

June 29, 2021

## Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) assigned to PTCs backed by personal loan receivables issued by Northern Arc 2021 PL Kemper

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 PL Kemper	PTC Series A	36.65	Provisional [ICRA]AA(SO); Assigned

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned a provisional rating to PTC Series A issued under a securitisation transaction originated by Clix Capital Services Private Limited (Clix/Originator). The pass-through certificates (PTCs) are backed by a pool of Rs. 45.30-crore personal loan receivables (underlying pool principal of Rs. 36.65 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 20.00% of the pool principal to be provided by the Originator, and (ii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of EIS and CC
- Absence of overdue contracts as on pool cut-off date
- Pool consists of non-restructured contracts
- Low obligor concentration with top 10 obligors accounting for 1.18% of the pool

#### Credit challenges

- High geographical concentration with top 3 states accounting for around 58% of the pool
- Rise in delinquencies at portfolio level; peaking of delinquencies yet to happen across vintages as majority has not completed any cycle
- Pool's performance will remain exposed to any fresh disruptions caused by second wave of Covid-19 pandemic

### Description of key rating drivers highlighted above

As per the transaction structure, the promised monthly cash flow for PTC Series A comprises the principal repayment to the extent of 100% of the billing principal and the interest payment at the predetermined interest rate on the principal outstanding. The EIS available after meeting the promised PTC payments shall flow back to the Originator on every payout date.

The first line of support for Series A PTCs in the transaction is in the form of the subordination of the EIS. A CC of 20.00% (Rs. 7.33 crore) of the initial pool principal provided by Clix acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall if the EIS is not sufficient.

There were no overdues in the pool as on the cut-off date. The pool consists of highly seasoned loans with a weighted average seasoning of ~15 months and pre-securitisation amortisation of ~26%. The pool has high geographical concentration with the top 3 states accounting for ~58% of the pool principal.

**Past rated pools:** ICRA has 10 live pools that have been originated by Clix. Four of these pools consist of business loan receivables, five consist of personal loan receivables and one consists of two-wheeler loan receivables. All the pools have reported satisfactory collection efficiency up to June 2021 payouts with no instance of CC utilisation.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of Clix's loan portfolio. Given the short track record of Clix in the personal loan business, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of the credit quality of personal loans. Clix's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after taking into account the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdue, ticket size, IRR, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 6.00-7.00%, with certain variability around it. The prepayment rate in the pool is assumed to be 8.0-12.0% p.a. ICRA's estimation of the variability also takes into account Clix's short track record. ICRA notes that the ongoing localised lockdowns and subsequent uncertainty regarding macro-level economic activity could lead to near-term stress on the pool's performance.

## Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the collections from the pool of contracts and the presence of a CC amounting to 20.00% of the pool principal amount. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the recommended level of CC would cover the shortfalls in the PTC payouts for a period of 10 months.

### Rating sensitivities

**Positive factors** – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

**Negative factors** – Pressure on the rating could emerge with the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and CE utilisation levels.

## Analytical approach

The rating action is based on the analysis of the performance of Clix's portfolio till March 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

Clix Capital Services Private Limited is the erstwhile non-banking financial company (NBFC) business of General Electric (GE) in India, which started its operations in 1994 under two entities – GE Capital Services India and GE Money Financial Services Private Limited. In September 2016, a consortium comprising AION Capital Partners, along with Mr. Pramod Bhasin and Mr. Anil Chawla, acquired the financial business of GE. GE Capital was rebranded as Clix post the management takeover. Currently, the Clix Group carries out its business through three entities:

- Clix Capital Services Private Limited – Primarily engaged in micro, small & medium enterprise (MSME) and consumer lending
- Clix Finance India Private Limited (subsidiary of Clix Capital Services Private Limited) – Primarily engaged in healthcare and equipment finance and digital lending
- Clix Housing Finance Private Limited (subsidiary of Clix Capital Services Private Limited) – Primarily engaged in housing/mortgage finance products

## Key financial indicators (audited)

Standalone	FY2020	FY2021
Total income	506.44	494.76
Profit after tax	20.75	3.97
Assets under management	2,539	3,027
Gross NPA	1.10%	3.59%
Net NPA	0.52%	1.46%

Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Northern Arc 2021 PL Kemper	PTC Series A	36.65	36.65	June 29, 2021	-	-
					Provisional [ICRA]AA(SO)	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2021 PL Kemper	PTC Series A	June 2021	9.75%	May 2025	36.65	Provisional [ICRA]AA(SO)

**Source:** Company

#### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Rachit Mehta**

+91 22 6114 3423

[rachit.mehta@icraindia.com](mailto:rachit.mehta@icraindia.com)

**Ritu Rita**

+91 22 6114 3409

[ritu.rita@icraindia.com](mailto:ritu.rita@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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