

October 21, 2024

## Lendingkart Finance Limited: Ratings upgraded for PTCs issued under two unsecured business loans securitisation transactions

### Summary of rating action

Trust Name <sup>^</sup>	Instrument <sup>*</sup>	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Nimbus 2023 SBL LIMA	PTC Series A1	14.36	NA	1.97	[ICRA]AA(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	1.01	NA	1.01	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)
Nimbus 2023 SBL Nairobi	PTC Series A1	14.58	NA	1.04	[ICRA]AA(SO); Upgraded from [ICRA]A(SO)
	PTC Series A2	1.02	NA	1.02	[ICRA]AA-(SO); Upgraded from [ICRA]A-(SO)

<sup>^</sup> The transactions have been referred to as Lima and Nairobi in this rationale

<sup>\*</sup>Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by pools of unsecured small business loan receivables originated by Lendingkart Finance Limited {LFL/Originator; rated [ICRA]BBB+(Stable)}. The ratings upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation and healthy pool performance. The ratings also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the September 2024 payout month.

### Pool performance summary

Particulars	Lima	Nairobi
Payout month	Sep-24	Sep-24
Months post securitisation	16	17
Pool amortisation	70.59%	74.36%
PTC Series A1 amortisation	86.25%	92.85%
PTC Series A2 amortisation	0.00%	0.00%
Cumulative collection efficiency <sup>1</sup>	94.00%	93.65%
Loss-cum-30+ days past due (dpd) <sup>2</sup> (% of initial pool)	7.39%	7.35%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	5.60%	5.98%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
Cumulative prepayment rate	27.03%	23.89%
Breakeven collection efficiency <sup>4</sup> for PTC Series A1	20.25%	4.12%

<sup>1</sup> (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

<sup>2</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

<sup>3</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

<sup>4</sup> (Balance cash flows payable to PTC Series A1 investor – CC available)/Balance pool cash flows

Particulars	Lima	Nairobi
Breakeven collection efficiency <sup>5</sup> for PTC Series A2	38.73%	24.90%
CC available (as % of balance pool principal)	17.00%	19.50%
Principal subordination (% of balance pool) PTC Series A1	60.27%	76.03%
Principal subordination (% of balance pool) PTC Series A2	39.87%	52.63%
Excess interest spread (EIS <sup>6</sup> ; % of balance pool) PTC Series A1	14.98%	16.85%
Excess interest spread (EIS <sup>7</sup> ; % of balance pool) PTC Series A2	14.01%	15.89%

## Transaction Structure

For both the transactions, as per the waterfall mechanism, PTC Series A2 payouts are completely subordinated to PTC Series A1. The collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1, followed by the expected interest payout to PTC Series A2. The entire principal repayment to PTC Series A1 is promised on the scheduled maturity date. Post the maturity of PTC Series A1, interest payouts will be promised to PTC Series A2 and all excess cash flows, after meeting the promised interest PTC Series A2 payouts, will be passed on for the expected PTC Series A2 principal payout. The entire principal repayment to PTC Series A2 is promised on the scheduled maturity date. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis.

## Key rating drivers and their description

### Credit Strengths

**Build-up of credit enhancement** – The rating actions factor in the build-up in the credit enhancement with the cash collateral increasing to 17.00% and 19.50% of the balance pool principal for Lima and Nairobi pools from 5.00% at the time of securitisation. For Lima pool, internal credit support is also available through principal subordination of 60.27% for PTC Series A1 and 39.87% for PTC Series A2 along with excess interest spread (EIS) of 14.98% and 14.01% of the balance pool principal for PTC Series A1 and PTC Series A2 respectively. For Nairobi pool, internal credit support is also available through principal subordination of 76.03% for PTC Series A1 and 52.63% for PTC Series A2 along with excess interest spread (EIS) of 16.85% and 15.89% of the balance pool principal for PTC Series A1 and PTC Series A2 respectively.

### Credit Challenges

**Exposed to interest rate risk** – Both the transactions are exposed to interest rate risk as the underlying pools have fixed rate loans while the yield on the PTCs is floating (linked to RBI repo rate).

**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 pools are 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.

<sup>5</sup> (Balance cash flows payable to PTC Series A1 investor + Balance cash flows payable to PTC Series A2 investor – CC available)/Balance pool cash flows

<sup>6</sup> (Pool Cash flows – Cash flows to PTC Series A1 investors – Originator's residual share)/Pool Principal outstanding

<sup>7</sup> (Pool Cash flows – Cash flows to PTC Series A1 investors – Cash flows to PTC Series A2 investors – Originator's residual share)/Pool Principal outstanding

## 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 pools, ICRA has estimated the shortfall in the pool principal collection and prepayment during the tenure as provided in the following table. 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.

Transaction Name	Estimate Shortfall* (% of initial pool principal)	Prepayment
Nimbus 2023 SBL LIMA	5.25%	6-18% p.a.
Nimbus 2023 SBL Nairobi	4.50%	6-18% p.a.

\* Estimated shortfall in principal collection with certain variability around it

## Details of Key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Nimbus 2023 SBL LIMA	Nimbus 2023 SBL Nairobi
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:

### For Nimbus 2023 SBL LIMA: Strong

The liquidity for both PTC Series A1 and PTC Series A2 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~5 times and ~3.75 times the estimated loss in the pool for PTC Series A1 and PTC Series A2 respectively.

### For Nimbus 2023 SBL Nairobi: Strong

The liquidity for both PTC Series A1 and PTC Series A2 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~6 times and ~4.5 times the estimated loss in the pool for PTC Series A1 and PTC Series A2 respectively.

## Rating sensitivities

**Positive factors** – The ratings are likely be upgraded once the CC covers the future PTC payouts.

**Negative factors** – The ratings could be downgraded on the sustained weak collection performance of the underlying pools 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 ratings.

## Analytical approach

The rating actions are based on the performance of the pools till August 2024 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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
				October 21, 2024	October 12, 2023	May 12, 2023	-	-
Nimbus 2023 SBL LIMA	PTC Series A1	14.36	1.97	[ICRA]AA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
	PTC Series A2	1.01	1.01	[ICRA]AA-(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
				October 21, 2024	October 13, 2023	April 03, 2023	-	-
<b>Nimbus 2023 SBL Nairobi</b>	PTC Series A1	14.58	1.04	[ICRA]AA(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
	PTC Series A2	1.02	1.02	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		

### Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
<b>Nimbus 2023 SBL LIMA</b>	PTC Series A1	Complex
	PTC Series A2	Moderately Complex
<b>Nimbus 2023 SBL Nairobi</b>	PTC Series A1	Complex
	PTC Series A2	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
<b>Nimbus 2023 SBL LIMA</b>	PTC Series A1	May 08, 2023	11.50%^	December 22, 2025	1.97	[ICRA]AA(SO)
	PTC Series A2	May 08, 2023	13.25%	December 22, 2025	1.01	[ICRA]AA-(SO)
<b>Nimbus 2023 SBL Nairobi</b>	PTC Series A1	March 29, 2023	11.50%^	September 22, 2025	1.04	[ICRA]AA(SO)
	PTC Series A2	March 29, 2023	14.00%	September 22, 2025	1.02	[ICRA]AA-(SO)

Source: Company

^Floating, linked to repo rate and spread fixed at 5%

#### Annexure II: List of entities considered for consolidated analysis

Not Applicable

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