

May 26, 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
Estrada 03 2022	SN Series A1	33.90	[ICRA]BBB+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In April 2022, ICRA had assigned Provisional [ICRA]BBB+(SO) rating to Securitisation Notes (SNs) Series A1 issued by Estrada 03 2022. The SNs are backed by receivables from a Rs. Rs. 47.10-crore (pool principal amount of Rs. 38.09 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	Estrada 03 2022
Months post securitisation	1
Pool amortisation	6.95%
SN Series A1 Amortisation	7.80%
Average monthly prepayment rate %	1.61%
Cumulative collection efficiency	98.84%
Loss cum 0+ dpd	1.21%
Loss cum 30+ dpd	0.00%
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 EIS, subordination and CC
- Absence of overdue contracts as on the pool cut-off date
- Moderate average seasoning and pre-securitisation of the pool as on the pool cut-off date

#### Credit challenges

- Higher share of high-ticket size contracts with 48% share of contracts in pool having ticket size greater than Rs. 7 lakhs.
- Stress in asset quality amid Covid-19 pandemic as reflected in the high restructuring and write-offs
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the 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 cash flow schedule for SN Series A1 on a monthly basis will comprise the interest at the predetermined yield on the outstanding SN principal on each payout date and the entire principal on the final maturity date.

The first line of support for SN Series A1 in the transaction is in the form of a subordination of 11.00% of the pool principal. Additionally, the EIS available in the structure shall provide credit enhancement support to the transaction. The EIS (16.04% of the pool principal initially, based on the indicated SN yield, for SN Series A1) will flow back to the originator after the promised and scheduled payouts to the SNs have been made every month. All prepayment amounts would be passed on to SN Series A1 (till SN Series A1 principal is not fully amortised) every month and future payouts will be revised accordingly.

A CC of 4.00% of the initial pool principal (Rs. 1.52 crore) provided by Lendingkart would act as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall.

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 29.90% of the pool principal. The pool consists of monthly paying loan contracts with moderate seasoning (9.19 months on average) and pre-securitisation amortisation (24.94% on average). The pool has a higher share of high-ticket size loans (greater than Rs. 7 lakh) at ~48%. While the Originator has a moderate share of restructured portfolio and there have been sizeable write-offs in the past, the pool has no restructured contracts. Further, 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. 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 6.75-7.75% 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 SN holders on a monthly basis while the entire 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 adequate to meet the promised payouts to the SN Series A1 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.

**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.

## 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 the company. Fullerton Financial Private Limited (FFPL) had a 40.03% stake in LTPL as on June 30, 2020. The Group was started in 2014 by co-founders, Mr. Harshvardhan Lunia and Mr. Mukul Sachan, 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 (excluding gain on assignment of loans)	218	464	490
Profit after Tax	28	30	18*
Loan Book	1,361	2,196	2,100
% Gross NPAs (on-book)	1.30%	2.18%	2.47%
% Net NPAs (on-book)	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 26, 2022	April 05, 2022			
1	Estrada 03 2022	SN Series A1	33.90	33.90	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
SN 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: [www.icra.in](http://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
Estrada 03 2022	SN Series A1	March 2022	11.90%	March 2024	33.90	[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.

For more information, visit [www.icra.in](http://www.icra.in)

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