July 16, 2024

Lendingkart Finance Limited: Ratings reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	350.00	350.00	[ICRA]BBB+; reaffirmed and outlook revised to Stable from Positive
Market linked debenture long term^	23.525	23.525	PP-MLD [ICRA]BBB+; reaffirmed and outlook revised to Stable from Positive
Non-convertible debentures#	25.00	25.00	[ICRA]BBB+; reaffirmed and outlook revised to Stable from Positive
Long-term/Short-term fund-based bank lines	600.00	600.00	[ICRA]BBB+/[ICRA]A2; reaffirmed and outlook revised to Stable from Positive
Total	**998.525**	**998.525**	

**Instrument details are provided in Annexure I*

^Market linked debentures' long-term limit is interchangeable with non-convertible debentures (NCDs); if placed as NCDs, the rating of [ICRA]BBB+ (Stable) will be applicable

#Part of the interchangeable limit of PP-MLD has been issued as NCDs

Rationale

The revision in the outlook to Stable on the long-term ratings of Lendingkart Finance Limited (LFL) factors in the weakening in asset quality, driving weak profitability of the Lendingkart Group[1]. The pressure on asset quality is likely to continue, which along with elevated operating expenses is likely to result in continued weak profitability in the near term. The company's capitalisation has been impacted by high growth, weak internal accruals and the absence of any equity raise in FY2024. To address these challenges, LFL has tightened its underwriting parameters, strengthened the collection process and is likely to slow down growth in FY2025. Further, it will look at an equity capital raise in the near term. The ability to improve the profitability, would be contingent on the containment of credit losses and the improvement in the operating efficiency.

LFL's ratings continue to factor in the strategic, operational and funding support from the largest shareholder, Fullerton Financial Holdings Pte Limited (FFH; 38.16% stake as of March 31, 2024), in Lendingkart Technologies Private Limited (LTPL), which, in turn, has a 100% stake in LFL. FFH has stated its intention to support the company. ICRA expects LFL to raise equity in the near term, including participation from FFH. Inability to raise equity capital in the near term or a delay in the same would be a negative factor.

The ratings also consider the extensive experience of LFL's senior management team and technology-enabled processes, driving scalability. The company's business model entails a high proportion of off-balance sheet lending (co-lending and direct assignment formed 67% and 3%, respectively, of the assets under management (AUM) as of March 31, 2024). It has been able to establish relationships with various banks and non-banking financial companies (NBFCs) under its co-lending arrangements. Its ability to further diversify and grow its existing relationships will be critical for its future growth.

The inherent risk associated with the unsecured micro, small and medium enterprise (MSME) segment is partly mitigated by the portfolio's coverage under the sovereign schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU; 64% of the total AUM and 81% of own book AUM as on March 31, 2024 was covered under these schemes), which could help curtail the credit losses.

[1] *Lendingkart Technologies Private Limited (LTPL) and its subsidiaries, collectively referred to as the Group*

The Stable outlook on the ratings factors in ICRA's expectation that LFL will raise equity capital in the near term and will receive support from its largest shareholder, FFH. Further, it factors in an improvement in the earnings profile while maintaining the asset quality.

Key rating drivers and their description

Credit strengths

Experienced strategic investors – Formed in 2014, LFL is a part of the Lendingkart Group. The Group's investors include FFH, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Darrin Capital Management and Sistema Asia Fund. FFH is the largest shareholder in LTPL (LFL's parent). FFH is experienced in the financial services sector of various emerging markets. It has strong representation on LFL's board with three representatives and is actively involved in strengthening the company's processes and systems. The Lendingkart Group has received equity of Rs. 722 crore from FFH since FY2019. The ratings derive comfort from the operational and financial support from FFH and the continued board supervision. Given the challenges faced by the company regarding the asset quality, LFL has indicated a further increase in board involvement and supervision to actively monitor the improvement in the performance. Support from FFH, in terms of an equity infusion in the near term, will be a key monitorable.

Integrated technology platform; improving scale of operations – LFL exclusively uses a branchless digital technology platform, developed and maintained by LTPL, for sourcing, credit underwriting and monitoring. The credit underwriting model is based on business cash flows utilising a proprietary algorithm that uses various data points, including the bank statements and credit bureau reports of the borrowers, for arriving at the credit score. This has enabled deeper reach and coverage of underserved markets, aiding scalability with diversification. LFL's AUM grew by 46% YoY to Rs. 7,254 crore as on March 31, 2024, driven by higher loan disbursements under the co-lending arrangements. It has seen a significant increase in the share of the off-book AUM to 70% as on March 31, 2024 (39% as on March 31, 2022). LFL has co-lending arrangements with 25 lenders (banks and NBFCs), with the co-lenders' share ranging from 70-100%.

The company disburses unsecured loans to customers in Tier 1, Tier 2 and Tier 3 cities with an average ticket size of ~Rs. 7 lakh and an average tenure of ~33 months. Supported by its digital platform and branchless model, LFL is present in 28 states and seven Union Territories (UTs) in India. The concentration of its loan book in a single state or industry did not exceed 15% as on March 31, 2024, enabling diversification.

Credit challenges

Elevated asset quality pressure, likely to continue in near term – The company witnessed asset quality pressure in FY2024 primarily due to the challenges related to collections, leading to elevated credit costs. The gross and net stage 3 stood at 2.9% and 1.9%[2], respectively, as on March 31, 2024 (2.6% and 1.4%, respectively, as on March 31, 2023)[3]. Including write-offs in FY2024, the gross stage 3 stood at 6.6% as on March 31, 2024 (6.4% as on March 31, 2023)[4]. ICRA expects the asset quality pressure to continue in the near term, resulting in elevated credit costs. While the company has tightened its overall underwriting and collections, it would take a few quarters for the reported performance to reflect the same.

Given the asset quality pressure and elevated credit costs, coupled with elevated operating expenses, LFL's standalone earnings were impacted in FY2024 with the net profit declining to Rs. 60 crore (profit after tax/average managed assets (PAT/AMA) of 0.8%) from the net profit of Rs. 116 crore in FY2023 (PAT/AMA of 2.3%). Credit costs increased to 3.5% of AMA from 2.3% in the previous year. Further, operating expenses were higher at 7.4% to support growth and expansion (6.4% in FY2023).

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[2] *Net NPA/Stage3 of 1.9% is after considering the benefit accruing to the company from Sovereign Guarantee Schemes (CGFMU and CGTMSE). The benefit of these scheme is 0.83% and the Net NPA/Stage 3 without considering the benefits stands at 1.12%.*

[3] *Gross 90+dpd stood at 2.0% of the AUM*

[4] *90+dpd, including write-offs, stood at 4.9% of the AUM as on March 31, 2024*

On a consolidated basis, the PAT remained negligible at Rs. 3 crore in FY2024 compared to Rs. 119 crore (PAT/AMA of 2.3%) in FY2023. On a standalone basis, LTPL continues to incur losses due to the interest expense on its borrowings and incremental costs incurred towards technology development and maintenance. The profitability is expected to remain weak in the coming quarters due to the expectation of elevated credit costs and slowdown in disbursements to conserve capital and resolve asset quality issues. Given the unsecured nature of lending, an improvement in the pre-provision operating profit through improved operating efficiency is critical to support the likely fluctuations in the credit costs.

Moderate capitalisation; internal accruals to remain weak in near term – On a consolidated basis, the Group's managed gearing increased to 9.3 times as on March 31, 2024 from 6.3 times as on March 31, 2023, due to significant growth in the co-lending portfolio, weak internal accruals and the absence of a capital raise in FY2024 to support the growth. The Group's on-balance sheet consolidated gearing stood at 3.2 times as on March 31, 2024 (2.3 times as on March 31, 2023). LFL's Tier I ratio declined to 20.3% as on March 31, 2024 (lower than 34.2% as on March 31, 2023). This was on account of the frequently asked questions (FAQs) issued by the Reserve Bank of India (RBI) in April 2024 on default loss guarantee in digital lending, whereby the FLDG provided to the co-lending partners is to be deducted from the Tier I capital. The company provides an FLDG to its co-lending partner, which stood at ~Rs. 237 crore as on March 31, 2024 (4.7% of the off-balance sheet AUM)[5]. Given the RBI guidelines, the FLDG has declined to 5%. Considering LFL's moderate capitalisation, ICRA expects it to raise equity capital in the near term, including participation from existing shareholders. Inability to raise equity capital or a delay in the same would be a negative monitorables.

Moderate borrower profile – LFL caters to the MSME segment, which is highly vulnerable to downturns in economic cycles. Further, its entire AUM represents unsecured lending, which impedes recoveries from the harder delinquency buckets. However, 64% of the AUM is covered under the CGTMSE and CGFMU schemes, which is expected to limit the net credit losses. The company received Rs. 56 crore from these schemes in FY2024 (Rs. 114 crore life to date).

Liquidity position: Adequate

LFL has repayment obligations of Rs. 710 crore (principal + interest on borrowings) for the six-month period till November 2024. As on May 31, 2024, it had unencumbered cash and cash equivalents of Rs. 270 crore (Includes overdraft facility against fixed deposit) and sanctioned but unutilised lines of Rs. 76 crore. The liquidity position is also supported by inflows from the loan book. The company did not have any cumulative mismatches in the less-than-one-year tenor in the structural liquidity statement (SLS) as of April 30, 2024.

Rating sensitivities

Positive factors – A consistent improvement in the profitability over the near-to-medium term, while improving the asset quality and capitalisation, will be a positive factor.

Negative factors – Pressure on the ratings could also arise in case of inability to raise equity capital in the near term or if there is a continued deterioration in the asset quality and profitability on a sustained basis. A material change in FFH's shareholding in LTPL or inadequate/lack of timely support could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	ICRA factors in the operational and financial support from LTPL's largest investor, i.e. FFH, which has a majority stake of 38.16% in LTPL and significant board representation in LFL.
Consolidation/Standalone	The ratings are based on LTPL's consolidated financial statements, given the strong linkage between LTPL and LFL through the common promoter and management and technology sharing between the companies.

[5] *The net FLDG amount outstanding is Rs. 126cr after factoring coverage from CGFMU (2.5% of the off-balance sheet AUM)*

About the company

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, 2024. 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 – LTPL (consolidated)

	FY2023	FY2024
Total income	858	1,218
Profit / (loss) after tax	119	3
Total managed assets	6,174	8,883
Return on managed assets	2.3%	0.0%
Reported gearing (times)	2.3	3.2
Adjusted gearing (times)^	3.9	4.5
Managed gearing (times)*	6.3	9.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

^Adjusted gearing = On-balance sheet borrowings/ (Net worth – Gross FLDG on off-balance sheet AUM)

**Managed gearing = (On-balance sheet borrowings + Off-balance sheet AUM)/Net worth*

Key financial indicators (audited) – LFL (standalone)

	FY2023	FY2024
Total income	824	1,146
Profit / (loss) after tax	116	60
Total managed assets	6,007	8,631
Return on managed assets	2.3%	0.8%
Reported gearing (times)	2.3	3.0
Adjusted gearing (times)	4.3	4.3
Managed gearing (times)	6.6	9.4
Gross stage 3	2.6%	2.9%
CRAR	34.2%	21.5%*

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

**The reduction in Tier 1 has been on account of the recent Frequently Asked Questions (FAQs) issued by Reserve Bank of India (RBI) in April 2024 on the Default Loss Guarantee in Digital Lending whereby the FLDG provided to the co-lending partners is to be reduced from Tier 1 capital.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Many of the borrowing facilities of LFL provide the lenders the option to review the facilities (including increase in interest rates and debt acceleration) upon the breach of covenants, including financial, operating and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024				Date & Rating in FY2023		Date & Rating in FY2022
				Jul 16, 2024	Oct 26, 2023	Sep 14, 2023	Jul 11, 2023	Jun 29, 2023	Jun 30, 2022	Jun 28, 2022	Jun 29, 2021
1	Market linked debenture long term^	Long term	48.525	PP-MLD [ICRA]BBB+ (Stable)	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Positive)	PP-MLD [ICRA]BBB+ (Stable)	-	-
2	Non-convertible debenture programme	Long term	100.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	-	-	-	-	-	-
3	Non-convertible debenture programme	Long term	250.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	-	-	-	-
4	Non-convertible debenture programme	Long term	-	-	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
5	Long-term / Short-term bank lines	Long term / Short term	600.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

^Market linked debentures' long-term limit is interchangeable with NCDs up to Rs. 48.525 crore; if placed as NCDs, the rating of [ICRA]BBB+ (Stable) will be applicable

#Part of the interchangeable limit of PP-MLD; Rs. 25.00 crore has been issued as NCD

Complexity level of the rated instruments

Instrument	Complexity Indicator
Market linked debenture long term	Moderately Complex
Non-convertible debenture programme	Simple
Long-term/Short-term bank lines	Simple

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE090W07568	Non-convertible debenture programme	Jul-27-2023	10.48%	Jul-27-2025	50.00	[ICRA]BBB+ (Stable)
INE090W07576	Non-convertible debenture programme	Sep-09-2023	11.85%	Sep-9-2025	68.40	[ICRA]BBB+ (Stable)
INE090W07584	Non-convertible debenture programme	Sep-27-2023	11.15%	Sep-27-2025	20.00	[ICRA]BBB+ (Stable)
INE090W07626	Non-convertible debenture programme	Oct-25-2023	11.71%	Jul-01-2025	35.00	[ICRA]BBB+ (Stable)
INE090W07600	Non-convertible debenture programme	Oct-25-2023	10.69%	Oct-25-2025	15.00	[ICRA]BBB+ (Stable)
INE090W07634	Non-convertible debenture programme	Oct-27-2023	11.64%	Oct-27-2025	25.00	[ICRA]BBB+ (Stable)
INE090W07618	Non-convertible debenture programme	Oct-30-2023	11.95%	Oct-30-2026	40.00	[ICRA]BBB+ (Stable)
INE090W07642	Non-convertible debenture programme	Nov-03-2023	11.00%	Aug-08-2025	20.00	[ICRA]BBB+ (Stable)
INE090W07667	Non-convertible debenture programme	Jan-30-2024	11.25%	Jan-30-2026	55.00	[ICRA]BBB+ (Stable)
INE090W07535*	Non-convertible debenture programme*	Jun-14-2023	12.50%	Jun 14, 2025	25.00	[ICRA]BBB+ (Stable)
INE090W07477	Market linked debenture long term	Jul-6-2022	G-Sec Linked	Jul-6-2024	20.00	PP-MLD[ICRA]BBB+ (Stable)
Not yet placed	Non-convertible debenture programme	-	-	-	21.60	[ICRA]BBB+ (Stable)
Not yet placed	Market linked debenture long term	-	-	-	3.525	PP-MLD[ICRA]BBB+ (Stable)^
NA	Long-term/Short-term fund-based bank lines	-	-	-	600.00	[ICRA]BBB+ (Stable) / [ICRA]A2

Source: Company

**Part of the interchangeable limit of PP-MLD; the ISIN has been issued as NCD rating of [ICRA]BBB+ (Stable)*

^Market linked debenture limit is interchangeable with NCDs; if placed as NCD, rating of [ICRA]BBB+ (Stable) will be applicable

Note: PP-MLD refers to the principal protected market linked debenture programme. According to the terms of the rated market linked debentures, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary as they are linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The assigned rating expresses ICRA's current opinion on the credit risk associated with the issuer concerned. It does not address the risks associated with the variability in returns resulting from the adverse movements in the variable(s) concerned

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lendingkart Technologies Private Limited	Parent	Full consolidation
Lendingkart Finance Limited	100.00%	
Lendingkart Account Aggregator Private Limited	100.00%	

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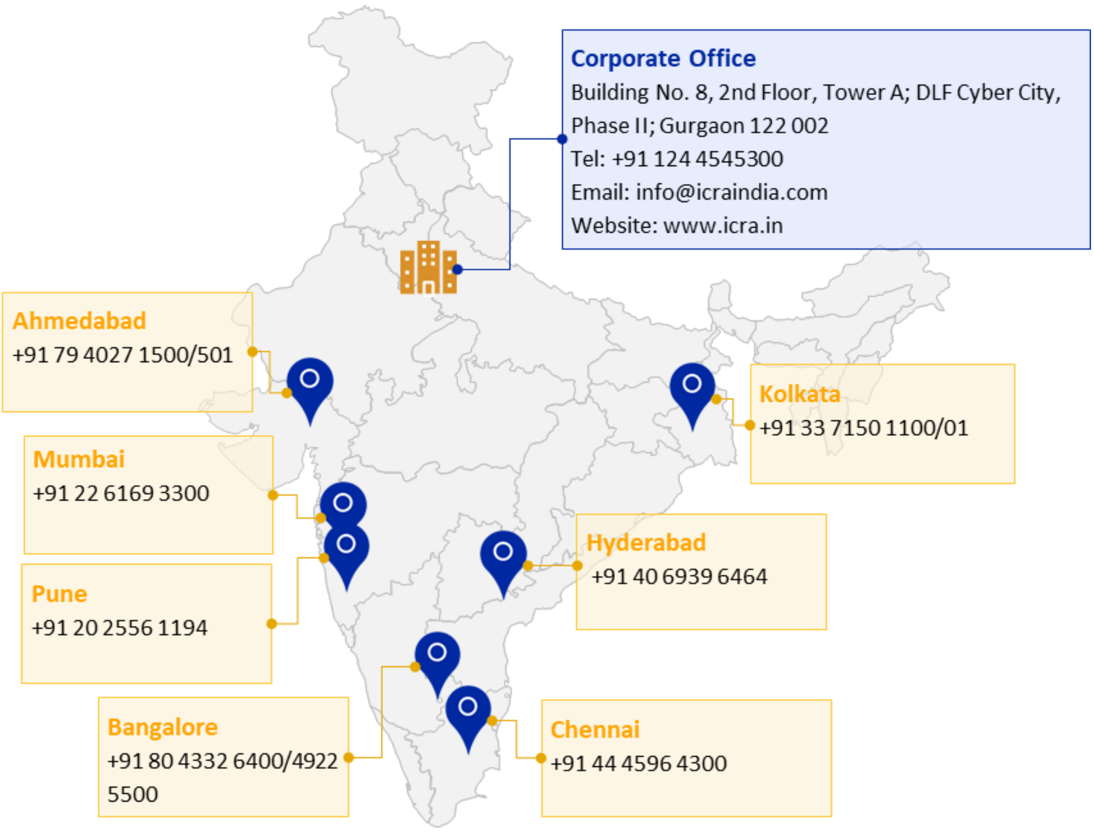

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