June 29, 2023

Lendingkart Finance Limited: Rating reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market Linked Debenture Long Term^	48.525	23.525	PP-MLD[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Non-Convertible Debentures#	-	25.00	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Non-Convertible Debentures	158.975	-	[ICRA]BBB+ reaffirmed and withdrawn; outlook revised to Positive from Stable
Long-term/Short-term Fund-based Bank Lines	600.00	600.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook on long term rating revised to Positive from Stable
Total	**807.50**	**648.525**	

**Instrument details are provided in Annexure I*

^Market linked debenture long term limit is interchangeable with non-convertible debentures up to Rs. 48.525 crore; if placed as NCD, rating of [ICRA]BBB+(Positive) will be applicable.

#Part of the interchangeable limit of PP-MLD has been issued as NCD.

Rationale

The revision in the outlook to Positive on the long-term ratings of Lendingkart Finance Limited (LFL) factors in the significant improvement in its scale of operations and profitability, which is likely to sustain. The credit costs, which were elevated in FY2021 and FY2022 due to the Covid-19 pandemic related stress, have reduced in FY2023 thereby supporting the profitability. With strong growth in AUM, the profitability is expected to further improve, going forward, provided LFL can contain its credit losses. Given the significant growth in assets under management (AUM), the managed consolidated gearing increased to 6.3 times as on March 31, 2023 (4.8 times as on March 31, 2022). ICRA expects the company to raise equity in the near term including participation from the existing shareholders, which would be key in view of its growth plans.

The ratings factor in the strategic, operational and funding support from the largest shareholder, Fullerton Financial Holdings Pte Limited (FFH; holding 38.16% stake as of March 31, 2023) in Lendingkart Technologies Private Limited (LTPL), which, in turn, has a 100% stake in LFL. The ratings also consider the extensive experience of LFL's senior management team and technology-enabled processes driving scalability (AUM grew by 52% to Rs. 4,978 crore in FY2023, while the 5-year compound annual growth rate (CAGR) till FY2023 stood at 60%). LFL's business model now entails a high proportion of off-balance sheet lending (co-lending formed 63% of the AUM as of March 31, 2023). LFL has been able establish relationships with various banks and non-banking financial companies (NBFCs) under its co-lending arrangements. Its ability to further diversify and grow its existing relationships will be critical for targeted growth.

The company's asset quality and profitability, which were impacted by Covid-19, have been improving; and given the reduction in standard restructured book and overdue loans, the asset quality outlook remains satisfactory. The company's gross and net Stage 3 stood at 2.6% and 1.4%, respectively, as on March 31, 2023 (gross 90+dpd stood at 1.8% of the AUM; 0.8% net of provisioning). Profitability improved with moderation in credit loss provisions, consequently, the profit after tax (PAT) increased to Rs. 119 crore in FY2023 (PAT/Average Managed Assets (AMA) of 2.3%) on a consolidated basis for the group[1] compared to net loss of Rs. 203 crore in FY2022. The inherent risk associated with the unsecured micro, small and medium enterprises (MSME) segment is mitigated by the portfolio's coverage under the sovereign schemes of Credit Guarantee Fund

[1] Lendingkart Technologies Private Limited and its subsidiaries, collectively referred to as the group.

Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU) (80% of the AUM as on March 31, 2023), which will help to curtail the credit losses.

The Positive outlook on the rating factors in ICRA's expectations that LFL will continue to improve its scale of operations with an improvement in its earnings profile while maintaining its asset quality. Further, the Positive outlook factors in ICRA's expectations that the company will raise equity capital in the near term including participation from existing investors to support its growth plans.

ICRA has reaffirmed and withdrawn the rating assigned to LFL's Rs. 158.975-crore NCD programme at the company's request as these instruments have been redeemed in full and there are no dues outstanding against them. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Experienced strategic investors – Formed in 2014, LFL is a part of the Lendingkart Group. The Group's investors include FFH, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Darrin Capital Management and Sistema Asia Fund, with FFH being the largest shareholder with a stake of 38.16% (as on March 31, 2023) in LTPL (parent of LFL). FFH is experienced in the financial services sector of various emerging markets. FFH has a strong representation on LFL's board with three representatives and is actively involved in strengthening the processes and systems of the company. The company has received equity of Rs. 722 crore from FFH since FY2019. The rating derives comfort from the operational and financial support from FFH and the continued board supervision.

Integrated technology platform; improving scale of operations – LFL exclusively uses a branchless digital technology platform, developed and maintained by LTPL, for sourcing, credit underwriting and monitoring. The credit underwriting model is based on business cash flows using a proprietary algorithm that uses various data points including the bank statements and credit bureau report of the borrowers for arriving at the credit score. This has enabled deeper reach and coverage of underserved markets, aiding scalability with diversification. LFL's AUM grew by 52% to Rs. 4,978 crore as on March 31, 2023, driven by higher loan disbursements under the co-lending arrangements. This led to a significant increase in the share of the off-book AUM to 63% as on March 31, 2023, from 43% as on March 31, 2022, which is expected to continue into the foreseeable future. LFL has co-lending arrangements with 17 lenders (banks and NBFCs), with the co-lenders' share ranging from 70-100%. LFL disburses unsecured loans with an average ticket size of ~Rs. 7 lakh and an average tenure of ~33 months. Supported by its digital platform and branchless model, LFL is present across 28 states and six Union Territories (UTs) in India. The concentration of LFL's loan book in a single state or industry did not exceed 16% as on March 31, 2023, thereby enabling the diversification of the risk.

Improving earnings profile; keeping credit cost under control would remain key – The earnings for the entity has improved in FY2023. LFL reported a net profit of Rs. 116 crore in FY2023 (2.3% of AMA) as compared to a net loss of Rs. 141 crore in FY2022. The profitability for the company was impacted in FY2021 and FY2022 largely by the high credit costs driven by the impact of the pandemic and unsecured nature of the loan portfolio. The improvement in profitability has been driven by the significant reduction in credit costs to 2.2% of AMA in FY2023 as compared to 11.9% in the previous year. The operating expenses were, however, higher at 6.4% to support the growth and expansion. With strong growth in AUM, the profitability is expected to further improve, going forward, provided the company is able to contain its credit losses. The coverage under CGTMSE and CGFMU is, however, expected to limit the net credit losses (80% of the AUM as on March 31, 2023 is covered under these schemes). On a consolidated basis, the PAT improved to Rs. 119 crore (PAT/AMA of 2.3%) in FY2023 as compared to net loss of Rs. 203 crore in FY2022. LTPL, on a standalone basis, continues to post losses due to the incremental costs incurred towards technology development and maintenance. LTPL is, however, expected to become profitable in near term driven by growth in disbursements by LFL, as LTPL charges a fee for the disbursement by LFL.

Credit challenges

Moderate capitalisation – The managed gearing of the Group increased to 6.3 times as on March 31, 2023 as compared to 4.8 times as on March 31, 2022, with significant growth in the co-lending portfolio. The on-balance sheet consolidated gearing of the company stood at 2.3 times as on March 31, 2023 with Tier 1 ratio of 36.0% (higher than 25.9% as on March 31, 2022). The company provides first loss default guarantee (FLDG) to the co-lending partner in the form of a corporate guarantee/ fixed deposit, which stood at Rs. 244 crore as on March 31, 2023 (7.7% of the off-balance sheet AUM as on March 31, 2023); the same has reduced from ~20% as on March 31, 2022. Given the recent RBI guidelines, the FLDG is expected to reduce to 5%. Considering LFL's significant growth plans, ICRA expects the entity to raise equity capital in the near term including participation from existing shareholders.

Moderate borrower profile – LFL caters to the MSME segment, which is highly vulnerable to downturn in economic cycles. Further, the entire AUM of LFL represents unsecured lending, which impedes recoveries from the harder delinquency buckets. However, 80% of the AUM is covered under the CGTMSE and CGFMU schemes, which is expected to limit the net credit losses. Further, LFL's incremental disbursements since FY2021 were towards customers with better credit and higher credit bureau scores, which has helped improve the overall risk profile of the AUM and lower the delinquencies in the softer buckets. The company targets customers in Tier 2 and Tier 3 cities with an average ticket size of Rs. 7 lakh. LFL's asset quality deteriorated in FY2021 and FY2022 from the impact of the pandemic. The asset quality, however, improved in FY2023 with the company largely providing for its restructured book in FY2022. The gross and net Stage 3 stood at 2.6% and 1.4%, respectively, as on March 31, 2023 (3.9% and 1.6%, respectively, as on March 31, 2022)[2]. Including write-offs during FY2023, the gross Stage 3 stood at 6.4% as on March 31, 2023 (22.3% as on March 31, 2022) [3]. During the pandemic, LFL extended restructuring relief to eligible borrowers amounting to AUM of around Rs. 500 crore under the RBI's guidelines, a large portion of which was later written off. As a result, the gross restructured book reduced to Rs. 95 crore as on March 31, 2022 (4.7% of the loan book) and further down to Rs. 14 crore as on March 31, 2023 (0.8%). Given the reduction in the stressed assets, the reported asset quality indicators for the company are likely to remain stable.

Liquidity position: Adequate

LFL has repayment obligations of Rs. 480 crore (principal + interest on borrowings) for the six-month period till September 2023. As on March 31, 2023, it had unencumbered cash and cash equivalents of Rs. 234 crore and sanctioned but unutilised lines of Rs. 120 crore. In addition, LTPL had liquidity cushion of Rs. 25 crore in the form of unencumbered cash and cash equivalents as on March 31, 2023. Liquidity is also supported by inflows from the loan book. The company did not have any cumulative mismatches in the less-than-one-year tenor in the structural liquidity statement (SLS) as of March 31, 2023.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company shows a consistent improvement in its profitability over the near-to-medium term, while improving the asset quality.

Negative factors – A material change in FFH's shareholding in LTPL or the consequent support to LTPL could warrant a rating downgrade. Pressure on the ratings could also arise if there is a continued deterioration in the asset quality and managed gearing, on a sustained basis.

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[2] gross 90+dpd stood at 1.8% of the AUM; 0.8% net of provisioning

[3] 90+dpd including writeoffs stood at 4.15% of the AUM as on March 31, 2023

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) Rating Approach - Implicit Parent or Group Support Rating Approach – Consolidation Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA factors in the operational and financial support from LTPL's largest investor, i.e., FFH, which has a majority stake of 38.16% in LTPL and significant board representation in LFL.
Consolidation/Standalone	The ratings are based on LTPL's consolidated financial statements, given the strong linkage between LTPL and LFL through the common promoter and management, and technology sharing between the companies.

About the company

Lendingkart Finance Limited (formerly Aadri Infin Limited) is a Lendingkart Group company, which is registered as an NBFC and provides unsecured small and medium-sized enterprise (SME) loans. Lendingkart Technologies Private Limited, the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in LFL. Fullerton Financial Holdings Pte Limited had a 38.16% stake in LTPL as on March 31, 2023. The Group was established 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. 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 – LTPL (Consolidated)

	FY2022	FY2023
Total income	643	858
Profit / (loss) after tax	(203)	119
Net worth	657	784
Total assets	2,785	3027
Total managed assets	4,057	6,174
Total AUM	3,284	4,978
Return on managed assets	(5.8%)	2.3%
Return on net worth	(27.0%)	16.5%
Reported gearing (times)	2.9	2.3
Managed gearing (times)	4.8	6.3
Solvency (Net stage 3/Net worth)	4.9%	3.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations ^ Unaudited for FY2023
Amount in Rs. crore

Key financial indicators (audited) of LFL – Standalone

	FY2022	FY2023
Total income	639	824
Profit / (loss) after tax	(141)	116
Net worth	600	727
Total assets	2,636	2,859
Total managed assets	3,908	6,007
Total AUM	3,284	4,978
Return on managed assets	(4.2%)	2.3%
Return on net worth	(21.1%)	17.4%
Reported gearing (times)	3.0	2.3

	FY2022	FY2023
Managed gearing (times)	5.1	6.6
Gross stage 3	3.9%	2.6%
Net stage 3	1.6%	1.4%
Solvency (Net stage 3/Net worth)	5.3%	3.6%
CRAR	25.90%	36.00%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 22, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					June 29, 2023	June 30, 2022	Jun 28, 2022	Jun 29, 2021	Aug 31, 2020	Jul 30, 2020
1	Market Linked Debenture Long Term	Long term	48.525	45.00	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Stable)	-	-	-	-
2	Non-convertible debenture programme	Long term	158.975	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable);	-
3	Long-term / Short-term bank lines	Long term / Short term	600.00	343.00*	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

**AS on May 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Market Linked Debenture Long Term	Moderately Complex
Non-convertible debenture programme	Simple
Long-term/Short-term bank lines	Simple

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE090W07303	**Non-convertible debenture programme**	November 04, 2020	11.50%	August 04, 2022	15.00	[ICRA]BBB+(Positive); withdrawn
INE090W07121	**Non-convertible debenture programme**	January 28, 2019	13.75%	March 31, 2023	20.00	[ICRA]BBB+(Positive); withdrawn
INE090W07196	**Non-convertible debenture programme**	November 28, 2019	13.94%	November 28, 2024	51.475	[ICRA]BBB+(Positive); withdrawn
INE090W07238	**Non-convertible debenture programme**	June 2, 2020	13.50%	June 2, 2023	10.00	[ICRA]BBB+(Positive); withdrawn
INE090W07246	**Non-convertible debenture programme**	July 6, 2020	12.80%	April 21, 2023	40.00	[ICRA]BBB+(Positive); withdrawn
INE090W07261	**Non-convertible debenture programme**	August 21, 2020	12.39%	May 6, 2024	22.50	[ICRA]BBB+(Positive); withdrawn
INE090W07477	**Market Linked Debenture Long Term**	July 6, 2022	G-sec Linked	July 6, 2024	20.00	PP-MLD[ICRA]BBB+(Positive)
INE090W07535	**Non-convertible debenture programme***	June 14, 2023	12.50%	June 14, 2025	25.00	[ICRA]BBB+(Positive)
Not yet placed	**Market Linked Debenture Long Term**	-	-	-	3.525	PP-MLD[ICRA]BBB+(Positive)^
NA	**Long-term/Short-term Fund-based Bank Lines**	-	-	-	600.00	[ICRA]BBB+(Positive) / [ICRA]A2

Source: Company

**Part of the interchangeable limit of PP-MLD; the ISIN has been issued as NCD rating of [ICRA]BBB+(positive)*

^Market linked debenture limit is interchangeable with non-convertible debentures; if placed as NCD, rating of [ICRA]BBB+(positive) will be applicable

Note: PP-MLD refers to the principal protected market linked debenture programme. According to the terms of the rated market linked debentures, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary as they are linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The assigned rating expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with the variability in returns resulting from the adverse movements in the variable(s) concerned

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lendingkart Technologies Private Limited	Parent	Full consolidation
Lendingkart Finance Limited	100.00%	
Lendingkart Account Aggregator Private Limited	100.00%	

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About ICRA Limited:

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