

January 22, 2025

## Lendingkart Finance Limited: Rating upgraded for PTCs issued under an unsecured business loans securitisation transaction

### 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
Argentum Trust 003	PTC Series A1	72.08	NA	20.26	[ICRA]AA-(SO); Upgraded from [ICRA]A+(SO)

<sup>^</sup> The transaction has been referred to as Argentum in this rationale

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

### Rationale

The pass-through certificates notes (PTCs) are backed by a pool of unsecured small business loan receivables originated by Lendingkart Finance Limited (LFL/Originator; rated [ICRA]BBB+; rating watch with positive implications). Lendingkart is also the servicer for this transaction. 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. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the December 2024 payout month. There has been a dip in collections in last few months which has led to an increase in delinquencies in the pool while rollback from overdue contracts has been lower given the unsecured nature of the asset class.

### Pool performance summary

Particulars	Argentum
Payout month	Dec-24
Months post securitisation	13
Pool amortisation	55.02%
PTC Series A1 amortisation	71.89%
Cumulative collection efficiency <sup>1</sup>	93.31%
Loss-cum-30+ days past due (dpd) <sup>2</sup> (% of initial pool)	9.06%
Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)	7.46%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	29.88%
Breakeven collection efficiency <sup>4</sup> for PTC Series A1	40.30%
CC available (as % of balance pool principal)	11.12%
Principal subordination (% of balance pool) PTC Series A1	43.75%
Excess interest spread (EIS <sup>5</sup> ; % of balance pool) PTC Series A1	14.78%

<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

<sup>5</sup> (Pool Cash flows – Cash flows to PTC Series A1 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 and expected payouts, will be used for the prepayment of PTC Series A1 principal. Any prepayment in the pool would be used for the prepayment of 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 cash collateral increasing to 11.1% of the balance pool principal from 5.0% at the time of securitisation. Internal credit support is also available through principal subordination which has built up from the time of securitisation as well as through excess interest spread (EIS) in the transaction.

**Adequate servicing capability of the originator** – The company has adequate processes for servicing of the loan accounts in the securitised pool. It has a demonstrated track record of over a decade of regular collections across multiple geographies.

### 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.

**Higher delinquencies seen in the pool** – The pool has seen higher delinquency levels than ICRA's base expectations. Due to dip in collections in last few months and lower recovery from overdue contracts there has been a buildup in delinquencies in harder buckets with loss cum 90+ dpd at 7.46%. The collections from the delinquent contracts have been low which is expected given the unsecured nature of the loans in the pool. The balance pool continues to have a moderate share of contracts that had been delinquent in past (pre-assignment of pool) and high share of high interest rate (>30%) contracts which have performed weaker. Nonetheless, while the monthly collection efficiency in the pool has dipped below 90% in last few months, it is much higher than the break-even collection efficiency for the PTCs which is a comfort.

### 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 8.0% 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	Argentum
Originator	Lendingkart Finance Limited
Servicer	Lendingkart Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	DCB Bank
Collection and payout account bank	ICICI Bank

## Liquidity position: Strong

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

## 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 November 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	<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)

	FY2023	FY2024	H1FY2025
	Audited	Audited	Unaudited
Total income	824	1,146	514
Profit after tax	116	60	(90)
Total Managed assets	6,007	8,631	7,778
Gross stage 3	2.6%	2.9%	4.2%
CRAR	34.0%	21.5%*	24.2%*

Source: Lendingkart, 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 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
				Jan 22, 2025	Jan 17, 2024	Nov 30, 2023	-	-
Argentum Trust 003	PTC Series A1	72.08	20.26	[ICRA]AA-(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

### Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Argentum Trust 003	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	Amount Rated (Rs. crore)	Current Rating
<b>Argentum Trust 003</b>	PTC Series A1	November 29, 2023	10.35%	April 15, 2026	20.26	[ICRA]AA-(SO)

Source: Company

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

Not Applicable

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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.

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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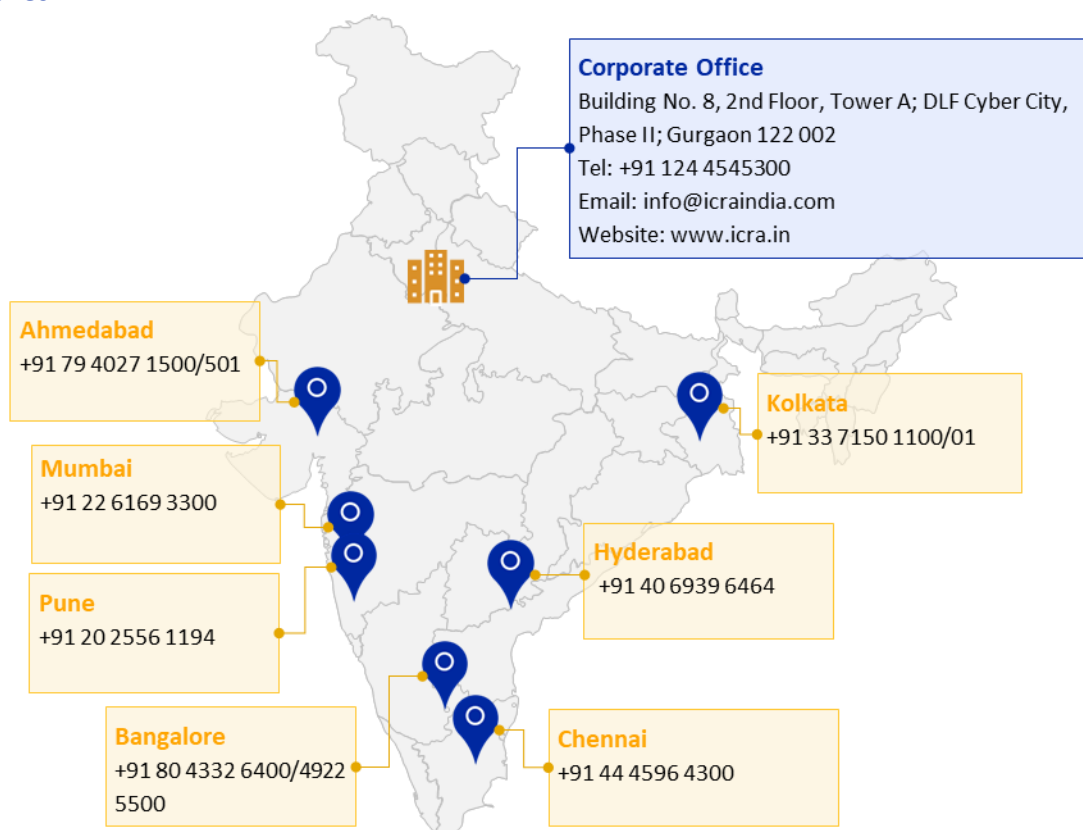


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