Press Release

LendingKart Finance Limited (LFL)

October 29 2024

Ratings

Instrument / Facility	**Amount (Rs. crore)**	**Current Ratings**	**Previous Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Fund Based Bank Facilities	34.10 (Reduced from 49.38)	IVR BBB+/ RWDI (IVR Triple B Plus; Rating watch with developing implications)	IVR BBB+/ Negative (IVR Triple B Plus with Negative outlook)	Rating placed on rating watch with developing implications	**Simple**
Proposed Long Term Fund Based Bank Facilities	315.90 (Increased from 300.62)	IVR BBB+/ RWDI (IVR Triple B Plus; Rating watch with developing implications)	IVR BBB+/ Negative (IVR Triple B Plus with Negative outlook)	Rating placed on rating watch with developing implications	**Simple**
Non-Convertible debentures (NCDs)	94.00	IVR BBB+/ RWDI (IVR Triple B Plus; Rating watch with developing implications)	IVR BBB+/ Negative (IVR Triple B Plus with Negative outlook)	Rating placed on rating watch with developing implications	**Simple**
Proposed Non-Convertible Debentures (NCDs)	60.00	IVR BBB+/ RWDI (IVR Triple B Plus; Rating watch with developing implications)	IVR BBB+/ Negative (IVR Triple B Plus with Negative outlook)	Rating placed on rating watch with developing implications	**Simple**
Total	**504.00 (Rupees Five Hundred Four Crore Only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has placed the ratings under “Rating watch with developing implications” following the announcement made by the company that the current shareholder Fullerton Financial Holdings Private Limited (FFH) which holds 38.16% stake as on 31 March 2024 in Lendingkart Technologies Pvt Ltd (LTPL), holding company of LFL that it is proposing to acquire additional stake in LTPL for ~Rs 252.00 crore, thereby acquiring controlling stake and majority representation on the board. This proposed stake acquisition is expected to bring in additional capital which will help LFL to improve its disbursements, and the management, business and financial profile of the company is expected to undergo a positive change. The company has informed that the first tranche of Rs 77.00 crore of equity infusion has already been received at LTPL. However, the remaining amount and the said proposal to increase FFHs stake above 50% is subject to RBI’s approval.

Rating watch will be resolved, and appropriate rating action will be taken once the RBI approves the proposed stake sale/acquisition and there is clarity on the impact of the change in ownership on the business, management and financial profile of the company.

Infomerics Ratings continues to reflect the consistent growth in AUM, comfortable capitalisation, experienced management and strategic investors and technology-based business model. However, these strengths are partially offset by declining profitability, average asset quality and inherent risk associated with the unsecured lending coupled with intense competition.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in scale of operations while maintaining comfortable capitalisation, healthy asset quality and profitability.
- Positive impact on the overall financial profile of the company from the proposed change in ownership.

Downward Factors

- Substantial decline in scale of operations, capitalisation levels, profitability and asset quality from the current levels.
- Negative impact on the overall financial profile of the company from the proposed change in ownership

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Consistent growth in AUM

LFLs assets under management (AUM) has consistently grown in the last 3 years with AUM growing to Rs 7,254.00 crore in FY24 (refers to period April 1st, 2023, to Mar 31, 2024) from Rs. 4,978.22 crore in FY2023 (Rs. 3,284 crore in FY2022). In Q1FY25, the AUM has moderated to Rs. 7,188.00 crore due to curtailed disbursements. On the back of which the total income of LFL has increased form Rs 638.54 crore in FY22 to Rs 824.06 crore in FY23 to Rs 1146.45 crore in FY24. Infomerics, expects the growth momentum to continue in the near to medium term backed by consistent capital infusion by the promoters/shareholders and the diversified resource profile of the company.

Comfortable capitalisation

On the back of consistent capital infusion from the promoters/shareholders, despite the substantial growth in AUM, LFL has been able to maintain comfortable capitalisation with total CRAR of 21.64% as on 30 June 2024 (21.50% in FY24). Tangible Networth of LFL stood at Rs 800.58 crore against total debt of Rs 2,431.01crore resulting in a moderate gearing of 3.04x as on 31 March 2024. Infomerics expects that the proposed capital infusion by FFH to the tune of ~Rs 252 crore which will help LFL to continue to maintain comfortable capitalisation levels.

Experienced management and strategic investors

Lendingkart group is promoted by Mr. Harshvardhan Lunia, who has over a decade's experience in corporate banking. The second line of management comprises professionals with an average experience of over two decades in the 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, 2024, it is a 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 38.16% (as on March 31, 2024) in LTPL. FFH has immense experience in the financial services sector in various emerging markets. FFH has provided continuous strategic guidance towards the improvement of LFL's risk management framework, systems and processes with an increase in the scale of operations.

Technology-based business model

LFL has adopted a branchless business model with most of the operations from sourcing to underwriting being carried out online. LFL uses a proprietary algorithm which provides score for each application filed for its credit decisioning. 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. Given the branchless mode of operations, LFL has achieved presence in over 4100+ cities and around 28 states & 6 Union Territories. LFL's business model now entails a high proportion of off-balance sheet lending (co-lending formed ~66% of the AUM as of June 30, 2024). LFL has been able to establish relationships with various banks and non-banking financial companies (NBFCs) under its co-lending arrangements.

Key Rating Weaknesses

Average asset quality

Given the unsecured nature of lending and vulnerability of MSME sector to external factors and the fact that the company has grown its AUM aggressively in the last 3 years with the risk management systems, collection policies and technology which can monitor the collections and provide early warning signals especially with co-lending partners were n nascent stage and needed to evolve and stabilize, the asset quality deteriorated in FY24 with GNPA and NNPA increasing to 2.60% and 1.40% in FY23 and further to 2.90% and 1.95% in FY24. Additionally, due to general elections and heat waves in Q1FY25, the collection efficiency was impacted and hence the GNPA and NNPA has further increased to 3.72% and 2.57% respectively in Q1FY25. The management has informed us that they have made strategic interventions to address the underlying issues and expect them to show results from H2FY25 onwards for fresh disbursements. Going forward, the ability of LFL to improve its asset quality with improving collections will be a key rating monitorable.

Declining profitability

Despite the growth in AUM and topline, given the asset quality issues, LFL had to provide higher provisions and hence the profitability was impacted. LFL had provided ~Rs 783.12 crore in last 3 years. ROTA had declined from 4.25% in FY23 to 1.88% in FY24. The inherent risk associated with the unsecured micro, small and medium enterprise (MSME) segment is partly mitigated by the portfolio's coverage under the sovereign schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units which could help curtail the net credit losses. Around 64% of total AUM and 81% of on-book AUM as of 31 March 2024 was covered under these schemes.

Inherent risks associated with unsecured lending coupled with intense competition
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. Also, this risk is mitigated to some extent by the portfolio's coverage under the sovereign schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU) which will help to curtail the credit losses. The MSME industry is prone to socio-political and operational risks, which could negatively impact the company's operations and thus its financial position as seen during the pandemic coupled with severe competition by other NBFCs and Banks.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Non-Banking Finance companies

Criteria of assigning Rating Outlook.

Complexity level of rated instruments/Facilities

Financial Ratios & Interpretation (Financial Sector)

Policy on Default Recognition and Post-Default Curing Period

Liquidity – Adequate

The liquidity profile of the company remains adequate with no negative cumulative mismatches in its asset-liability management profile as on 30 June 2024. Further, LFL's has a liquidity cushion of Rs. 374.00 crore in the form of unencumbered cash and Bank balance (Rs. 47.00 crore), unmarked FDs (Rs. 166.00 crore) and undrawn/unutilised banking lines (Rs. 162.00 crore) and as on June 30, 2024. 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.

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 38.16% stake in LTPL as on March 31, 2024. 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.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2023	31-03-2024
	Audited	Audited
Total Income	824.06	1146.45
PAT	115.66	59.83
Tangible Net worth	726.65	801.52
Total Loan assets	1769.41	2190.00
Ratios		
NIM (%)	12.20	12.20
ROTA (%)	4.25	1.88
Total CRAR (%)	35.99	21.50
Gross NPA [Stage III] (%)	2.60	2.90
Net NPA [Stage III] (%)	1.40	1.95

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

Sr. No.	Type of Facilities/ Instrument	Current Ratings (Year 2024-25)			Rating History for the past 3 years				
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (12 March 2024)	Date(s) & Rating(s) assigned in 2023-24 (16 February 2024)	Date(s) & Rating(s) assigned in 2023-24 (07 August 2023)	Date(s) & Rating(s) assigned in 2022-23 (08 August 2022)	Date(s) & Rating(s) assigned in 2021-22 (10 August 2021)
1.	Fund Based- Bank Facilities	Long Term	34.10	IVR BBB+/ RWDI	IVR BBB+/ Negative	IVR BBB+/ RWDI	IVR BBB+/ Positive	IVR BBB+/ Stable	IVR A-/Stable
2.	NCD	Long Term	94.00	IVR BBB+/ RWDI	IVR BBB+/ Negative	IVR BBB+/ RWDI	IVR BBB+/ Positive	IVR BBB+/ Stable	IVR A-/Stable
3.	Proposed bank loans	Long Term	315.90	IVR BBB+/ RWDI	IVR BBB+/ Negative	IVR BBB+/ RWDI	IVR BBB+/ Positive	IVR BBB+/ Stable	IVR A-/Stable/ A2+
4.	Proposed NCDs	Long Term	60.00	IVR BBB+/ RWDI	IVR BBB+/ Negative	IVR BBB+/ RWDI	IVR BBB+/ Positive	IVR BBB+/ Stable	IVR A-/Stable/ A2+

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details:

Name of Facility/ Instrument	ISIN	Date of Issuance	Coupon Rate/ IRR (%)	Maturity Date	Size of Facility (Rs. Crore)	Listing status	Rating Assigned/ Outlook
Cash Credit/WCDL	-	-	-	Revolving	27.00	-	IVR BBB+/RWDI
Term Loans	-	-	-	Upto Aug 2025	7.10	-	IVR BBB+/RWDI
Proposed loans	-	-	-	-	315.90	-	IVR BBB+/RWDI
NCDs	INE090W 07428	December 12, 2021	12.15	December 18, 2026	44.00	Listed	IVR BBB+/RWDI
NCDs	INE090W 07469	June 29, 2022	12.38	June 29, 2028	50.00	Unlisted	IVR BBB+/RWDI

Proposed NCDs	-	-	-	-	60.00	Proposed to be listed	IVR BBB+/RWDI

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Lendingkart-Finance-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:
NCD issue of Rs 44.00 crore:

Name of the Instrument	Secured, rated, listed, redeemable, transferable NCDs
ISIN	INE090W07428
Issue size	Rs 44.00 crore
Issue date	12 Dec 2021
Maturity date	18 Dec 2026
Coupon (%)	12.15
Financial Covenant	Company should al times maintain a sum of (X) PAR over 90 days; (y) non-Covid restructured loans plus Net chare offs during the last 12 months divided by (Z) the outstanding gross loan portfolio of not greater than 10%. Tier I capital of not greater than 20%. Total CRAR of at least 17%. ROA should be greater than 0%.
Non-Financial Covenant	Nil

NCD issue of Rs 50.00 crore:

Name of the Instrument	Unlisted and privately placed NCDs
ISIN	INE090W07469
Issue size	Rs 50.00 crore
Issue date	29 June 2022
Maturity date	29 June 2028
Coupon (%)	12.38
Financial Covenant	Nil
Non-Financial Covenant	Nil

Draft Term Sheet for proposed NCDs of Rs 60.00 crore: The company has Unutilized NCDs line of Rs 60.00 crore and the company has informed that the terms of the transaction shall be shared as and when the company proposed to utilize the same.

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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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.