

March 26, 2024

Lendingkart Finance Limited: Provisional [ICRA]BBB+(SO) assigned to PTC Series A1 backed by unsecured small business loans issued by Saptrishi 2024

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Saptrishi 2024	PTC Series A1	81.20	Provisional [ICRA]BBB+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Lendingkart Finance Limited {Lendingkart; rated [ICRA]BBB+ (Positive)}. The PTCs are backed by receivables from a Rs. 106.42-crore (pool principal amount of Rs. 81.20 crore) pool of unsecured small business loans (SBLs).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of a corporate guarantee (CG) of 20.00% of the pool principal to be provided by the originator and the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of CG.
- Absence of overdue contracts as on pool cut-off date.

Credit challenges

- Moderate share of high interest rate contracts having interest rate more than 30%.
- 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 will be assigned at par to the trust. The cash flow schedule for PTC Series A1 on a monthly basis will consist of the expected yield (at the predetermined rate on the principal outstanding, including any amount not paid in the past) and the expected principal (principal amount collected from the underlying pool of contracts, including prepayments and advances if any). The interest and principal repayment are promised to PTC Series A1 on the last payout date. The excess interest spread (EIS) will flow back to the originator after the expected payouts to the PTCs have been made every month. The EIS will only act as CE to cover any shortfall in interest collections.

Support for PTC Series A1 in the transaction is available through an unconditional and irrevocable CG from Lendingkart, equivalent to 20.00% of the initial pool principal. The CG shall be in the form of an unfunded CE facility provided through a First Loss Credit Enhancement Deed. In the event of a shortfall in meeting the PTC payouts at the time of the final maturity date, the Trustee will invoke the guarantee to meet the same.

There are no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is low with the top 3 states constituting ~35% of the pool principal. The pool consists of monthly paying loan contracts

with moderate weighted average seasoning (7.6 months) and pre-securitisation amortisation (~17%). The pool has a moderate share of high interest rate contracts (~25%) with interest rate more than 30%. The pool has a moderate share of contracts (~46%) with a ticket size of more than Rs. 10 lakh. Further, the CIBIL score of ~89% of contracts in the pool is above 700. 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.

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 92-98% for all the transactions. No CC has been utilised till the February 2024 payout.

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 6.25-7.25% 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 ~3.0 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 >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE along with an improvement in the credit profile of Lendingkart.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels. The rating could also be downgraded on a deterioration in the credit profile of Lendingkart.

Analytical approach

The rating action is based on the analysis of the performance of Lendingkart's portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Lendingkart Finance Limited (formerly Aadri Infin Limited) is a Lendingkart Group company, which is registered as an NBFC and provides unsecured SME loans. Lendingkart Technologies Private Limited (LTPL) is the technology arm of the Ahmedabad-based Lendingkart Group and holds 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 (FFH), 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 (standalone)

	FY2022	FY2023	Q1FY2024
	Audited	Audited	Unaudited
Total income	639	824	242
Profit after tax	(141)	116	26
Total Managed assets	3,908	6,007	6,670
Gross stage 3	3.9%	2.6%	2.7%
CRAR	25.9%	36.0%	35.0%

Source: Lendingkart, ICRA Research; All ratios as per ICRA's calculations

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			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 26, 2024	-	-	-
1	Saptrishi 2024	PTC Series A1	81.20	81.20	Provisional [ICRA]BBB+(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
Saptrishi 2024	PTC Series A1	March 2024	12.95%	August 2026	81.20	Provisional [ICRA]BBB+(SO)

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

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