



Press Release

Lendingkart Finance Limited

August 08, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	167.57	IVR A-/Stable (IVR A Minus; with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Downgraded	Simple
NCD	154.00	IVR A-/Stable (IVR A Minus; with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Downgraded	Simple
Proposed Long Term Bank Facilities	78.43	-	IVR BBB+/Stable (IVR Triple B Plus; with Stable Outlook)	Assigned	Simple
NCD	132.00*	IVR A-/Stable (IVR A Minus; with Stable Outlook)	-	Withdrawn	-
Total	400.00				Rupees Four Hundred Crore Only

*The above amount has not been included in total as these NCD's ratings are being withdrawn as they have been repaid.

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has downgraded/assigned the long-term rating to IVR BBB+ with a Stable outlook for the bank loan facilities and non-convertible debentures (NCD) of Lendingkart Finance Limited (LFL). IVR has also withdrawn the rating of previously rated NCD of Rs. 132 crore as it has received "No objection certificate" from the debenture trustee. The company has repaid the entire listed NCD therefore the rating has been withdrawn.

The rating continues to draw comfort from the experienced management and strategic investors, viable technology-based business model, improvement in total income and operating profit and diversified geographical presence and loan portfolio. However, these



Press Release

strengths are partially offset by decline in gearing and tangible networth, inherent risk associated with the unsecured lending, decline in net profitability and capital adequacy ratio.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes LFL's will continue benefit from its operational track record in the business, controlled NPA level, availability of fund for further growth and higher acceptability of the company in the market.

IVR has principally relied on the standalone audited financial results of LFL upto 31 March 2022, Q1FY23 results and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability
- Maintains strong asset quality
- Sustenance of the overall gearing below 2.20x

Downward Factors

- Deterioration in overall gearing
- Continued deterioration in the asset quality and earning profile of the company
- Substantial rise in slippages to NPA's

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management and strategic investors:**
Lendingkart group is promoted by Mr. Harshvardhan Lunia, who has over a decade experience in corporate banking. 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. LFL is a part of the Lendingkart Group and as on March 31, 2022, it is wholly owned subsidiary of Lendingkart Technologies Private Limited (LTPL). 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 39.15% (as on March 31, 2022) in LTPL. FFH has immense experience in the financial services sector in various emerging markets. FFH has provided continuous guidance towards the evolution of LFL's risk management framework, systems and processes and funding lines with an increase in the scale of operations.



Press Release

- **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 3,189.37 crore in FY2022 to Rs. 2,465.35 crore in FY2021. Given the branchless mode of operations, LFL has achieved presence in over 1300+ cities and around 28 states and 6 Union Territories.

- **Improvement in total income and operating profit:**

The total income (TI) has improved by 25.10% in FY2022 to Rs. 638.54 crore from Rs. 510.41 crore mainly due to increase in loan disbursements in FY2022 which in turn increased interest income and as well as increasing in co-lending loan books resulted in increase in total income. The operating profit has improved to Rs. 230.73 crore in FY2022 from Rs. 205.84 crore in FY2021 mainly due to increase in scale of operations. 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. In Q1FY23 it achieved TI of Rs. 181.43 crore with an operating profit of Rs. 67.11 crore.

- **Diversified geographical presence and loan portfolio:**

LFL has disbursed unsecured loans with average ticket size between Rs.7-Rs.10 lakh and with majority of tenure of tenure 24 months and above. The better quality of loan portfolio due low-ticket sizes and the distribution across various industries and geographies provides an additional comfort. 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% in FY2022.

Key Rating Weaknesses

- **Decline in gearing and tangible networth:**

The overall gearing has declined to 3.10x in FY2022 from 2.28x in FY2021 due to increase in overall debt levels and reduction in tangible networth. The tangible networth has declined to Rs. 580.18 crore in FY2022 from Rs. 716.10 crore in FY2021 mainly due to provisioning and write off the stressed loan assets.

- **Decline in net profitability, capital adequacy ratio and owned portfolio:**

The net profit has declined to Rs. -141.44 crore in FY2022 from Rs. 18.32 crore in FY2021 due to high credit cost on account of pandemic and as company board decided to make 100% write off against the restructured portfolio in FY2022 and also write off on



Press Release

account of other than restructured portfolio has also increased. The capital adequacy ratio (CAR) has substantially declined to 25.94% in FY2022 from 38.74% in FY2021 mainly due to increase in loan book size and reduction in the networth of the company. However, it is still within the regulatory requirement of 15%. The company owned portfolio has declined by 13.29% to Rs. 1,778.10 crore (55.75%) in FY2022 from Rs. 2,050.66 crore (83.18%) in FY2021. However, the assigned/co-lending portfolio has increased to Rs. 1,411.27 crore (44.25%) in FY2022 from Rs. 414.70 crore (16.82%) in FY2021.

- **Inherent risk associated with the 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, since FY2021, it has disbursed loans focusing on borrowers with better credit to improve the overall risk profile of the AUM.

Analytical Approach: For arriving at the ratings, IVR has analysed LFL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

[Rating Methodology for Financial Institutions/NBFC's
Financial Ratios & Interpretation \(Financial Sector\)
Policy on Withdrawal of Rating](#)

Liquidity – Adequate

The liquidity profile of the company remains adequate with did not have cumulative mismatches in its asset-liability management profile as on March 31, 2022, due to favourable asset maturity profile. Further, LFL's has a liquidity cushion of Rs. 252 crore in the form of unencumbered cash balance (Rs. 122 crore), cash equivalents (Rs. 60 crore) and undrawn banking lines (Rs. 70 crore) and as on June 30, 2022. Also, the company maintains surplus liquidity to cover 10-12 weeks to its debt obligations and operating expenses. IVR does not foresee any liquidity risk in the near term, given LFL's adequate liquidity position and its ability to raise funds.



Press Release

About the Company

Lendingkart Finance Limited (LFL) 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.

Financials (Standalone):

For the year ended as on	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Income	510.41	638.54
PAT	18.32	(141.44)
Total Debt	1631.72	1796.70
Tangible Networkth	716.10	580.18
Total Assets (excluding deferred tax)	2450.60	2529.69
Overall Gearing Ratio (x)	2.28	3.10
Return on Total Assets (%)	0.75	(5.59)
Gross NPA (%)	2.18	1.51
Net NPA (%)	0.95	0.81

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable



Press Release

Rating History for last three years:

Sr. No.	Type of Facilities/Instrument	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (10 August 2021)	Date(s) & Rating(s) assigned in 2020-21 (13 June 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based-Bank Facilities	Long Term	246.00	IVRBBB+ /Stable (Downgraded/Assigned)	IVR A- /Stable	IVR A- /Stable	-
2.	NCD	Long Term	154.00	IVRBBB+ /Stable (Downgraded)	IVR A- /Stable	-	-
3.	Unallocated (Long/Short Term Facilities/NCD)	Long Term/ Short Term	-	-	IVR A- /Stable/A2+	IVR A- /Stable/A2 +	

Name and Contact Details of the Rating Analyst:

Name: Mr. Shivam Bhasin Tel: (011) 24611910 Email: shivam.bhasin@infomerics.com	Name: Mr. Om Prakash Jain Tel: (011) 24611910 Email: opjain@infomerics.com
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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com



Press Release

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit/WCDL	-	-	-	100.00	IVR BBB+/Stable
Term Loan	-	-	Feb, 2023	67.57	IVR BBB+/Stable
Proposed Cash Credit	-	-	-	28.43	IVR BBB+/Stable
Proposed Term Loan	-	-	-	50.00	IVR BBB+/Stable
NCD (ISIN: INE090W07394)	July 16, 2021	11.00% p.a.	January 16, 2023	30.00	IVR BBB+/Stable
NCD (ISIN: INE090W07428)	December 12, 2021	12.15% p.a.	December 18, 2026	44.00	IVR BBB+/Stable
NCD (ISIN: INE090W07436)	March 25, 2022	12.75% p.a.	December 31, 2024	30.00	IVR BBB+/Stable
NCD (ISIN: INE090W07469)	June 29, 2022	12.38% p.a.	June 29, 2028	50.00	IVR BBB+/Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable



Press Release

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Lendingkart-Finance-aug22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 [Complexity Level of Rated Instruments/Facilities](#).