

July 28, 2023

Lendingkart Finance Limited: Rating confirmed as final for PTCs backed by unsecured small business loan receivables issued by Aryabhata 2023

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Aryabhata 2023	PTC Series A	18.26	18.26	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-I

Rationale

In June 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to Pass Through Certificates (PTC) Series A issued by Aryabhata 2023. The PTCs are backed by a pool of Rs. 26.09-crore unsecured small business loan receivables (underlying pool principal of Rs. 20.52 crore) originated by Lendingkart Finance Limited (Lendingkart/Originator; rated [ICRA]BBB+(Positive)). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the July 2023 payout month has been provided below.

Parameter	Aryabhata 2023
Months post securitisation	2
Pool amortisation	11.42%
PTC Series A amortisation	15.29%
Cumulative collection efficiency	99.13%
Loss-cum-0+ dpd	1.72%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative prepayment rate	5.24%
Cumulative credit collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread, overcollateralisation/subordination and cash collateral.
- No overdue contracts in the pool as on the 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.

Past rated pools performance: ICRA has rated 44 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 June 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 actions are based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable

Consolidation/Standalone	Not Applicable
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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

	FY2022	FY2023
	Audited	Audited
Total income	639	824
Profit after tax	(141)	116
Total AUM	3,284	4,978
Gross stage 3	3.9%	2.6%
Net stage 3	1.6%	1.4%

Source: Company, ICRA Research; All ratios as per ICRA calculations; Amounts 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 (FY2024)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 28, 2023	June 05, 2023			
1	Aryabhata 2023	PTC Series A	18.26	18.26	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

*Initial Rating Assigned

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	[ICRA]A+(SO)

**Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*

Source: Company

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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