

June 05, 2023

Lendingkart Finance Limited: Provisional [ICRA]A+(SO) assigned to PTC Series A issued by Aryabhata 2023, backed by a pool of unsecured small business loans

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Aryabhata 2023	PTC Series A	18.26	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a Provisional [ICRA]A+(SO) rating to the pass-through certificate (PTC) Series A issued under a securitisation transaction originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+ (Stable)}. The PTCs are backed by receivables from a Rs. 26.09-crore (pool principal amount of Rs. 20.52 crore) pool of unsecured small business loans (SBLs).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 7.00% of the pool principal to be provided by the originator, (ii) subordination of 11.00% of the pool principal and (iii) excess interest spread (EIS) of 19.08% in the structure. The provisional rating is also based on the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and cash collateral.
- Absence of overdue contracts as on pool cut-off date.

Credit challenges

- The portfolio had seen 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

According to the transaction structure, the loan pool receivables were assigned at par to the trust. The promised cash flow schedule for PTC Series A on a monthly basis will comprise the interest (at the predetermined yield) on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. The EIS will not flow to the originator and would instead be utilised for the prepayment of the principal to PTC Series A on a monthly basis.

The first line of support for PTC Series A in the transaction is in the form of a subordination of 11.00% of the pool principal (includes equity tranche/over-collateralisation). Further credit support is available in the form of an EIS of 19.08% for PTC Series A. A CC of 7.00% of the initial pool principal, to be provided by Lendingkart, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is moderate with the top 3 states constituting ~32% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~6 months) and pre-securitisation amortisation (~16%). The pool has a high share of contracts (~53%) with a ticket size of more than Rs. 10 lakh. Further, the CIBIL score of all the contracts is above 700. The pool has a relatively lower share of high IRR (interest rate) contracts with only ~12% of the contracts having an IRR of more than 30%. The pool would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: ICRA has rated 41 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 April 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the 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 these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 5.00-6.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of Lendingkart's portfolio till December 2022/March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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	FY2023
	Audited	Audited	Audited	Audited
Total income	464	510	639	824
Profit after tax*	30	18	(141)	116
Total managed assets	2,601	2,832	3,721	4,978
Gross stage 3	2.2%	2.5%	3.9%	1.8%
Net stage 3	1.0%	0.9%	1.6%	0.8%

Source: Lendingkart, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

*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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					June 05, 2023	-	-	-
1	Aryabhata 2023	PTC Series A	18.26	18.26	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Aryabhata 2023	PTC Series A	May 2023	10.50%	December 2025	18.26	Provisional [ICRA]A+(SO)

Source: Company

*Based on scheduled maturity of the pool contracts; may change on account of prepayment

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.

For more information, visit www.icra.in

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