

January 17, 2024

Lendingkart Finance Limited: Rating confirmed as final for PTCs backed by unsecured small business loan receivables issued by Argentum Trust 003

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Argentum Trust 003	PTC Series A1	72.08	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In November 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to the pass-through certificates (PTCs) Series A1 issued under a securitisation transaction originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+ (Positive)}. The PTCs are backed by receivables from a Rs. 104.86-crore (pool principal amount of Rs. 80.08 crore) pool of unsecured small business loans (SBLs). 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 December 2023 payout month has been provided below.

Parameter	Argentum Trust 003
Months post securitisation	1
Pool amortisation	4.9%
PTC Series A1 amortisation	7.2%
Cumulative prepayment rate	2.0%
Cumulative collection efficiency	98.5%
Loss cum 0+ dpd	1.5%
Loss cum 30+ dpd	0.0%
Loss cum 90+ dpd	0.0%
Cumulative cash collateral utilisation	0.0%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), subordination and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date

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, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables were to be assigned at par to the PTC investors. As per the waterfall mechanism for the transaction, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination (equity tranche) of 10.00% of the pool principal. Additionally, the EIS available in the structure will provide CE support to the transaction. The EIS (23.07% of the pool principal initially, based on the indicated PTC yield, for PTC 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 PTCs. All prepayment amounts would be passed on to PTC Series A1 (till PTC Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly. The CC of 5.00% 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 were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool was low with the top 3 states constituting ~34% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~8 months) and pre-securitisation amortisation (~17%). The pool had a moderate share of contracts (~44%) with a ticket size of more than Rs. 10 lakh. Further, the CIBIL score of ~88% of the contracts is above 700. The pool had a moderate share of contracts with a high interest rate (IRR) with ~20% 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. The entity's portfolio had seen stress in the asset quality due to the Covid-19 pandemic as reflected in the higher restructuring and write-offs.

Past rated pools performance: 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 92-98% for all the transactions. No CC has been utilised till the December 2023 payout in any of the transactions.

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 5.75-6.75% 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 for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency of more than 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 of less than 90%), 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 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 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 (standalone)

	FY2022	FY2023	Q1FY2024
	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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					January 17, 2024	November 30, 2023			
1	Argentum Trust 003	PTC Series A1	72.08	72.08	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Argentum Trust 003	PTC Series A1	November 2023	10.35% p.a.p.m.	April 2026	72.08	[ICRA]A+(SO)

Source: Company

*Based on scheduled maturity of the pool contracts; may change on account of prepayment

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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