credit risks associated with the unsecured nature of the asset class and any macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels 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 39 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 95-99% for all the transactions. No CC has been utilised till the March 2023 payout month.

Key rating assumptions

ICRA's cash flow analysis for asset-backed securitisation (ABS) transactions 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	Northern Arc 2021 SBL Chicago	3.5-4.5%	6-18% p.a.

Liquidity position: Strong

The CC covers the entire cash flow for Series A1a PTC. For Series A1b PTC, the collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive/Negative factors – The ratings are unlikely to be revised, given the low expected balance tenure of the PTCs.

Analytical approach

The rating action is based on the pool's performance till February 2023 (collection month), the present delinquency level analysis of the performance of Lendingkart's portfolio till December 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	9M FY2023
	Audited	Audited	Audited	Provisional
Total income	464	510	639	601
Profit after tax (PAT)*	30	18	(141)	87
Total managed assets	2,601	2,832	3,721	4,507
Gross stage 3	2.2%	2.5%	3.9%	1.2%
Net stage 3	1.0%	0.9%	1.6%	0.7%

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	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 19, 2023	Apr 20, 2022	Jan 03, 2022*	-
1	Northern Arc 2021 SBL Chicago	Series A1a PTC	40.60	0.24	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-
		Series A1b PTC	4.47	4.47	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-

*Provisional rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 SBL Chicago	Series A1a PTC	Moderately Complex
	Series A1b 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
Northern Arc 2021	Series A1a PTC	December 2021	10.55%	May 2024	0.24	[ICRA]A+(SO)
SBL Chicago	Series A1b PTC		13.00%		4.47	[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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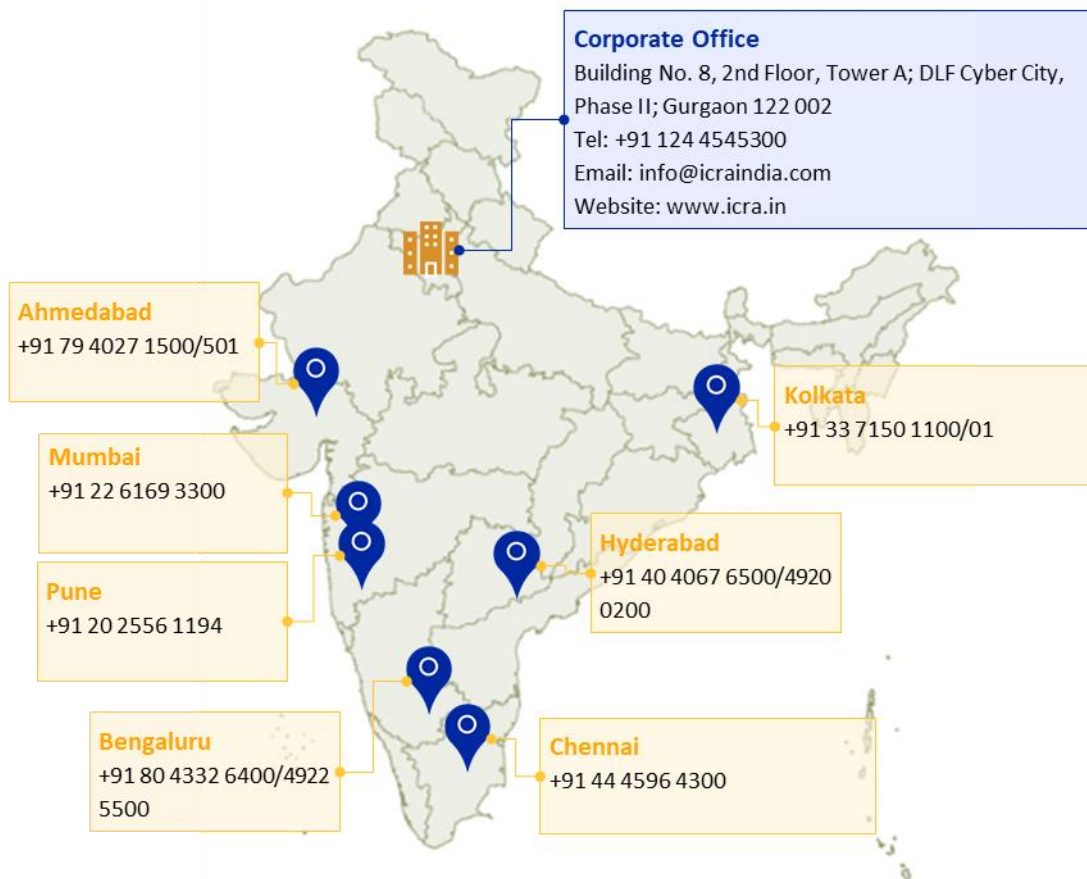
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