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Lendingkart Finance Limited

May 29, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	312.60	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
NCD	132.00 (Enhanced from Rs. 50.00 Crore)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned/ Reaffirmed
Proposed NCD	43.00 (Reduced from Rs.125.00 Crore)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Unallocated - (Long Term/Short term Bank Facilities)	162.40 (Enhanced from Rs.12.40 Crore)	IVR A-/ Outlook (IVR Single A Minus with Stable Outlook)/IVR A2+ (IVR A Two Plus)	Assigned/ Reaffirmed
Total	650.00 (INR Six Hundred and Fifty Crores)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned/reaffirmed to the bank facilities/NCDs 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, comfortable asset quality despite substantial growth in portfolio and its diversified portfolio spread across 1300 locations/ 28 states & 5 Union Territories. 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 portfolio vulnerability on account of current pandemic



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situation while noting company has consistently posted improved collection efficiencies, decrease in profit margins due to aggressive provisioning policy and increase in delinquencies in softer buckets due to broader economic scenario.

Key Rating Sensitivities:

Upward revision factors:

IVR could upgrade the ratings if the company maintains strong asset quality metrics and improvement in earnings profile as the portfolio scales up.

Downward revision factors:

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.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management team:

Lendingkart group is promoted by Mr. Harshvardhan Lunia, CA & MBA, who has over a decade experience in corporate 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 professionals with an average experience of over a decade in fields of commercial and lending, audit, operations and information technology. The board has adequate 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 on boarding and sanction process.

Strategic linkages with FFH and others investors:

As on March 31, 2021, LFL is wholly owned subsidiary of LTPL. As on March' 2021, LTPL has received total investments of Rs 1077 Cr from multiple investors including Fullerton Financial Holding (FFH), during the period from Feb' 15 to May, 2021. The Group's investors include Fullerton Financial Holdings Private Limited (FFH), Saama Capital, Mayfield India,



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India Quotient, Bertelsmann India Investments, Darrin Capital Management and Sistema Asia Fund, with FFH being the largest shareholder with a stake of approx. 40%. Post investments in LTPL, FFH has invested close to Rs 750 crore in LTPL since September 2018.

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. FFH 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 50+ Banks/financial institutions including Co-lending business as on March 31, 2021. Going forward, Company's continued ability to diversify their resource profile and raise funds at competitive interest rates would add to the 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 5,000 variables to do a rounded assessment of a borrower's credit worthiness covering his financial health, social standing, marketplace/industry risks as well as his 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.



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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 credit sanctioning process, wherein each committee has power to sanction up to specified limits. Apart from that, the Audit team uses Audit 360 which lists 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 approx. Rs 2429 crores as on March 31, 2020 compared to Rs 1370 crore as on March 31, 2019. Given the branchless mode of operations, LFL has achieved presence in over 1300+ cities and around 28 states & 5 Union Territories as on March 31, 2021.

Improvement in profitability primarily supported by increase in scale of operations:

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 for accounts becoming NPAs and complete write-offs at 180+ DPD, the earnings profile remains limited by credit costs. AUM of the company has grown from Rs.1370 Crs in FY2019 to approx. Rs.2429 Crs in FY2020 and approx. Rs.2265 cr in 9MFY2021. IVR notes that the company has taken cover under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) for its entire portfolio. 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 an NPA.

Strong capitalization supported by regular equity infusion:



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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 networth of the Company as on March 31, 2020 stands at Rs. 689.08 crs vis-à-vis Rs.466.02 crs as on March 31, 2019. During the year, the Company received an equity infusion of Rs. 210 crs approx, which results into keeping moderate overall gearing level of 2.29 times in FY2020.

Capital adequacy ratio (CAR) at 36.18% and Tier-I stood at 33.81% as on March, 2020 as against 38.96% and 34.70% 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 1077 crores since inception (of which Rs 86 crore was raised in May 2020) of which approx. Rs 717 crores has been infused in LFL till May' 2021. 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

Marginal credit borrower profile in the MSME 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 ranges from Rs. 50,000 to Rs. 30 lacs, 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 now a vintage player in this segment with technology driven branchless lending platform. The company will remain focused on this segment, as there is significant potential to grow their business though this segment is highly susceptible to the impact of economic downturn.

Increase in delinquencies in softer buckets:



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Lendingkart's commenced its operations during fiscal 2015; the loan portfolio is characterized by limited seasoning due to significant growth of operations in a short period to Rs.464.30 Crores in FY2020 as against Rs.218.05 Crores in FY2019 and Rs.90.24 Crores in FY2018. Company's gross NPA and net NPA stood at 1.73% and 0.87% respectively as on March 31, 2020 and 1.39% and 0.60% as on December 31, 2020. During FY20, the delinquencies in all major DPD buckets have been 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 in FY2020. 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.

Till previous fiscal, the company was using model v6 which was launched in February 2018, was used for credit underwriting and was based on performance of loans of tenor up to 12 months. With the launch of v8 of the credit underwriting model in September, 2019 which is based on the performance of 24- and 36- month tenure loans, the capabilities to predict in terms of predicting the late default rates has strengthened. LFL is continuously recalibrating its credit underwriting model to align its business needs with market demand to position the company against the industry peers.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Non-Banking Finance companies.

Financial Ratios & Interpretation (Financial Sector).

Liquidity –Adequate

The liquidity profile of the company remains adequate with positive cumulative mismatches across buckets as per ALM statement as on 31st December, 2020, due to favorable asset maturity profile. Further, the last twelve months period ended December, 2020 with unutilized cash credit facilities close to Rs.15.00 crore



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(Rs.58.00 crore 12 months ended April, 2021) and a free cash balance of Rs.211.35 Crs and Pledged against credit facilities of Rs.109.61 Crs with undisbursed/unutilized credit lines of Rs.189.00 as on December 31, 2021. Also, the company maintains surplus liquidity to cover over six months to its debt payments.

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 arm of the Ahmedabad-based Lendingkart Group. The Group was started in 2014 by co-founders, Mr. Harshvardhan Lunia and Mr. Mukul Sachan, 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 fintech industry, and it leverages technology to underwrite credit to the SME segment Loans are 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):

For the year ended*	31-03-2019 (Ind-As) Audited	31-03-2020 (Ind-As) Audited
Total Income	218.05	464.30
PAT	27.72	29.69
Tangible Net worth	466.02	689.09
Total assets	1,562.12	2,329.62
Return on Total Assets (ROTA) (%)	2.63%	1.53%
Overall Gearing Ratio (x)	2.29x	2.29x
Gross NPA (%)	1.09%	1.73%
Net NPA (%)	0.55%	0.87%

* Classification as per Infomerics standards.

Status of non-cooperation with previous CRA: None



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Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (April 06, 2021)	Date(s) & Rating(s) assigned in 2020-21 (June 13, 2020)	Date(s) & Rating(s) assigned in 2018-19 & 2019-20
1.	Long term Bank Facilities	Long Term	312.60	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	-
2	NCD	Long Term	132.00	IVR A-/Stable	IVR A-/Stable	-	-
3	Proposed NCD	Long Term	43.00	IVR A-/Stable	IVR A-/Stable	-	-
4	Unallocated - (Long Term/Short term Bank Facilities)	Short Term/Long Term	162.40	IVR A-/Stable/IVR A2+	IVR A-/Stable/IVR A2+	IVR A-/Stable/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 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
Term Loan 1	--	--	Feb, 2023	72.50	IVR A-/Stable Outlook
Term Loan 2	--	--	Feb, 2023	97.22	IVR A-/Stable Outlook
Cash Credit/WCDL	--	--	--	142.88	IVR A-/Stable Outlook
NCD (ISIN: INE090W07279)	Aug 28, 2020	11% p.a	Feb 24, 2022	25.00	IVR A-/Stable Outlook
NCD (ISIN: INE090W07295)	Sep 17, 2020	11% p.a	March 17, 2022	25.00	IVR A-/Stable Outlook
NCD (ISIN: INE090W07352)	Mar 31, 2021	11.75% P.a	April 28, 2023	32.00	IVR A-/Stable Outlook
NCD (ISIN: INE090W07311)	Nov 13, 2020	10.75% p.a	May 13, 2022	25.00	IVR A-/Stable Outlook
NCD (ISIN: INE090W07329)	Nov 19, 2020	11.00 p.a	May 19, 2022	25.00	IVR A-/Stable Outlook
Proposed NCD	--	--	--	43.00	IVR A-/Stable Outlook
Unallocated (NCD/Long Term and Short-Term Bank facilities)	--	--	--	162.40	IVRA-/Stable Outlook & IVR A2+

Annexure 2: Facility wise lender details



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<https://www.infomerics.com/admin/prfiles/lender-Lendingkart-Finance-Limited-29-may-21-.pdf>