

November 30, 2023

Lendingkart Finance Limited: Rating upgraded for PTCs 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
Indigo 021	PTC Series A1	22.09	NA	3.55	[ICRA]AA(SO); Upgraded from [ICRA]A+(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, Indigo 021, 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 high amortisation in the pool, which has led to significant build-up of the credit enhancement (CE) cover over the future PTC 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 September 2023 collection month (October 2023 payout month) has been tabulated below.

Pool performance summary (till October 2023 payout month)

Particulars	Indigo 021
Months post securitisation	13
Pool amortisation	65.6%
PTC Series A1 amortisation	83.9%
Cumulative collection efficiency ¹	97.5%
Loss-cum-30+ dpd ² (% of initial pool)	3.6%
Loss-cum-90+ dpd ³ (% of initial pool)	3.1%
Cumulative cash collateral (CC) utilisation	0.0%
Cumulative prepayment rate	27.0%
Breakeven collection efficiency ⁴ for PTC Series A1	16.7%
CC (% of balance pool)	23.3%
Principal subordination (% of balance pool) PTC Series A1	58.9%
Excess interest spread (EIS ⁵ ; % of balance pool) PTC Series A1	11.6%

Key rating drivers and their description

Credit strengths

- High amortisation of PTCs, resulting in significant build-up of CE cover available for balance PTC payouts
- Healthy collections levels observed in the pool

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

³ Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

⁴ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

⁵ (Pool cash flows – Cash flows to PTC investors – Originator's residual share)/Pool principal outstanding

Credit challenges

- 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 97.5% till the October 2023 payout month despite the dip in 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. The loss-cum-90+ days past due (dpd) has been increasing over the last few months and remains moderate at 3.1%. The pool has seen higher prepayments with an average monthly prepayment rate of 2.4% and it has amortised by ~66%. There has been no cash collateral (CC) utilisation in the pool till the October 2023 payout month. Due to the high amortisation and nil CC utilisation till date, the CE in the transaction has built up significantly 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. The entity's portfolio had seen stress in asset quality due to Covid-19 pandemic as reflected in higher restructuring and write offs.

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 49 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 93-99% for all the transactions. No CC has been utilised till the October 2023 payout in any of the live pools.

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 the loss and 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 3.5-4.5% 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

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the 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 adequate to meet the promised payouts to the PTC Series A1 investors.

Rating sensitivities

Positive factors – The rating could be upgraded once the CC covers the balance PTC 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till September 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	Rating Methodology for Securitisation Transactions
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) and 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 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 (standalone)

	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Unaudited
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; Amount in Rs. crore; AUM – Assets under management

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 30, 2023	December 09, 2022	October 03, 2022		
1	Indigo 021	PTC Series A1	22.09	3.55	[ICRA]AA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Indigo 021	PTC 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
Indigo 021	PTC Series A1	September 2022	10.60%	February 2025	3.55	[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

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Sheetal Nayak
+91 22 6114 3455
sheetal.nayak@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Vishal Oza
+91 22 6114 3432
vishal.oza@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.