

May 11, 2022

Lendingkart Finance Limited: Rating confirmed as final for PTCs issued under unsecured small business loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Aspire MSME Trust January 2022	PTC Series A	114.92	[ICRA]BBB+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In February 2022, ICRA had assigned Provisional [ICRA]BBB+(SO) rating to PTC (Pass Through Certificate) Series A issued by Aspire MSME Trust January 2022. The PTCs are backed by receivables from a Rs. 159.09-crore (pool principal amount of Rs. 119.71 crore) pool of unsecured small business loans (SBL) originated by Lendingkart Finance Limited (Lendingkart/ Originator; rated [ICRA]BBB+(Stable)). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the April 2022 payout month has been provided below.

Parameter	Aspire MSME Trust January 2022
Months post securitisation	3
Pool principal amortisation	15.86%
PTC Series A Amortisation	16.52%
Average monthly prepayment rate	2.22%
Cumulative collection efficiency	98.98%
Loss cum 0+ dpd	1.92%
Loss cum 30+ dpd	0.60%
Loss cum 90+ dpd	0.00%
Cumulative credit collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of principal subordination and corporate guarantee
- Absence of overdue contracts in the pool as on the cut-off date

Credit challenges

- Geographical concentration in the pool with top 3 states accounting for ~38% of the pool principal
- Stress in asset quality amid Covid-19 pandemic as reflected in the high restructuring and write-offs
- Pool's performance remains exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A comprises the interest payments at the predetermined yield on the principal outstanding on each payout date and the entire principal on the final maturity date.

The first line of support for in the transaction is in the form of subordination of 4.00% of the pool principal. Additionally CC is available through an unconditional and irrevocable corporate guarantee from Lendingkart, equivalent to 20.00% of the initial pool principal. The corporate guarantee is in the form of an unfunded credit enhancement facility provided through a First Loss Credit Enhancement Deed. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall. The credit enhancement provides credit support against losses in the pool.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is moderately high with the top 3 states constituting ~38% of the pool principal. The pool consists of monthly paying loan contracts, with high weighted average seasoning (5.56 months) and pre-securitisation amortisation (15.08%). The pool has a high share of contracts (42.09%) with an internal rate of return of more than 30% and a high share of contracts (29.32%) with a ticket size of less than Rs. 5 lakh. However, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Performance of past rated pools: ICRA has rated 28 pools originated by Lendingkart, which are backed by SBLs, of which 22 are live (which have completed at least three months post securitisation). The performance of the live pools (which have completed at least three months post securitisation) has been good till date with the cumulative collection efficiency between 96% and 99%. The pools have seen moderate to high amortisation till the April 2022 payout month, resulting in significant build-up in the credit enhancement for the balance PTC payouts. No CC has been utilised till date.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the Originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 6.5-7.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Adequate

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. The CC is in form of Corporate Guarantee from Lendingkart available in the transaction equivalent to 20.00% of the initial pool principal amount. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to the PTC Series A investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement along with an upgrade in the rating of Lendingkart.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. The rating could also be downgraded on a downgrade in the rating of Lendingkart (unless the guarantee is replaced by a fixed deposit maintained with a Designated Bank acceptable by ICRA).

Analytical approach

The rating action is based on the Trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
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 SME loans. Lendingkart Technologies Private Limited (LTPL), the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in LFL. Fullerton Financial Private Limited (FFPL) had a 39.15% stake in LTPL as on March 31, 2021. The Group was started in 2014 by one of the co-founders, Mr. Harshvardhan Lunia and raised funds from Fullerton Financial Holdings (FFH), Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Sistema Asia Fund and Darren 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

	FY2019	FY2020	FY2021
	Audited	Audited	Audited
Total income	218	464	490
Profit after tax	28	30	18*
Gross advances	1,361	2,196	2,100
Gross stage 3 (%)	1.30%	2.18%	2.47%
Net stage 3 (%)	0.57%	0.97%	0.90%

Source: Lendingkart and ICRA Research; Amount in Rs. crore

*post COVID provisioning of Rs. 67.84 crore in FY2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2021
					May 11, 2022	Feb 09, 2022	-	-
1	Aspire MSME Trust January 2022	PTC Series A	114.92	114.92	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Aspire MSME Trust January 2022	PTC Series A	January 2022	13.00%	July 2024	114.92	[ICRA]BBB+(SO)

Source: Company

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.

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