

November 03, 2023

## Lendingkart Finance Limited: Rating upgraded for securitisation notes issued under unsecured business loans securitisation transaction

### Summary of rating action

| Trust Name    | Instrument*  | Initial Rated Amount (Rs. crore) | Amount O/s after Last Surveillance (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                            |
|---------------|--------------|----------------------------------|--|----------------------------------|--|
| SBL Hail 2022 | SN Series A1 | 40.19                            | NA   | 7.72                             | [ICRA]AA(SO); Upgraded from [ICRA]A+(SO) |

\*Instrument details are provided in Annexure I

### Rationale

ICRA has upgraded the rating for the securitisation notes (SNs) issued under the securitisation transaction, SBL Hail 2022, backed by a pool of unsecured business loan receivables originated by Lendingkart Finance Limited {LFL; rated [ICRA]BBB+ (Positive)}. The rating upgrade is on account of the significant amortisation in the pool, which has led to the build-up of the credit enhancement (CE) cover over the future SN payouts in the transaction. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool till the August 2023 collection month (September 2023 payout month) has been tabulated below.

### Pool performance summary (till September 2023 payout month)

| Particulars  | SBL Hail 2022 |
|--|---------------|
| Months post securitisation   | 13            |
| Pool amortisation  | 65.7%         |
| SN Series A1 amortisation  | 80.8%         |
| Cumulative collection efficiency <sup>1</sup>                              | 98.3%         |
| Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)                          | 2.5%          |
| Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)                          | 1.6%          |
| Cumulative cash collateral (CC) utilisation                                | 0.00%         |
| Cumulative prepayment rate   | 30.9%         |
| Breakeven collection efficiency <sup>4</sup> for SN Series A1              | 25.9%         |
| CC (% of balance pool)   | 23.3%         |
| Principal subordination (% of balance pool) SN Series A1                   | 48.4%         |
| Excess interest spread (EIS <sup>5</sup> ; % of balance pool) SN Series A1 | 13.0%         |

### Key rating drivers and their description

#### Credit strengths

- High amortisation of SNs resulting in significant build-up of CE) cover available for the balance SN payouts.
- Healthy collections and low delinquency levels observed in the pool

<sup>1</sup> (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

<sup>2</sup> Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 30 days, as a % of Initial Pool Principal

<sup>3</sup> Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

<sup>4</sup> (Balance Cash flows payable to investor – CC available)/Balance Pool Cash flows

<sup>5</sup> (Pool Cash flows – Cash flows to SN investors – Originator's residual share)/Pool Principal outstanding

### 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

### Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 98.3% till the September 2023 payout month, despite the dip in the monthly collections over the last few months. The drop was due to lower collections from overdue contracts, which resulted in some slippages into the harder delinquency buckets. While the loss-cum-90+ days past due (dpd) has been increasing over the last few months, it remains low at 1.6%. The pool has seen higher prepayments with an average monthly prepayment rate of 2.8% and it has amortised by ~66%. There has been no CC utilisation in the pool till the September 2023 payout month. Due to the healthy amortisation and nil CC utilisation till date, there has been a build-up of the CE in the transaction with respect to the balance pool principal. Going forward, the pool would remain exposed to the inherent credit risks associated with the unsecured nature of the asset class and any macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has rated 48 pools originated by LFL. 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 September 2023 payout.

### Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pool as well as the performance and 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 2.5-3.5% 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 likely to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to ~23% of the 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 the balance pool.

### Rating sensitivities

**Positive factors** – The rating could be upgraded once the CC covers the balance SN payouts.

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels.

## Analytical approach

The rating action is based on the performance of the pool till August 2023 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

## About the originator

Lendingkart Finance Limited (formerly Aadri Infin Limited) is a Lendingkart Group company, which is registered as a non-banking financial company (NBFC). It provides unsecured small and medium-sized enterprise (SME) loans. Lendingkart Technologies Private Limited (LTPL) is the technology arm of the Ahmedabad-based Lendingkart Group and holds a 100% stake in LFL. The Group was started in 2014 by co-founders, Mr. Harshvardhan Lunia and Mr. Mukul Sachan, and raised funds from Fullerton Financial Holdings, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Sistema Asia Fund and Darren Capital Management. The Lendingkart Group is a part of the evolving fintech industry and it leverages technology to underwrite credit to the SME segment, which is difficult for traditional banks and NBFCs to access. Loans are given to microenterprises for meeting their working capital needs. The underwriting is based on the scoring by a proprietary algorithm.

## Key financial indicators (audited; standalone)

|                  | FY2022 | FY2023 | Q1 FY2024* |
|------------------|--------|--------|------------|
| Total income     | 639    | 824    | 242        |
| Profit after tax | (141)  | 116    | 26         |
| Total AUM        | 3,284  | 4,978  | 5,492      |
| Gross stage 3    | 3.9%   | 2.6%   | 2.7%       |
| Net stage 3      | 1.6%   | 1.4%   | 1.8%       |

Source: Lendingkart, 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

| Sr. No. | Trust Name    | Instrument   | Current Rating (FY2024)          |                                | Chronology of Rating History for the Past 3 Years |                         |                          |                         |                         |
|---------|---------------|--------------|----------------------------------|--------------------------------|---|-------------------------|--------------------------|-------------------------|-------------------------|
|         |               |              | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024                           | Date & Rating in FY2023 |                          | Date & Rating in FY2022 | Date & Rating in FY2021 |
|         |               |              |                                  |                                | November 03, 2023                                 | November 11, 2022       | September 02, 2022       |                         |                         |
| 1       | SBL Hail 2022 | SN Series A1 | 40.19                            | 7.72                           | [ICRA]AA(SO)                                      | [ICRA]A+(SO)            | Provisional [ICRA]A+(SO) | -                       | -                       |

### Complexity level of the rated instrument

| Transaction   | Instrument   | Complexity Indicator |
|---------------|--------------|----------------------|
| SBL Hail 2022 | 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 | Coupon Rate | Final Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|----------------------|-----------------|------------------|-------------|----------------------|--------------------------|----------------|
| <b>SBL Hail 2022</b> | SN Series A1    | August 2022      | 10.90%      | January 2025         | 7.72                     | [ICRA]AA(SO)   |

\* Scheduled maturity at transaction initiation; may change on account of prepayment

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.

For more information, visit [www.icra.in](http://www.icra.in)

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