September 14, 2023

Lendingkart Finance Limited: [ICRA]BBB+ (Positive) assigned to NCD programme; other ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	-	100.00	[ICRA]BBB+ (Positive); assigned
Non-convertible debentures	150.00	150.00	[ICRA]BBB+ (Positive); reaffirmed
Market linked debenture long term^	23.525	23.525	PP-MLD[ICRA]BBB+ (Positive); reaffirmed
Non-convertible debentures#	25.00	25.00	[ICRA]BBB+ (Positive); reaffirmed
Long-term/Short-term fund-based bank lines	600.00	600.00	[ICRA]BBB+ (Positive)/[ICRA]A2; reaffirmed
Total	**798.525**	**898.525**	

**Instrument details are provided in Annexure I*

^Market linked debentures' long-term limit is interchangeable with non-convertible debentures (NCDs); 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 ratings for Lendingkart Finance Limited (LFL) factor in the strategic, operational and funding support from the largest shareholder, Fullerton Financial Holdings Pte Limited (FFH; 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 (assets under management (AUM) grew by 52% on a year-on-year (YoY) basis to Rs. 5,492 crore as on June 30, 2023, 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 65% of the AUM as of June 30, 2023). It has been able to 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. The asset quality outlook remains satisfactory, given the reduction in the standard restructured book and overdue loans. The gross and net stage 3 stood at 2.7% and 1.8%, respectively, as on June 30, 2023 (gross 90+ days past due (dpd) stood at 1.7% of the AUM). The profitability improved with the moderation in the 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 the net loss of Rs. 203 crore in FY2022. With the strong growth in the AUM, the profitability is expected to improve further, going forward, provided LFL can contain its credit losses.

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 Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU; 80% of the AUM as on March 31, 2023 was under these schemes), which will help curtail the credit losses. Given the significant growth in the AUM, the managed consolidated gearing increased to 6.9 times as on June 30, 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 for its growth plans.

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

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

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 (LFL's parent). 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 company's processes and systems. The company has received equity of Rs. 722 crore from FFH since FY2019. The ratings derive 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 reports 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% YoY to Rs. 5,492 crore as on June 30, 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 65% as on June 30, 2023 (43% as on March 31, 2022), which is expected to continue in the foreseeable future. LFL has co-lending arrangements with 18 lenders (banks and NBFCs), with the co-lenders' share ranging from 70-100%.

The company 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 in 28 states and six Union Territories (UTs) in India. The concentration of its loan book in a single state or industry did not exceed 16% as on March 31, 2023, thereby enabling risk diversification.

Improving earnings profile; keeping credit costs under control would remain key – The company's earnings improved in FY2023 and it reported a net profit of Rs. 116 crore in FY2023 (PAT/AMA of 2.3%) compared to a net loss of Rs. 141 crore in FY2022. The profitability was affected in FY2021 and FY2022 largely by the high credit costs due to the impact of the Covid-19 pandemic and the unsecured nature of the loan portfolio. The improvement in FY2023 was driven by the significant reduction in credit costs to 2.2% of AMA compared to 11.9% in the previous year. Operating expenses were, however, higher at 6.4% to support the growth and expansion. With the strong growth in the AUM, the profitability is expected to improve further, going forward, provided LFL is able to contain its credit losses. The coverage under CGTMSE and CGFMU is 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. On a standalone basis, LTPL continues to post losses due to the incremental costs incurred towards technology development and maintenance. It is, however, expected to become profitable in the near term, driven by the growth in disbursements by LFL, as LTPL charges a fee for the disbursement by LFL.

For Q1 FY2024, LFL reported a PAT of Rs. 26 crore with PAT/AMA of 1.6%. On a consolidated basis, the PAT stood at Rs. 30 crore with PAT/AMA of 1.8%.

Credit challenges

Moderate capitalisation – The Group's managed gearing increased to 6.9 times as on June 30, 2023 (6.3 times as on March 31, 2023) from 4.8 times as on March 31, 2022, with significant growth in the co-lending portfolio. LFL's on-balance sheet consolidated gearing stood at 2.5 times as on June 30, 2023 with a Tier I ratio of 35.0% (lower than 36.0% as on March 31, 2023). 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. 240 crore as on June 30, 2023 (6.7% of the off-balance sheet AUM as on March 31, 2023); the same reduced from ~20% as on March 31, 2022. Given the recent Reserve Bank of India (RBI) guidelines, the FLDG is expected to decline 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 downturns in economic cycles. Further, its 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. Moreover, 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 due to the pandemic. However, it improved in FY2023 with the company largely providing for its restructured book in FY2022. The gross and net Stage 3 stood at 2.7% and 1.8%, respectively, as on June 30, 2023 (2.6% and 1.4%, respectively, as on March 31, 2023 and 3.9% and 1.6%, respectively, as on March 31, 2022)[2]. Including write-offs in 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. 8 crore as on June 30, 2023 (0.4%). Given the reduction in the stressed assets, the company's reported asset quality indicators are likely to remain stable.

Liquidity position: Adequate

LFL has repayment obligations of Rs. 540 crore (principal + interest on borrowings) for the six-month period till January 2024. As on July 31, 2023, it had unencumbered cash and cash equivalents of Rs. 276 crore and sanctioned but unutilised lines of Rs. 106 crore. In addition, LTPL had a liquidity cushion of Rs. 96 crore in the form of unencumbered cash and cash equivalents as on July 31, 2023. The liquidity position 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 July 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) Rating Approach – Implicit Parent or Group Support Rating Approach – Consolidation
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.

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

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

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	Q1 FY2024^
Total income	643	858	263
Profit / (loss) after tax	(203)	119	30
Net worth	657	784	819
Total assets	2,785	3,027	3,340
Total managed assets	4,057	6,174	6,935
Total AUM	3,284	4,978	5,492
Return on managed assets	(5.8%)	2.3%	1.8%
Return on net worth	(27.0%)	16.5%	15.0%
Reported gearing (times)	2.9	2.3	2.5
Managed gearing (times)	4.8	6.3	6.9
Solvency (Net stage 3/Net worth)	4.9%	3.3%	4.1%

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

Key financial indicators (audited) – LFL (standalone)

	FY2022	FY2023	Q1 FY2024^
Total income	639	824	242
Profit / (loss) after tax	(141)	116	26
Net worth	600	727	755
Total assets	2,636	2,859	3,075
Total managed assets	3,908	6,007	6,670
Total AUM	3,284	4,978	5,492
Return on managed assets	(4.2%)	2.3%	1.6%
Return on net worth	(21.1%)	17.4%	13.8%
Reported gearing (times)	3.0	2.3	2.5
Managed gearing (times)	5.1	6.6	7.2
Gross stage 3	3.9%	2.6%	2.7%
Net stage 3	1.6%	1.4%	1.8%
Solvency (Net stage 3/Net worth)	5.3%	3.6%	4.4%
CRAR	25.90%	36.00%	35.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; ^ Unaudited
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 Aug 31, 2023 (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					Sep 14, 2023	Jul 11, 2023	Jun 29, 2023	Jun 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+ (Positive)	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Stable)	-	-	-	-
2	Non-convertible debenture programme	Long term	100.00	-	[ICRA]BBB+ (Positive)	-	-	-	-	-	-	-
3	Non-convertible debenture programme	Long term	150.00	50.00	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	-	-	-	-	-	-
4	Non-convertible debenture programme	Long term	-	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
5	Long-term / Short-term bank lines	Long term / Short term	600.00	365.44*	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[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 July 31, 2023*

^Market linked debentures' long-term limit is interchangeable with NCDs 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; Rs. 25.00 crore has been issued as NCD

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
INE090W07568	**Non-convertible debenture programme**	Jul-27-23	10.48%	Jul-27-25	50.00	[ICRA]BBB+ (Positive)
INE090W07535*	**Non-convertible debenture programme***	Jun-14-23	12.50%	Jun-14-25	25.00	[ICRA]BBB+ (Positive)
INE090W07477	**Market linked debenture long term**	Jul-6-22	G-sec Linked	Jul-6-24	20.00	PP-MLD[ICRA]BBB+ (Positive)
Not yet placed	**Non-convertible debenture programme**	-	-	-	100.00	[ICRA]BBB+ (Positive)
Not yet placed	**Non-convertible debenture programme**	-	-	-	100.00	[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 NCDs; 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%	

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Harsh Mange
+91 22 6114 3451
harsh.mange@icraindia.com

Jui Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches