



Press Release

Lendingkart Finance Limited

June 13, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term Bank Facilities - Proposed	150.00	IVR A-/Stable Outlook (Pronounced as IVR Single A Minus with Stable Outlook)	Assigned
Unallocated (NCD/Long Term /Short Term Bank Facilities)	350.00	IVR A-/Stable Outlook (Pronounced as IVR Single A Minus with Stable Outlook) & short term rating of IVR A2+ (IVR A Two Plus).	Assigned
Total	500.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the proposed/unallocated long term & short-term facilities of Lendingkart Finance Limited (LFL) derives comfort from its experienced promoters and management team with established presence in its lending sector along with strong credit policy norms, IT systems and good knowledge of the target customer segment. The rating also factors in continuous investments from Temasek owned Fullerton Financial Holdings (FFH) and its expected strategic support in business strategy and operations. FFH is the largest investor shareholder in Lendingkart Technologies Private Limited (LTPL) which is the parent company of Lendingkart Finance Limited (LFL). The rating also factors in its strong capitalization profile due to regular capital infusion for past few years, consistently growing loan portfolio resulting from scaling up operations and its diversified portfolio spread across 1300 locations/ 29 states. The customer base is also well-diversified close to 25+ sectors, thereby shielding the Company from downturns in any particular industry. These rating strengths are partially offset by limited track record of operations, moderate portfolio vulnerability on account of marginal income profile of borrowers, decrease in profit margins due to aggressive provisioning policy and increase in delinquencies in softer buckets due to broader economic scenario.

Key Rating Sensitivities



Press Release

Upward Factor –

- IVR could upgrade the ratings if the company improves its present asset quality metrics and improvement in earnings profile as the portfolio scales up.

Downward Factor –

- A material change in FFH's shareholding or consequent support in LFL.
- Pressure on LFL's ratings could also arise if there is a continued deterioration in the asset quality and deterioration in the earnings profile of the Company.

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management team

Lendingkart group is promoted by Mr. Harshvardhan Lunia, CA & MBA, who has over a decade experience in Corporate and retail banking. He embarked on the journey in corporate banking with companies like ICICI Bank, Standard Chartered Bank and HDFC Bank and later on moved to entrepreneurship with Lendingkart group. The second line of management comprises seasoned professionals with decades of industry experience in fields of commercial domains and lending, audit, operations, risk and information technology. The Board has adequately balanced representation from investors and extends strategic support to the Company. The management is aware of the risks associated with the segment and has put in place an elaborate credit policy for customer on boarding and sanction process.

Capital infusion and strategic linkages with FFH and others investors:

LFL is a wholly owned subsidiary of LTPL. As on June 2020, LTPL has received cumulative investments of Rs. 1,082 Cr from diversified set of long term repeat investors including Fullerton Financial Holding (FFH) for past several years, latest investment in Lendingkart being Rs 86 Cr in June 2020 invested by existing investors. The Group's investors include Fullerton Financial Holdings Private Limited (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 40.03% (Recently increased from 38.94%) Post investments in LTPL, FFH has invested close to Rs 722 crore in LTPL since September 2018 including latest investment round.



Press Release

The rating factors in the benefits accruing to the Group as a result of having FFH as its largest shareholder. FFH has three board seats in LTPL and LFL. Also, LFL gets benefitted from global business practices due to association of FFH and has been involved in the strengthening of systems, processes and governance structures across the group, like the Asset Liability Committee (ALCO), risk committee and others. IVR believes that LFL would continue to benefit from FFH's experience as it further strengthens its systems and processes to manage the planned rapid scale-up of the business, and also in diversifying the funding profile.

Diverse borrowing profile

Lendingkart Finance Limited enjoys good financial flexibility, as the Company has associations with 40+ Banks and financial institutions as on March 31, 2020. Going forward, the ability of the Company to diversify their resource profile and raise funds at competitive interest rates would remain critical for profitability of the Company.

Adequate credit policy norms, IT systems and good knowledge on the target customer segment:

The Company uses machine learning algorithm to appraise the credit worthiness of the borrower. Data integrated from the borrower's application and third-party sources is checked for quality and collated in a proprietary credit analysis template. Lendingkart Group's proprietary machine learning algorithm utilizes over 5000 variables to do a rounded assessment of a borrower's credit worthiness covering his financial health, social standing, marketplace/industry risks as well as borrower's compliance to statutory requirements. The variables are classified to calculate 4 scores which further add up to become the LK credit score, which form the basis of creditworthiness of the borrowers.

The process of selection of the customers includes KYC verification, risk assessment, personal discussion and verification of the business, bank statements and references from the aggregators. The Company has committee-based approach to define credit sanctioning process. The credit sanctioning limits are well defined and run through various layers of approval process based on value. Apart from that, the Audit team uses Audit 360 which lists



Press Release

down the set of observations in terms of documentation and field operations and raises to respective teams.

Viable Technology-Based Business Model

LFL has adopted a branchless business model with most of the operations from sourcing to evaluation happening online. LFL uses a proprietary algorithm which provides the score for each application filed which is used to evaluate credit decisions. This supports the entity's ability to scale up its portfolio with limited incremental investment, as well as be present across locations in the country. As a result, the assets under management (AUM) for LFL has grown to Rs 2,421.84 crores as on March 31, 2020 compared to Rs 1370.56 crore as on March 31, 2019. Given the branchless mode of well diversified business operations.

The Group leverages technology to digitize the entire loan origination and disbursement process from origination to credit analysis, execution, delivery and collection.

Profitability primarily supported by increase in scale of operations and cover under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):

On account of initial stage of operations and high spending by the company on technology and overhead cost, the Company reported net loss during FY17 and FY18. Given the digital platform being adopted by the company, incremental operating costs are expected to remain controlled. Nevertheless, due to the stringent provisioning policy of having 50% provisions for accounts becoming NPAs and complete write-offs at 180+ DPD, the earnings profile remains limited by credit costs. IVR notes that Lendingkart has become 'Member Lending Institution' through registration under CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises), Sovereign guarantee cover provided for lending to MSMEs covering NPA losses upto 75% of total credit losses and total exposure covered up to INR 5000 cr. for portfolio validity until 5 years

Under the CGTMSE scheme, LFL can claim 75% of the principal plus interest for its covered portfolio after the completion of 1 year of the covered portfolio as NPA, which will result into reduction of overall credit losses.



Press Release

Strong capitalization supported by regular equity infusion:

Lendingkart has been able to mobilize equity funds despite being in the initial stage of operations due to which the capitalization level is comfortable although the loan portfolio has been growing steadily at higher rate. The tangible net worth of the Company stood at Rs. 740.18crs as on March 31, 2020 vis-à-vis Rs.499.70 crs as on March 31, 2019. During FY2020, the Company received an equity infusion of Rs. 210 crs approx, which results into decline in overall gearing to 1.81 times in FY2020 from 1.96 times in FY2019.

Capital adequacy ratio (CAR) stood at 35.93% and Tier I stood at 35.22% as on March 31, 2020 as against 38.77% and 37.02% respectively in March 31, 2019. Present level of capitalization is adequate to meet the business growth envisaged for upcoming year. Capitalization metrics have been supported by regular capital infusion in the past with LTPL having raised around Rs 990.59crores since inception (of which Rs 233 crore was raised in August 2019) of which Rs 716.7crores has been infused in LFL till March' 2020. Capitalization is expected to remain comfortable over the medium term, supported by regular capital raising and association with reputed investors which is capable to invest in line with growing scale of operations.

Key Rating Weaknesses

Limited track record of operations and its unsecured lending portfolio:

Being in the initial stage of operations, the Company is on its way to build the consistent track record. The company commenced its operations in 2015 and substantially scaled up its portfolio in fiscal 2019 and 2020. Given this, seasoning is limited and asset quality performance would need to be monitored over a longer period. While Lendingkart is one of the early entrants in this space of digital platform with a proprietary model for evaluating the credit profile of potential borrowers. The ability to significantly scale up the portfolio while managing credit costs and operating expenses will be a key monitorable.

Marginal credit borrower profile in the SME segments:

Lendingkart Finance Ltd is engaged in offering working capital business loans to MSE borrowers across various Industries and sectors through its online portal. The loan size



Press Release

primarily ranges from Rs. 50,000 to Rs. 30 Lakhs, and these working capital business loans are offered as short & long tenure loans (tenures up to 3 year). This product is offered to customer segment that is largely underserved as traditional financial institutions do not see unit economic sense in this segment. However, Lendingkart is in the nascent stage in this segment given such technology driven branchless lending platform. The company will remain focused on this segment, as there is significant potential to grow in this market though this segment is relatively more susceptible to the impact of economic downturn.

Increase in delinquencies in softer buckets

Lendingkart commenced its operations during fiscal 2015 and continues to work on new products and innovations in order to remain ahead of the curve in this segment; LFL's loan portfolio is characterized by limited seasoning due to significant growth of operations in a short period with a CAGR of 97.36% from Rs.159.63 Cr in FY17 to Rs.2421.84 Cr (Prov) in FY20. The Company's gross NPA and net NPA stood at 1.72% and 0.86% respectively as on March 31, 2020 (PY: 1.1% and 0.55% respectively). During FY20, the delinquencies in all DPD buckets have slightly increased. Increase in delinquencies during FY20 can be partly attributed to with its customer segments especially, unsecured loans towards SME segment- primarily small traders, small shop owners, vendors supplying products to ecommerce players etc. These segments are vulnerable to cash flow cyclicity, which could result in potential slippages, and given the unsecured nature of the loans, recovery could also be limited. It is critical for LFL to keep its asset quality indicators under control with the envisaged growth plans and increasing average ticket sizes and moderate borrower profiles in certain segments.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology for Non-Banking Finance companies

Financial ratios and Interpretation (Financial Sector)

Liquidity: Adequate



Press Release

The liquidity profile of the company remains adequate with positive cumulative mismatches across buckets as per ALM statement as on 31st March, 2020, due to favourable asset maturity profile. Further, LFL's working capital utilization remained moderate at 75.54% for the last twelve months period ended March 2020, which provides additional liquidity support to the Company. Furthermore, as on May 31, 2020, the company has cash & cash equivalents of Rs.145 cr along with undrawn sanctioned lines of ~Rs.70 cr and sanctions in hand of ~Rs.50 Crs, along with recent equity infusion which strengthen the overall liquidity of the company. In the present Covid-19 environment, the Company has availed extended moratorium of ~Rs. 189.00 Cr up to May, 2020 from multiple Banks as per revised guidelines from RBI on extended moratorium under Covid-19 - Regulatory Package where as LFL has given extended moratorium of ~Rs. 167.3 Cr to its borrowers. As on date, the company has sufficient liquidity to meet its principal repayment over next 6 months.

About the Company

Lendingkart Finance Limited (formerly AadriInfin Limited) is a Lendingkart Group company, which is registered as an NBFC and provides unsecured SME loans through its online portal. Lendingkart Technologies Private Limited (LTPL) is the technology parent of the Ahmedabad-based Lendingkart Group. The Group was started in 2014 by Mr. Harshvardhan Lunia, and raised funds from 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 evolving NewAge Fintech industry and it leverages technology to underwrite credit to the MSE segment Loans given to microenterprises for meeting their working capital needs. The underwriting model is based on the scoring by a proprietary algorithm.

In addition, the Company partnered itself with various large banks & institutions lenders for Co-lending & Co-origination with a strong program set-up.

LFL does lending to the niche segment of low ticket size, shorter tenure unsecured loans.

Financials (Standalone Basis)

	(Rs. crore)	
For the year ended / As On*	31-03-2019	31-03-2020



Press Release

	(Audited)	(Provisional)
Total Operating Income	244.32	484.2
PAT	34.37	31.7
Tangible Network	499.70	740.2
Total assets	1,540.15	2185.4
ROTA (%)	3.29	3.00
Overall Gearing Ratio (x)	1.96	1.81
Gross NPA (%)	1.10%	1.72%
Net NPA (%)	0.55%	0.86%

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: None

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long term Bank Facilities – Proposed Term Loan	Long Term	150.00	IVR A- /Stable Outlook	-	-	-
2	Unallocated (NCD/Long Term /Short Term Bank Facilities)	Long Term /Short Term	350.00	IVRA- /Stable Outlook & IVR A2+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually



Press Release

gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities– Proposed Term Loan	-	-	-	150.00	IVR A-/Stable Outlook
Unallocated (NCD/Long Term /Short Term Bank Facilities) -	-	-	-	350.00	IVRA-/Stable Outlook & IVR A2+

Annexure 2: Facility wise lender details [Lenders-LFL-13-06-2020.pdf](#)