

July 26, 2024

Lendingkart Finance Limited: Rating upgraded for PTCs issued under unsecured business loans securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Aryabhata 2023	PTC Series A	18.26	NA	3.26	[ICRA]AA(SO); Upgraded from [ICRA]A+(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by unsecured small business loan receivables originated by Lendingkart Finance Limited {LFL/Originator; rated [ICRA]BBB+(Stable)}. The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the June 2024 payout month.

Pool performance summary

Particulars	Aryabhata 2023
Payout month	Jun-24
Months post securitisation	13
Pool amortisation	64.39%
PTC Series A amortisation	82.14%
Cumulative collection efficiency ¹	96.56%
Loss-cum-30+ days past due (dpd) ² (% of initial pool)	3.73%
Loss-cum-90+ dpd ³ (% of initial pool)	3.07%
Cumulative cash collateral (CC) utilisation	0.00%
Cumulative prepayment rate	28.37%
Breakeven collection efficiency ⁴ for PTC Series A	22.59%
CC available (as % of balance pool principal)	19.66%
Principal subordination (% of balance pool) PTC Series A	55.36%
Excess interest spread (EIS ⁵ ; ; % of balance pool) PTC Series A	14.02%

Transaction Structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be passed on to PTC Series A investors. Any prepayment in the pool would be used for the prepayment of the PTC Series A principal.

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

³ Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

⁴ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

⁵ (Pool Cash flows – Cash flows to PTC investors – Originator's residual share)/Pool Principal outstanding

Key rating drivers and their description

Credit strengths

Build up of credit enhancement – The rating action factors in the build-up in the credit enhancement with the cash collateral increasing to 19.7% of the balance pool principal from 7.0% at the time of securitisation. Internal credit support is also available through principal subordination i.e. 55.4% along with excess interest spread (EIS) of 14.0% of the balance pool principal.

Healthy pool performance – The pool's performance has been strong with a cumulative collection efficiency of 96.6% till the June 2024 payout, which has resulted in lower delinquencies in the pools with the 90+ days past due (dpd) at 3.1%. The break-even collection efficiency is significantly lower than the actual collections seen in the pool. Further, there have been no instance of cash collateral utilisation for the pool till date owing to strong collection performance and presence of EIS in the transaction.

Credit challenges

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of Key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Aryabhata 2023
Originator	Lendingkart Finance Limited
Servicer	Lendingkart Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	DCB Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is ~7 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating may be upgraded once CC fully covers the future PTC payouts.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer (Lendingkart) could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till May 2024 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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-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 had a 38.16% stake in LTPL as on March 31, 2023. The Group was established 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. 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 (standalone)

	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	639	824	1,146
Profit after tax	(141)	116	60
Total Managed assets	3,908	6,007	8,631
Gross stage 3	3.9%	2.6%	2.9%
CRAR	25.9%	34.2%	21.5%*

Source: Lendingkart, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore;

*The reduction in Tier 1 has been on account of the recent Frequently Asked Questions (FAQs) issued by Reserve Bank of India (RBI) in April 2024 on the Default Loss Guarantee in Digital Lending whereby the FLDG provided to the co-lending partners is to be reduced from Tier 1 capital.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
		Initial Amount Rated (Rs. crore)	Current amount rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
				July 26, 2024	July 28, 2023	June 05, 2023	-	-
Aryabhata 2023	PTC Series A	18.26	3.26	[ICRA]AA(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

Complexity level of the rated instrument

Transaction	Instrument	Complexity Indicator
Aryabhata 2023	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.p.m.)	Final Maturity Date	Amount Rated (Rs. crore)	Current Rating
Aryabhata 2023	PTC Series A	May 31, 2023	10.50%	December 20, 2025	3.26	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Sheetal Nayak
+91 22 6114 3420
sheetal.nayak@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Pratik Vora
+91 22 6114 3433
pratik.vora@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.