June 28, 2022

Lendingkart Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	207.50	207.50	[ICRA]BBB+(Stable); reaffirmed
Non-convertible Debentures	192.50	-	[ICRA]BBB+(Stable); reaffirmed and withdrawn
Long-term/Short-term Fund-based CC	600.00	600.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**1,000.00**	**807.50**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has reaffirmed Lendingkart Finance Limited's (LFL) ratings while the outlook remains Stable. The reaffirmation of the ratings factors in the continuous strategic, operational and funding support from the largest shareholder, Fullerton Financial Holdings Pte Limited (FFH; holding 39.15% stake as of March 31, 2022) in Lendingkart Technologies Private Limited (LTPL), which, in turn, has a 100% stake in LFL. The ratings consider the extensive experience of LFL's senior management team and technology-enabled processes, driving scalability and business diversification (assets under management (AUM) grew by 33% in FY2022, while the 5-year compound annual growth rate (CAGR) till FY2022 stood at 83%). ICRA notes the geographical diversification of LFL's loan portfolio spread across 12,000+ pin codes of the country.

ICRA notes LFL's ability to raise funds through diversified sources, including the increase in its partnerships with various banks and non-banking financial companies (NBFCs) under its co-lending arrangements. LFL's business model now entails a high proportion of off-balance sheet lending (co-lending formed 40% of the AUM as of March 31, 2022 and is expected to grow in FY2023). LFL provides first loss default guarantee (FLDG) in the form of corporate guarantees which stood at Rs. 276 crore as on March 31, 2022. As the net credit losses on the off-book AUM shall be borne by LFL up to the FLDG amount, ICRA will continue to monitor the same and the managed gearing[1] levels.

The ratings are constrained by the weak profitability due to high credit costs. LFL reported net losses of Rs. 177 crore in H1 FY2022 due to the one-time write-off of a part of the restructured loan book. The company extended restructuring relief to eligible borrowers amounting to AUM of around Rs. 500 crore under the Reserve Bank of India's (RBI) guidelines. ICRA notes the inherent risk associated with unsecured lending to micro, small and medium enterprises (MSMEs) though the same is partly mitigated by LFL's adequate risk management systems, high portfolio granularity and strengthening collection team (in-house as well as agency).

ICRA notes the gradual pickup in recoveries from the written-off accounts, which led to an improvement in the credit costs in H2 FY2022, thereby resulting in a profit before tax of Rs. 53 crore in H2 FY2022. ICRA also notes that LFL's incremental disbursements in FY2021 and FY2022 were towards customers with better credit and higher credit bureau scores, which is expected to improve the overall risk profile of the AUM and lower the delinquencies in the softer buckets. LFL's ability to control its operational risk and grow profitably while keeping its credit costs in check will remain a key rating factor.

[1] *Managed gearing = (total on-book borrowings + off-book assets) / net worth*

ICRA has withdrawn the rating assigned to LFL's Rs. 192.50-crore non-convertible debenture (NCD) programme as there is no amount outstanding against the same. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

Experienced strategic investors complement technology-driven scalable business model – Formed in 2014, LFL is a part of the Lendingkart Group. The Group's investors include FFH, Saama Capital, Mayfield India, India Quotient, Bertelsmann India Investments, Darrin Capital Management and Sistema Asia Fund, with FFH being the largest shareholder with a stake of 39.15% (as on March 31, 2022) in LTPL. ICRA factors in the continuous guidance provided by FFH towards the evolution of LFL's risk management framework, systems and processes and funding lines with an increase in the scale of operations. FFH has immense experience in the financial services sector in various emerging markets. ICRA takes comfort from the extensive experience of the promoters and the management team in the lending business and the company's strong investor profile.

LFL uses a branchless digital model, enabling deeper reach and coverage of underserved markets, aiding scalability with diversification. It uses a technology platform, developed and maintained by LTPL, for credit underwriting driven by big data analytics and machine-learning algorithms. LFL underwrites its loan proposals based on business cash flows using a proprietary algorithm that uses certain data points including the bank statements of the borrowers for arriving at the credit score. These algorithms are continuously monitored and updated based on the past performance of the loans while new variables are added from time to time.

LFL's AUM grew by 33% to Rs. 3,284 crore as on March 31, 2022, driven by higher loan disbursements under the co-lending arrangements. This led to a significant increase in the share of the off-book AUM to 43% as on March 31, 2022 from 17% as on March 31, 2021. LFL has co-lending arrangements with 14 lenders (banks and NBFCs), up from 6 in FY2021, with the co-lenders' share ranging from 70-100%. The company provides FLDG to the co-lending partner in the form of a corporate guarantee which stood at Rs. 276 crore as on March 31, 2022. As the net credit losses on the off-book AUM shall be borne by LFL up to the FLDG amount, ICRA will continue to monitor the same and the managed gearing levels. The managed gearing increased to 4.8 times as on March 31, 2022 from 2.6 times as on March 31, 2021 at the standalone level. The capital-to-risk weighted assets ratio (CRAR) remained adequate, though it declined to 25.9% as on March 31, 2022 from 38.7% as on March 31, 2021. ICRA expects an incremental equity capital requirement in the medium term to maintain the capital buffer to absorb unforeseen credit costs.

Diversification complements high granularity of the loan portfolio – LFL disburses unsecured loans with an average ticket size of ~Rs. 7 lakh and an average tenure of ~33 months. ICRA takes comfort from the high granularity of the portfolio due to the low ticket sizes and the distribution across various industries and geographies. Supported by its digital platform and branchless model, LFL has a presence across 28 states and 6 Union Territories (UTs) in India. The concentration of LFL's loan book in a single state or industry did not exceed 15% as on March 31, 2022. This enabled the diversification of the risk, while the higher yields earned helped mitigate the inherent risk in the target customer segment and aided the underwriting of unsecured loans.

Credit challenges

Earnings constrained by high credit costs – LFL reported a net loss of Rs. 141 crore in FY2022 due to higher credit costs on account of the pandemic. It reported an operating profit of Rs. 231 crore in FY2022 compared to Rs. 206 crore in FY2021, supported by the higher scale of operations. However, the operating profit/average managed assets[2] (AMA) declined to 7.0% in FY2022 from 7.5% in FY2021 as the operating expenses increased to 5.2% of AMA in FY2022 from 3.8% in FY2021 due to higher collection costs. Because of higher write-offs in the restructured loan book in H1 FY2022, credit costs/AMA increased

[2] *Average managed assets = Total assets + off-book assets*

to 23.0% (Rs. 342 crore) in H1 FY2022, while it stood at 4.3% (Rs. 73 crore) in H2 FY2022 against 6.5% (Rs. 178 crore) in FY2021. Further, LTPL continues to post losses due to the incremental costs incurred towards technology development and maintenance at the standalone level. LTPL has received equity capital of around Rs. 1,100 crore against the accumulated losses of Rs. 384 crore as on March 31, 2022.

LFL extended restructuring relief to eligible borrowers amounting to AUM of around Rs. 500 crore under the RBI's guidelines. The Covid-19 pandemic affected the underlying cash flows of the borrowers, which resulted in lower collection efficiencies during the lockdown restrictions. LFL's board decided to prudently provide for a significant portion of the restructured loan book in FY2022. The company provided net credit costs of Rs. 59 crore and Rs. 275 crore in FY2021 and FY2022 respectively, towards the restructured loan book. Hence, GNPAs plus annual write-offs increased to 14.8%[3] (~Rs. 556 crore) in FY2022, while without one-time write-offs of restructured loans, GNPA plus annual write-offs was 5.8% (Rs.195 crore) against 5.2% (Rs. 131 crore) in FY2021.

ICRA notes LFL's effort towards strengthening the collection team (in-house and agents), which has improved the overall collection efficiency and recoveries from the written-off accounts in H2 FY2022. The collection efficiency, which fell significantly in H1 FY2021 and Q1 FY2022 during the pandemic-related lockdowns, improved to 98% from December 2021. Further, LFL achieved higher recoveries from the OTR written-off accounts in H2 FY2022, aiding the improvement in the credit costs and resulting in a net profit of Rs. 36 crore in H2 FY2022. Further, LFL is incrementally focusing on customers with better credit, which is expected to improve the overall risk profile of the AUM and lead to a decline in delinquencies. ICRA expects an improvement in the net profitability in FY2023 and beyond, based on the expectation of higher recoveries from written-off accounts in FY2023 and better operational efficiency from the increasing scale of operations.

Inherent risks associated with unsecured lending – LFL caters to the MSME segment, which is highly vulnerable to downward economic cycles given the low cash flow buffers. Further, the entire AUM represents unsecured lending, which impedes recoveries from the harder delinquency buckets. However, ICRA notes that since FY2021, LFL has disbursed loans focusing on borrowers with better credit to improve the overall risk profile of the AUM. LFL's underwriting model provides risk categorisation of the borrowers (A to E) with A being the best. The share of category A borrowers in the AUM improved to 57% as on March 31, 2022 from 44% as on March 31, 2020, while the share of borrowers with high credit bureau scores (above 700) improved to 86% as on March 31, 2022 from 64% as on March 31, 2021.

ICRA expects the improvement in the AUM's risk profile to reduce the delinquencies in the softer buckets. Further, the strengthening of the collection team is expected to drive higher recoveries from FY2023. Additionally, the entire AUM is covered under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU), which is expected to limit the net credit losses.

Liquidity position: Adequate

LFL had a liquidity cushion of Rs. 221 crore in the form of unencumbered cash and cash equivalents (Rs. 185 crore) and undrawn banking lines (Rs. 36 crore) as on May 31, 2022. The liquidity profile remains adequate to service 10-12 weeks of debt obligations including operating expenses. Besides LTPL had liquidity cushion of Rs 40 crore in the form of unencumbered cash and cash equivalents as on May 31, 2022. The company did not have cumulative mismatches in its asset-liability management profile as on March 31, 2022, assuming the renewal of its cash credit or overdraft lines. ICRA also notes the improvement in LFL's funding profile with the widening of the lender base. As on March 31, 2022, LFL had relationships with 65 different lenders or investors compared to 25 as on June 30, 2018. Further, with the increase in bank and NCD borrowings, the share of NBFC borrowings reduced to 14% as on March 31, 2022 from 15% as on March 31, 2021 and 22% as on March 31, 2020. ICRA does not foresee any liquidity risk in the near term, given LFL's adequate liquidity position and its ability to raise funds.

[3] *GNPAs plus annual write-offs/ (closing AUM + annual write-offs)*

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company shows a consistent improvement in its profitability over the near-to-medium term, while improving the asset quality.

Negative factors – A material change in FFH's shareholding in LTPL or the consequent support to LTPL could warrant a rating downgrade. Pressure on the ratings could also arise if there is a continued deterioration in the asset quality and managed gearing on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) Rating Approach - Implicit Parent or Group Support Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA factors in the operational and financial support from LTPL's largest investor, i.e. FFH, which has a majority stake of 39.15% in LTPL and significant board representation in LFL.
Consolidation/Standalone	The ratings are based on LTPL's consolidated financial statements, given the strong linkage between LTPL and LFL through the common promoter and management and technology sharing between the companies.

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 (audited) of LTPL – Consolidated

	FY2020	FY2021	FY2022
Total income	470	520	643
Profit / (loss) after tax *	(22)	(28)	(203)
Net worth	791	851	657
Total assets	2,477	2,644	2,785
Total managed assets	2,697	2,960	3,870
Operating profit on managed assets	5.0%	5.5%	4.9%
Credit cost on managed assets	5.4%	6.3%	12.1%
Return on managed assets	(1.0%)	(1.0%)	(6.0%)
Return on net worth	(3.2%)	(3.5%)	(27.0%)
Gross gearing (times)	2.0	1.9	2.9
Managed gearing (times)	2.3	2.3	4.5
Gross stage 3	2.2%	2.5%	3.9%
Net stage 3	1.0%	0.9%	1.6%
Solvency (Net stage 3/Net worth)	2.5%	2.2%	4.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations

**Adjusting for one-time restructured loans impairment of Rs. 59 crore in FY2021 and Rs. 275 crore in FY2022, adjusted PAT was Rs. 31 crore and Rs. 72 crore in FY2021 and FY2022 respectively*
Amount in Rs. crore

Key financial indicators (audited) of LFL – Standalone

	FY2020	FY2021	FY2022
Total income	464	510	639
Profit / (loss) after tax *	30	18	(141)
Net worth	723	742	600
Total assets	2,382	2,516	2,636
Total managed assets	2,601	2,832	3,721
Operating profit on managed assets	7.7%	7.5%	7.0%
Credit cost on managed assets	5.7%	6.5%	12.7%
Return on managed assets	1.4%	0.7%	(4.3%)
Return on net worth	4.9%	2.5%	(21.0%)
Gross gearing (times)	2.2	2.2	3.0
Managed gearing (times)	2.5	2.6	4.8
Gross stage 3	2.2%	2.5%	3.9%
Net stage 3	1.0%	0.9%	1.6%
Solvency (Net stage 3/Net worth)	2.9%	2.5%	5.3%
CRAR	36.2%	38.7%	25.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations
**Adjusting for one-time restructured loans impairment of Rs. 59 crore in FY2021 and Rs. 275 crore in FY2022, adjusted PAT was Rs. 77 crore and Rs. 133 crore in FY2021 and FY2022 respectively*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2023) Date & Rating Jun 28, 2022	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022 Jun 29, 2021	Date & Rating in FY2021 Aug 31, 2020	Date & Rating in FY2021 Jul 30, 2020	Date & Rating in FY2020 Mar 12, 2020	Date & Rating in FY2020 Feb 17, 2020
1	Non-convertible debenture programme	Long term	207.50	207.50	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable);**	-	-	-
2	Non-convertible debenture programme	Long term	192.50	-	**[ICRA]BBB+ (Stable); reaffirmed and withdrawn**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
3	Long-term / Short-term bank lines	Long term / Short term	600.00	NA	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/ [ICRA]A2;**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Simple
Long-term/Short-term bank lines	Simple

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE090W07303	Non-convertible debenture programme	November 04, 2020	11.50%	August 04, 2022	15.00	[ICRA]BBB+(Stable)
INE090W07121	Non-convertible debenture programme	January 28, 2019	13.75%	March 31, 2023	20.00	[ICRA]BBB+(Stable)
INE090W07196	Non-convertible debenture programme	November 28, 2019	13.94%	November 28, 2024	51.475	[ICRA]BBB+(Stable)
INE090W07238	Non-convertible debenture programme	June 2, 2020	13.50%	June 2, 2023	10.00	[ICRA]BBB+(Stable)
INE090W07246	Non-convertible debenture programme	July 6, 2020	12.80%	April 21, 2023	40.00	[ICRA]BBB+(Stable)
INE090W07261	Non-convertible debenture programme	August 21, 2020	12.39%	May 6, 2024	22.50	[ICRA]BBB+(Stable)
Not yet placed	Non-convertible debenture programme	-	-	-	48.525	[ICRA]BBB+(Stable);
INE090W07030	Non-convertible debenture programme	December 21, 2017	13.3%	December 21, 2021	30.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07162	Non-convertible debenture programme	June 19, 2019	13.80%	August 18, 2021	12.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07188	Non-convertible debenture programme	October 4, 2019	13.4%	October 4, 2021	47.50	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07253	Non-convertible debenture programme	July 29, 2020	11.00%	January 29, 2022	25.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07287	Non-convertible debenture programme	September 10, 2020	11.00%	March 09, 2022	25.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07212	Non-convertible debenture programme	March 6, 2020	13.30%	March 6, 2022	28.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
INE090W07311	Non-convertible debenture programme	November 13, 2020	10.75%	May 13, 2022	25.00	[ICRA]BBB+(Stable); reaffirmed and withdrawn
NA	WCDL/CC/overdraft	NA	-	-	134.31	[ICRA]BBB+(Stable) / [ICRA]A2
NA	Term loans	FY2017-20	NA	FY2024-25	385.41	[ICRA]BBB+(Stable) / [ICRA]A2
NA	Unallocated bank lines	-	-	-	80.28	[ICRA]BBB+(Stable) / [ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lendingkart Technologies Private Limited	Holding Company	ICRA has taken a consolidated view of the parent and its subsidiaries
Lendingkart Finance Limited	100.00%	
Lendingkart Account Aggregator Private Limited	100.00%	

Source: Company

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About ICRA Limited:

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