Press Release

Lendingkart Finance Limited

February 16, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	49.38	IVR BBB+/ Positive (IVR Triple B Plus; with Positive Outlook)	IVR BBB+/ RWDI (IVR Triple B Plus; under Rating Watch with Developing Implication)	Reaffirmed and placed under RWDI	Simple
NCD	94.00	IVR BBB+/ Positive (IVR Triple B Plus; with Positive Outlook)	IVR BBB+/ RWDI (IVR Triple B Plus; under Rating Watch with Developing Implication)	Reaffirmed and placed under RWDI	Simple
Proposed Long Term Bank Facilities	300.62	IVR BBB+/ Positive (IVR Triple B Plus; with Positive Outlook)	IVR BBB+/ RWDI (IVR Triple B Plus; under Rating Watch with Developing Implication)	Reaffirmed and placed under RWDI	Simple
Proposed NCD	60.00	IVR BBB+/ Positive (IVR Triple B Plus; with Positive Outlook)	IVR BBB+/ RWDI (IVR Triple B Plus; under Rating Watch with Developing Implication)	Reaffirmed and placed under RWDI	Simple
Total	**504.00**	**Rupees Five Hundred Four Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed the long-term rating at IVR BBB+ and placed it under Rating Watch with Developing Implication (RWDI) for the bank loan facilities and non-convertible debentures (NCD) of Lendingkart Finance Limited (LFL).

The rating has been placed under Rating Watch with Developing Implication (RWDI), on account of certain clarifications are to be obtained from the company with regard to the detail of their recent financial results. IVR will continue to monitor the developments in this regard and will resolve the watch once further clarity emerges on these results.

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, diversified geographical presence and loan portfolio and comfortable collection efficiency, capital adequacy ratio and low levels of GNPA's. However, these strengths are partially offset by intense competition in the industry and inherent risk associated with the unsecured lending.

IVR has principally relied on the standalone audited financial results of LFL upto 31 March 2023, and 9MFY24 unaudited results projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with total income above Rs. 1000 crore and profitability
- Maintains strong asset quality and capital adequacy ratio
- 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'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, 2023, 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 38.16% (as on March 31, 2023) 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.

- **Viable 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. As a result, the assets under management (AUM) for LFL have grown to Rs. 4,978.22 crore in FY2023 from Rs. 3,284 crore in FY2022. In 9MFY24 the AUM further grown to Rs. 6,952 crore. 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 68.38% of the AUM as of December 31, 2023). LFL has been able to establish relationships with various banks and non-banking financial companies (NBFCs) under its co-lending arrangements.

- **Diversified geographical presence and loan portfolio:**
  LFL has disbursed unsecured loans with an average ticket size of Rs.7 lakh with majority of tenure of 36 months. The better quality of loan portfolio is due to low-ticket sizes and diversification in terms of 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 15.70% in FY2023.

- **Improvement in total income and operating profit:**
  The total income (TI) has improved by 29.05% in FY2023 to Rs. 824.06 crore from Rs. 638.54 crore in FY2022 mainly due to an increase in loan disbursements in FY2023 which in turn increased interest income and as well as increase in co-lending loan books resulted an increase in total income. The operating profit has improved to Rs. 267.40 crore in FY2023 from Rs. 230.73 crore in FY2022 mainly due to an increase in scale of operations. Going forward, the 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 9MFY24 total income stood at Rs. 859.57 crore

- **Comfortable collection efficiency, CAR and low levels of GNPA's**
  The collection efficiency has remained at comfortable levels around ~97% during the past 9 months ending December 2023. The gross and net NPAs remained comfortable at 1.81% and 0.77% in FY2023. In FY2023, LFL's 94.36% of the total portfolio is current and 3.97% falls within 90DPD bucket and remaining 1.67%, are declared as NPA against the total loan portfolio in FY2023 due to better recovery process and quality customers. The capital adequacy ratio improved to 35.99% in FY2023 from 25.94% in FY2022. In 9MFY24 capital adequacy ratio stood at 32.11%.

Key Rating Weaknesses

- **Intense competition in the industry:**
  The company is exposed to intense competition from other varied sized NBFCs. The lending industry focused on NBFC financing of varied ticket size is highly fragmented with unorganized/organized lenders also vying for the same set of borrowers. However, to some extent the robust digital model and outreach created by LFL alongwith turnaround time delivered, enables to attract and retain customers.

- **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. 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.

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)]
[Criteria for Assigning Rating Outlook]

Liquidity – Adequate

The liquidity profile of the company remains adequate with no cumulative mismatches in its asset-liability management profile as on March 31, 2023. Further, LFL's has a liquidity cushion of Rs. 396.00 crore in the form of unencumbered cash and Bank balance (Rs. 339.00 crore) and undrawn banking lines (Rs. 57.00 crore) and as on December 31, 2023. 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, 2023. 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):

(Rs. crore)

For the year ended as on	31-03-2022	31-03-2023
	Audited	Audited
Total Income	638.54	824.06
PAT	(141.44)	115.98
Total Debt	1796.70	1680.25
Tangible Networth	580.18	726.65
Total Assets (excluding deferred tax)	2529.69	2812.83
Overall Gearing Ratio (x)	3.10	2.31
Return on Total Assets (%)	(5.59)	4.11
Gross NPA (%)	3.90	2.60
Net NPA (%)	1.60	1.40

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities/Instrument	Current Ratings (Year 2023-24)				Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	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)	Date(s) & Rating(s) assigned in 2020-21 (13 June 2020)
1.	Fund Based-Bank Facilities	Long Term	49.38	IVRBBB+/RWDI	IVRBBB+/Positive	IVR BBB+/Stable	IVR A-/Stable	IVR A-/Stable
2.	NCD	Long Term	94.00	IVRBBB+/RWDI	IVRBBB+/Positive	IVR BBB+/Stable	IVR A-/Stable	-
3.	Proposed-Fund Based Bank Facilities	Long Term	300.62	IVRBBB+/RWDI	IVRBBB+/Positive	IVR BBB+/Stable	IVR A-/Stable	IVR A-/Stable
4.	Proposed NCD	Long Term	60.00	IVRBBB+/RWDI	IVRBBB+/Positive	IVR BBB+/Stable	IVR A-/Stable	IVR A-/Stable

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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 visit www.infomerics.com.

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	-	-	-	27.00	IVR BBB+/RWDI
Term Loan	-	-	Sep, 2023	5.62	IVR BBB+/RWDI
Term Loan	-	-	Aug, 2025	16.76	IVR BBB+/RWDI
Proposed Cash Credit	-	-	-	23.00	IVR BBB+/RWDI
Proposed Term Loan	-	-	-	277.62	IVR BBB+/RWDI
NCD (ISIN: INE090W07428)	December 12, 2021	12.15% p.a.	December 18, 2026	44.00	IVR BBB+/RWDI
NCD (ISIN: INE090W07469)	June 29, 2022	12.38% p.a.	June 29, 2028	50.00	IVR BBB+/RWDI
Proposed NCD	-	-	-	60.00	IVR BBB+/RWDI

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Lender-Lendingkart-feb24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Name of Instrument	Detailed Explanation
Financial Covenant	-CAR shall be minimum 15% and above -GNPA shall be maximum 5% -NNPA shall be maximum 2.5% -Debt to Equity ratio shall not exceed 4x
Rating Covenant	-In case the Rating of the Instrument is downgraded, the Coupon will be stepped up by 25 bps for each notch of such downgrade and such revised coupon shall be applicable for the period such downgrade continues. The coupon would be reduced by 25 basis points for each notch of subsequent upgrade such that the coupon shall not at any time be less than

	the coupon rate on the deemed date of allotment. In case of 2 rating agencies, the lowest of two shall be considered. -In the event of a downgrade of the credit rating of debentures issued under this facility below BBB, the debenture holders would reserve the right to recall the outstanding principal amount on the NCDs alongwith other monies/accrued interest due in respect thereof. Such outstanding amount is payable within a period of 15 days from date of such notice of exercise of the right by the debenture holders.
Non-Financial Covenant	-Debentures shall be secured by continuing security by way of an exclusive charge up to extent of 1.25x of principal amount of Debentures outstanding (Security cover) on standard/hypothecated receivable in favour of the Debenture trustee for the benefit of debenture holders. If the cover falls below 1.25x then the company shall within 30 business days of such occurrence shall hypothecate further receivable/security to such extent. -The record date shall be 15 calendar days prior to each coupon payment date/ redemption date. -Quarterly reports to be submitted within 45 calendar days from each financial quarter. -Annual report to be submitted within 120 calendar days from end of each financial year. -Non-maintenance of security cover will attract penal interest of 1% p.a. over the coupon rate for the period of non-compliance. -In case of delay or default in payment of interest/coupon or principal amount on due dates, the company shall pay additional interest rate of 2.00% p.a. over the coupon rate for the defaulting

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.