

May 23, 2022

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

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
SBL Spring 2022	Series A1 SN	31.37	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In March 2022, ICRA had assigned Provisional [ICRA]A+(SO) rating to Series A1 Securitisation Notes (SNs) issued by SBL Spring 2022. The SNs are backed by receivables from a Rs. Rs. 44.72-crore (pool principal amount of Rs. 36.06 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 pool's performance after the April 2022 payout is provided in the table below.

Parameter	SBL Spring 2022
Months post securitisation	2
Pool amortisation	14.35%
SN Series A1 amortisation	19.59%
Cumulative prepayment rate	1.97%
Cumulative collection efficiency	98.76%
Loss-cum-0+ dpd	2.16%
Loss-cum-30+ dpd	0.21%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of principal subordination, EIS and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Average seasoning of ~14 months and pre-securitization amortisation of ~35%

Credit challenges

- Moderate share of high IRR contracts
- Stress in asset quality amid Covid-19 pandemic as reflected in the high restructuring and write-offs
- Pool performance will remain exposed to any fresh disruptions caused by 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 SN investors. The promised monthly cash flow schedule comprises the interest payments to Series A1 SN at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. As per the waterfall mechanism applicable for the transaction, the monthly pool collections shall be used for meeting the promised payouts (defined as interest at predetermined yield and 87% of billed principal) to SN Series A1, the balance expected principal payouts to SN Series A1 (13% of billed principal) and the expected interest payouts to SN Series A2.

The first line of support for Series A1 SN in the transaction is in the form of a subordination of 13.00% of the pool principal. Additionally, the EIS available in the structure shall provide CE support to the transaction. The EIS (18.30% of the pool principal initially for Series A1 SN) will not flow back to the originator and will instead be utilised towards accelerated principal amortisation after the promised and scheduled payouts to the SNs. All prepayment amounts would be passed on to SN Series A1 (till SN A1 principal is not fully amortised) every month and the future payouts will be revised accordingly. A CC of 8.00% of the initial pool principal (Rs. 2.88 crore) is provided by Lendingkart, would act as further CE in the transaction.

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 moderate with the top 3 states constituting 33.44% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (14.45 months) and pre-securitisation amortisation (35.01%). The pool has a moderate share of contracts (50.84%) with an IRR of more than 30% and a moderate share of contracts (52.16%) with a ticket size of more than Rs. 8 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 considering 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: Strong

The liquidity of the Series A1 SNs is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a cash collateral amounting to 8% of the initial pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the promised cashflows to Series A1 SNs for a period of five months.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels, would result in a rating downgrade.

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 a non-banking financial company (NBFC) and provides unsecured small and medium enterprise (SME) loans. Lendingkart Technologies Private Limited (LTPL), the technology arm of the Ahmedabad-based Lendingkart Group, holds a 100% stake in Lendingkart Finance Limited. 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. This distinguishes its algo-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
	Ind-AS	Ind-AS	Ind-AS
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 provisions 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

	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 FY2020
					May 23, 2022	Mar 04, 2022	-	-
1	SBL Spring 2022	Series A1 SN	31.37	31.37	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 SN	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
SBL Spring 2022	Series A1 SN	February 2022	10.20%	July 2024	31.37	[ICRA]A+(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.

For more information, visit www.icra.in

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