

August 22, 2022

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

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 SBL Drinfeld	PTC Series A1	70.81	20.61	2.48	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.21	1.21	1.21	[ICRA]AA-(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by Lendingkart Finance Limited (LFL) {Lendingkart; rated [ICRA]BBB+ (Stable)} are backed by a pool of unsecured small business loans. The rating reaffirmation is on account of the high amortisation in the transactions which has led to a build-up of the credit enhancement cover over the future PTC payouts. The break-even collection efficiency for the pool is likely to be comfortable as compared to the actual collection efficiency seen in the pool even after reset of credit enhancement.

Pool Performance summary

A summary of the performance of the pool till Jun-22 collection month has been tabulated below.

Parameter	Northern Arc 2021 SBL Drinfeld
Months post securitisation	18
Pool Amortisation	84.9%
PTC Amortization - PTC A1	96.5%
PTC A2	95.4%
Cumulative collection efficiency ¹	97.7%
Loss cum 0+ (% of initial pool principal) ²	4.4%
Loss cum 30+ (% of initial pool principal) ³	3.3%
Loss cum 90+ (% of initial pool principal) ⁴	2.7%
Break even collection efficiency ⁵	
PTC A1	0.0%
PTC A2	0.0%
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	46.41%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	

¹ Cumulative collections till date / Cumulative billings till date plus opening overdues

² POS on contracts aged 0+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁵ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

PTC A1 ⁶	7.40%
PTC A2 ⁷	7.20%
Cumulative prepayment rate ⁸	26.35%

Reset of credit enhancement

At the request of Lendingkart for reset of credit enhancement, ICRA has analysed the transaction at a CC of 13.29% of the balance pool principal (i.e. Rs 1.69 crore) as against current available CC of 46.41% (after July 2022 payouts). Based on the pool performance, ratings for all tranches will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- High amortization of PTCs resulting in build-up of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts;
- The pool has exhibited high cumulative collection efficiency

Credit challenges

- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic.

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 97.7% (till June 2022 collections). The pool has amortised by 84.9%. There has been no CC utilisation in the pool. The loss cum 90+ dpd has been low at 2.7%. The delinquencies have been steady in the last few months with loss cum 90+ dpd not exceeding 3%. The pool has seen moderate prepayments with average monthly prepayment rate of around 2%. Due to high amortisation of the pool there has been a buildup of credit enhancement in pool with respect to the balance pool principal. The pool would remain exposed to any fresh disruptions that may arise due to the pandemic.

Overall, the credit enhancement available for meeting balance payouts to the investors (after downward reset in the CC) is sufficient to reaffirm the rating at the current rating levels in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

Performance of past rated pools:

ICRA has rated 28 pools originated by Lendingkart, which are backed by SBLs, of which 20 are live. The performance of the live pools has been robust with cumulative collection efficiency above 95%. The pools have seen moderate to high amortisation till the July 2022 payout month and nil CC has been utilised till July 2022 payout in any of the transactions.

Key rating assumptions

ICRA's cash flow analysis of asset-backed securitisation (ABS) transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the

⁶ $(\text{Pool Cashflows} - \text{Cashflows to PTC A1} - \text{PTC A2 principal} - \text{originator's residual share}) / \text{Pool Principal outstanding}$

⁷ $(\text{Pool Cashflows} - \text{Cashflows to PTC A1} - \text{Cashflows to PTC A2} - \text{originator's residual share}) / \text{Pool Principal outstanding}$

⁸ $\text{Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal}$

assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pool are expected to be in the range of 1.5% -2.5% and 12.0%-18.0% respectively.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 and PTC Series A2 investors.

Rating sensitivities

Positive factors/Negative factors – Given the shorter balance tenure of the PTCs the ratings are unlikely to be revised.

Analytical approach

The rating action is based on the performance of the pool till June 2022 (collection month), the present delinquency level analysis of the performance of Lendingkart’s portfolio till June 2022, the performance expected over the balance tenure of the pool and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Lendingkart Finance Limited (formerly Aadri Infin Limited) is a Lendingkart Group company, which is registered as an 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 (FFH) had a 39.15% stake in LTPL as on March 31, 2022. The Group was started 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.

The Lendingkart Group is a part of the rapidly evolving fintech industry and it leverages technology to underwrite credit to extend loans to the SME segment, which distinguishes its algorithm-driven credit capabilities from the physical credit underwriting performed by various industry players. 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

Lendingkart Finance Limited	FY2020	FY2021	FY2022
Total income	464	510	639
Profit after tax	30	18	(141)
Total Managed Asset	2,601	2,832	3,721
Gross stage 3 (%)	2.2%	2.5%	3.9%
Net stage 3 (%)	1.0%	0.9%	1.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Aug 22, 2022	Feb 24, 2022	Mar 15, 2021	Feb 10, 2021*	-
1	Northern Arc 2021 SBL Drinfeld	PTC Series A1	70.81	2.48	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-
		PTC Series A2	1.21	1.21	[ICRA]AA-(SO)	[ICRA]AA-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 SBL Drinfeld	PTC Series A1	Moderately 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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2021 SBL Drinfeld	PTC Series A1	February 2021	10.80%	April 2023	2.48	[ICRA]AA(SO)
	PTC Series A2		14.50%		1.21	[ICRA]AA-(SO)

* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pools

Annexure-2: 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.

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.

For more information, visit www.icra.in

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