

August 29, 2024

Lendingkart Finance Limited: Ratings reaffirmed for PTCs issued under unsecured business loan securitisation transactions

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 |
|--------------------|---------------|----------------------------------|--|----------------------------------|--------------------------|
| Argentum Trust 001 | PTC Series A1 | 16.69 | NA | 4.24 | [ICRA]A(SO); reaffirmed |
| Argentum Trust 002 | PTC Series A1 | 30.58 | NA | 10.13 | [ICRA]A+(SO); reaffirmed |

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by unsecured small business loan receivables originated by Lendingkart Finance Limited {LFL/Originator; rated [ICRA]BBB+(Stable)}.

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation. While both the pools have witnessed higher delinquency levels than ICRA's base expectations, the ratings draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the July 2024 payout month.

Pool performance summary

| Particulars | Argentum Trust 001 | Argentum Trust 002 |
|---|--------------------|--------------------|
| Payout month | Jul-24 | Jul-24 |
| Months post securitisation | 14 | 12 |
| Pool amortisation | 63.37% | 52.47% |
| PTC Series A1 amortisation | 74.57% | 66.87% |
| Cumulative collection efficiency ¹ | 89.65% | 88.39% |
| Loss-cum-30+ days past due (dpd) ² (% of initial pool) | 13.21% | 16.39% |
| Loss-cum-90+ dpd ³ (% of initial pool) | 10.67% | 12.88% |
| Cumulative cash collateral (CC) utilisation | 0.00% | 0.00% |
| Cumulative prepayment rate | 21.17% | 16.45% |
| Breakeven collection efficiency ⁴ for PTC Series A1 | 40.32% | 45.99% |
| CC available (as % of balance pool principal) | 13.65% | 10.52% |
| Principal subordination (% of balance pool) PTC Series A1 | 39.60% | 37.26% |
| Excess interest spread (EIS ⁵ ; % of balance pool) PTC Series A1 | 18.63% | 16.32% |

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

Transaction Structure

For Argentum Trust 001 transaction, as per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will flow back to the Originator. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

For Argentum Trust 002 transaction, as per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be passed on to PTC Series A1 investors. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

Key rating drivers and their description

Credit strengths

Build up of credit enhancement – The rating action factors in the build-up in the credit enhancement with the CC increasing to 13.65% and 10.52% for Argentum Trust 001 and Argentum Trust 002 respectively of the balance pool principal from 5.00% at the time of securitisation. Internal credit support is also available through principal subordination of 39.60% and 37.26% for Argentum Trust 001 and Argentum Trust 002 respectively of the balance pool principal along with EIS. There has been no CC utilisation in both the pools in any of the months post securitisation.

Credit challenges

Higher than expected delinquencies in the pool – Both the pools have seen higher delinquency levels than ICRA's base expectations. While there has been some moderation in the roll forward in softer delinquency buckets in recent months, there has been a buildup in delinquencies in harder buckets with loss cum 90+ dpd at 10.67% and 12.88% for Argentum Trust 001 and Argentum Trust 002 respectively. The collections from the delinquent contracts have been low which is expected given the unsecured nature of the loans in the pools. The balance pools continue to have a high share of contracts that had been delinquent in past (pre-assignment of pools) and high share of high interest rate (>30%) contracts which have performed weaker. Nonetheless, while the monthly collection efficiency in the pools has declined to ~80% in last few months, it is much higher than the break-even collection efficiency for the PTCs which is a comfort.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the Argentum Trust 001 and Argentum Trust 002, ICRA has estimated the shortfall in the pool principal collection during its tenure at 9.25% and 12.50% of the initial pool principal respectively with certain variability around it. The average prepayment rate for both the underlying pools is modelled in the range of 6% to 18% per annum. Various possible scenarios

have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final ratings for the instruments.

Details of Key counterparties

The key counterparties in the rated transactions are as follows:

| Transaction Name | Argentum Trust 001 | Argentum Trust 002 |
|------------------------------------|------------------------------|------------------------------|
| Originator | Lendingkart Finance Limited | Lendingkart Finance Limited |
| Servicer | Lendingkart Finance Limited | Lendingkart Finance Limited |
| Trustee | Catalyst Trusteeship Limited | Catalyst Trusteeship Limited |
| CC holding bank | DCB Bank | DCB Bank |
| Collection and payout account bank | ICICI Bank | ICICI Bank |

Liquidity position: Adequate

The liquidity for PTC Series A1 for both the transactions is adequate after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~2.5 and ~2.25 times the estimated loss in the pools for Argentum 001 and Argentum 002 pools respectively.

Rating sensitivities

Positive factors – The ratings may be upgraded on sustained strong collection and reduction in loss cum 90+ dpd levels.

Negative factors – The ratings could be downgraded on sustained weak collection performance of the underlying pool of contracts, leading to further increase in 90+ dpd levels. Weakening in the credit profile of the servicer (LFL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till June 2024 (collection month), the present delinquency levels and the credit enhancement 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 | FY2024 |
|----------------------|---------|---------|---------|
| | Audited | Audited | Audited |
| Total income | 639 | 824 | 1,146 |
| Profit after tax | (141) | 116 | 60 |
| Total Managed assets | 3,908 | 6,007 | 8,631 |
| Gross stage 3 | 3.9% | 2.6% | 2.9% |
| CRAR | 25.9% | 34.2% | 21.5%* |

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

*The reduction in Tier I was on account of the recent FAQs issued by the RBI in April 2024 on 'Default Loss Guarantee in Digital Lending', whereby the FLDG provided to the co-lending partners is to be reduced from the Tier I capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Trust Name | Instrument | Current Rating (FY2025) | | Chronology of Rating History for the Past 3 Years | | | |
|--------------------|---------------|----------------------------------|----------------------------------|---|-------------------------|-------------------------|-------------------------|
| | | Initial Amount Rated (Rs. crore) | Current amount rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | August 29, 2024 | August 17, 2023 | June 01, 2023 | - |
| Argentum Trust 001 | PTC Series A1 | 16.69 | 4.24 | [ICRA]A(SO) | [ICRA]A(SO) | Provisional [ICRA]A(SO) | - |

| Trust Name | Instrument | Current Rating (FY2025) | | Chronology of Rating History for the Past 3 Years | | | |
|--------------------|---------------|----------------------------------|----------------------------------|---|-------------------------|--------------------------|-------------------------|
| | | Initial Amount Rated (Rs. crore) | Current amount rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | August 29, 2024 | October 13, 2023 | August 01, 2023 | - |
| Argentum Trust 002 | PTC Series A1 | 30.58 | 10.13 | [ICRA]A+(SO) | [ICRA]A+(SO) | Provisional [ICRA]A+(SO) | - |

Complexity level of the rated instrument

| Transaction | Instrument | Complexity Indicator |
|--------------------|---------------|----------------------|
| Argentum Trust 001 | PTC Series A1 | Moderately Complex |
| Argentum Trust 002 | 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 (p.a.p.m.) | Final Maturity Date | Current Amount Rated (Rs. crore) | Current Rating |
|---------------------------|-----------------|------------------|------------------------|---------------------|----------------------------------|----------------|
| Argentum Trust 001 | PTC Series A1 | May 01, 2023 | 11.50% | December 15, 2025 | 4.24 | [ICRA]A(SO) |
| Argentum Trust 002 | PTC Series A1 | July 01, 2023 | 10.55% | January 15, 2026 | 10.13 | [ICRA]A+(SO) |

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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