

September 18, 2024

Lendingkart Finance Limited: Rating reaffirmed for SNs 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
SBL Radiance 2023 01	SN Series A1	39.45	NA	10.34	[ICRA]A+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The securitisation notes (SNs) are backed by unsecured small business loan receivables originated by Lendingkart Finance Limited {LFL/Originator; rated [ICRA]BBB+(Stable)}. While the pool has shown healthy amortisation, which has led to the build-up of the credit enhancement cover, the rating has been reaffirmed due to higher harder bucket delinquencies observed in the pool. However, the rating draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the August 2024 payout month. Also while the pool has seen some roll forward of delinquencies into the harder buckets with loss cum 90+ dpd at 5.99%, there has been a roll back in loss cum 0+ dpd over the past few months.

Pool performance summary

Particulars	SBL Radiance 2023 01
Payout month	Aug-24
Months post securitisation	14
Pool amortisation	59.16%
SN Series A1 amortisation	73.80%
Cumulative collection efficiency ¹	94.40%
Loss-cum-30+ days past due (dpd) ² (% of initial pool)	6.67%
Loss-cum-90+ dpd ³ (% of initial pool)	5.99%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	22.77%
Breakeven collection efficiency ⁴ for SN Series A1	37.78%
CC available (as % of balance pool principal)	17.19%
Principal subordination (% of balance pool) SN Series A1	40.98%
Excess interest spread (EIS ⁵ ; % of balance pool) SN Series A1	14.16%

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 SN investors – Originator's residual share)/Pool Principal outstanding

Transaction Structure

As per the transaction structure, the monthly pool collections shall be used for meeting the promised payouts (defined as interest at predetermined yield and 92.00% of billed principal) to SN Series A1, followed by the balance expected principal payouts to SN Series A1 (8.00% of billed principal). The residual cash flows from the pool, after meeting the promised and expected payouts, will be passed on to SN Series A1 investors. Any prepayment in the pool would be used for the prepayment of the SN 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 cash collateral increasing to 17.19% of the balance pool principal from 7.0% at the time of securitisation. Internal credit support is also available through principal subordination of 40.98% along with EIS of 14.16% of the balance pool principal.

Credit challenges

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 current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 6.50% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool 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 rating for the instrument.

Details of Key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	SBL Radiance 2023 01
Originator	Lendingkart Finance Limited
Servicer	Lendingkart Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Strong

The liquidity for SN Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~4.5 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.

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. Weakening in the credit profile of the servicer (Lendingkart) 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
				September 18, 2024	September 13, 2023	July 04, 2023	-	-
SBL Radiance 2023 01	SN Series A1	39.45	10.34	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
SBL Radiance 2023 01	SN 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	Amount Rated (Rs. crore)	Current Rating
SBL Radiance 2023 01	SN Series A1	June 30, 2023	10.90%	January 19, 2026	10.34	[ICRA]A+(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.

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