September 13, 2023

Lendingkart Finance Limited: Rating confirmed as final for SNs backed by unsecured small business loan receivables issued by SBL Radiance 2023 01

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
SBL Radiance 2023 01	SN Series A1	39.45	39.45	[ICRA]A+(SO); provisional rating confirmed as final

Instrument details are provided in Annexure-I

Rationale

In July 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to securitisation notes (SNs) Series A1 issued by SBL Radiance 2023 01. The SNs are backed by receivables from a Rs. 56.40-crore (pool principal amount of Rs. 42.88 crore) pool of unsecured small business loans (SBLs) 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 August 2023 payout month has been provided below.

Parameter	SBL Radiance 2023 01
Months post securitisation	2
Pool amortisation	9.60%
SN Series A1 amortisation	13.00%
Cumulative prepayment rate	4.23%
Cumulative collection efficiency	98.15%
Loss cum 0+ dpd	2.16%
Loss cum 30+ dpd	1.42%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

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 will be assigned at par to the SN investors. As per the waterfall mechanism for the transaction, the monthly pool collections shall be used for meeting the promised payouts (defined as interest at predetermined yield and 92.00% of billed principal) to SN Series A1, followed by the balance expected principal payouts to SN Series A1 (8.00% of billed principal) and the expected interest payouts to SN Series A2.

The first line of support for SN Series A1 in the transaction is in the form of a subordination of 8.00% of the pool principal. Additionally, the EIS available in the structure will provide CE support to the transaction. The EIS (20.76% of the pool principal initially, based on the indicated SN yield, for SN Series A1) will not flow back to the originator and will instead be utilised towards accelerated principal amortisation after the promised and scheduled payouts to the SNs. All prepayment amounts would be passed on to SN Series A1 (till SN Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly. The 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 SN 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 (~7 months) and pre-securitisation amortisation (~15%). The pool has a high share of contracts (~52%) 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 contracts with a high IRR (interest rate) with only ~7% 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 47 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 August 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

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 7.00% of the initial pool principal amount. 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 SN payouts for a period of around six months.

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 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

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2024) Date & Rating in FY2024		Chronology of Rating History for the Past 3 Years Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					September 13, 2023	July 04, 2023*	-	-	-
1	SBL Radiance 2023 01	SN Series A1	39.45	39.45	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

*Initial Rating Assigned

Complexity level of the rated instrument

Instrument	Complexity Indicator
SN Series A1	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
SBL Radiance 2023 01	SN Series A1	June 2023	10.90% p.a.p.m	January 2026	39.45	[ICRA]A+(SO)

Scheduled SN 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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