

January 30, 2024

Lendingkart Finance Limited: Rating reaffirmed 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
Zenith MSME Trust October 2022	PTC Series A1	110.58	NA	46.88	[ICRA]BBB+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

ICRA has reaffirmed the rating for the pass-through certificates (PTCs) issued under the securitisation transaction, Zenith MSME Trust October 2022, backed by a pool of unsecured business loan receivables originated by Lendingkart Finance Limited {LFL; rated [ICRA]BBB+(Positive)}. The pool has seen high amortisation, which has resulted in the build-up of significant credit enhancement (CE) cover over the future PTC payouts in the transaction. However, the rating is constrained by LFL's credit profile as the credit collateral (CC) is in the form of an unconditional and irrevocable corporate guarantee provided by the originator. The breakeven collection efficiency is comfortable compared to the actual collection levels observed in the pool.

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

Pool performance summary (till December 2023 payout month)

Particulars	Zenith MSME Trust October 2022
Months post securitisation	13
Pool amortisation	59.74%
PTC Series A1 amortisation	57.61%
Cumulative collection efficiency ¹	94.16%
Loss-cum-30+ dpd ² (% of initial pool)	8.09%
Loss-cum-90+ dpd ³ (% of initial pool)	5.81%
Cumulative CC utilisation	0.00%
Cumulative prepayment rate	23.78%
Breakeven collection efficiency ⁴ for PTC Series A1	52.88%
CC (% of balance pool) ⁵	49.67%
Principal subordination (% of balance pool) PTC Series A1	Nil
Excess interest spread (EIS ⁶ ; % of balance pool) PTC Series A1	11.40% ⁷

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 CC refers to corporate guarantee

⁶ (Pool cash flows – Cash flows to PTC investors – Originator's residual share)/Pool principal outstanding

⁷ EIS will only act as credit enhancement to cover any shortfalls in interest collections as per the transaction structure

Key rating drivers and their description

Credit strengths

- High amortisation of PTCs resulting in healthy build-up of credit enhancement (CE) cover available for the balance PTC payouts.

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 moderate with a cumulative collection efficiency of 94.2% till the December 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 elevated at 5.8%. Some improvement in collections is expected in next few months by the management of LFL. The pool has seen higher prepayments with an average monthly prepayment rate of ~2% and it has amortised by ~60%. There has been no CC utilisation in any of the payouts till the December 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.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm 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 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 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 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 6.0-7.0% 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 ~3 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 leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement along with an improvement in credit profile of LFL.

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 credit enhancement utilisation levels. The rating could also be downgraded due to deterioration in credit profile of LFL.

Analytical approach

The rating action is based on the performance of the pool till November 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

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
				Jan 30, 2024	Jan 12, 2023	Nov 21, 2022		
Zenith MSME Trust October 2022	PTC Series A1	110.58	46.88	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Zenith MSME Trust October 2022	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
Zenith MSME Trust October 2022	PTC Series A1	November 2022	13.35%	May 2025	46.88	[ICRA]BBB+(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.

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