

November 28, 2024

Lendingkart Finance Limited: Rating upgraded for PTCs issued under an 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
Brahmagupta 2023	PTC Series A	11.30	NA	2.68	[ICRA]AA(SO); Upgraded from [ICRA]AA-(SO)

^ The transaction has been referred to as Brahmagupta in this rationale

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of unsecured small business loan receivables originated by Lendingkart Finance Limited {LFL/Originator; rated [ICRA]BBB+(Stable)}. The rating 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 rating also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the October 2024 payout month.

Pool performance summary

Particulars	Brahmagupta
Payout month	Oct-24
Months post securitisation	14
Pool amortisation	58.04%
PTC Series A amortisation	76.33%
Cumulative collection efficiency ¹	96.71%
Loss-cum-30+ days past due (dpd) ² (% of initial pool)	3.92%
Loss-cum-90+ dpd ³ (% of initial pool)	3.53%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	21.10%
Breakeven collection efficiency ⁴ for PTC Series A	30.41%
CC available (as % of balance pool principal)	16.68%
Principal subordination (% of balance pool) PTC Series A	49.79%
Excess interest spread (EIS ⁵ ; % of balance pool) PTC Series A	13.56%

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 PTC Series A investor – CC available)/Balance pool cash flows

⁵ (Pool Cash flows – Cash flows to PTC Series A investors – Originator's residual share)/Pool Principal outstanding

Transaction Structure

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 payouts, will be used for the prepayment of PTC Series A principal. Any prepayment in the pool would be used for the prepayment of the PTC Series A 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 16.7% of the balance pool principal from 7.0% at the time of securitisation. Internal credit support is also available through principal subordination i.e. 49.8% along with excess interest spread (EIS) of 13.6% of the balance pool principal.

Healthy pool performance – The pool's performance has been strong with a cumulative collection efficiency of 96.7% till the October 2024 payout, which has resulted in lower delinquencies in the pools with the 90+ days past due (dpd) at 3.5%. The break-even collection efficiency is significantly lower than the actual collections seen in the pool. Further, there have been no instance of cash collateral utilisation for the pool till date owing to strong collection performance and presence of EIS in the transaction.

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 4.75% of the initial pool principal. 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 is as follows:

Transaction Name	Brahmagupta
Originator	Lendingkart Finance Limited
Servicer	Lendingkart Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	State Bank of India

Transaction Name	Brahmagupta
Collection and payout account bank	ICICI Bank

Liquidity position

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~6.75 times the estimated loss in the pool for PTC Series A.

Rating sensitivities

Positive factors – The rating is likely to be upgraded once the CC covers the future PTC payouts.

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 September 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%	34.0%	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
				Nov 28, 2024	Nov 13, 2023	Aug 14, 2023	-	-
Brahmagupta 2023	PTC Series A	11.30	2.68	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Brahmagupta 2023	PTC Series A	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
Brahmagupta 2023	PTC Series A	August 11, 2023	10.50%	January 17, 2026	2.68	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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