

May 19, 2022

## Clix Capital Services Private Limited: Rating confirmed as final for PTCs backed by personal loan receivables issued by Northern Arc 2022 PL Nebuchadnezzar

### Summary of rating action

| Trust Name                          | Instrument*  | Current Rated Amount (Rs. crore) | Rating Action                                       |
|-------------------------------------|--------------|----------------------------------|---|
| Northern Arc 2022 PL Nebuchadnezzar | PTC Series A | 56.12                            | [ICRA]AA(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure-1

### Rationale

In February 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to PTC Series A issued by Northern Arc 2022 PL Nebuchadnezzar. The pass-through certificates (PTCs) are backed by a pool of Rs. 79.35-crore personal loan receivables (underlying pool principal of Rs. 61.89 crore) originated by Clix Capital Services Private Limited. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the April 2022 payout month has been provided below.

| Parameter  | Nebuchadnezzar |
|--|----------------|
| Months post securitisation                                       | 3              |
| Pool amortisation  | 14.50%         |
| PTC Amortisation PTC Series A                                    | 15.97%         |
| Cumulative collection efficiency (including advance collections) | 99.12%         |
| Monthly Collection (Normal Coll + OD Coll)                       | 98.89%         |
| Loss-cum-0+ dpd  | 1.49%          |
| Loss cum 30+ dpd   | 0.83%          |
| Loss cum 90+ dpd   | 0.16%          |
| Cumulative Prepayment rate                                       | 6.22%          |
| Cumulative cash collateral (CC) utilisation                      | 0.00%          |

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Pool consists of non-restructured contracts
- Low obligor concentration of the pool

#### Credit challenges

- The pool has high geographical concentration with top 3 states accounting for around 65% of the pool.
- Moderate pre-securitisation amortisation (~19%) of the pool as on pool cut-off date
- Rise in delinquencies at portfolio level due to Covid pandemic
- Pool performance will remain exposed to any fresh disruptions caused by Covid-19 pandemic

## Description of key rating drivers highlighted above

The underlying loans follow a monthly payment schedule. As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. The principal is expected to be paid on a monthly basis but is not promised. The EIS available after meeting the promised PTC payments shall flow back to the Originator on every payout date. However, If the portfolio at risk (PAR) > 60 in the pool exceeds 10.00% of the outstanding pool principal, the EIS shall be utilised to make principal payments to the Series A investors till the Series A PTCs are fully extinguished or till the time the PAR > 60 reduces to 10.00%.

The first line of support for PTC Series A in the transaction is in the form of over-collateralisation of 9.33% of the pool principal. Additionally, the EIS available in the structure provides CE support. A CC of 10.0% 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.

There were no overdues in the pool as on the cut-off date. The pool consists of loans with moderate seasoning with a weighted average seasoning of 12.9 months and pre-securitisation amortisation of 18.9%. The pool has high geographical concentration with the top 3 states (Maharashtra, Karnataka and Telangana) accounting for 65.3% of the pool principal. The rating also factors in the rise in delinquencies in recent months in Clix's personal loan portfolio due to the pandemic. However, we expect the delinquencies to reduce with improvement in collections going forward. Also, the pool's performance will remain exposed to any fresh disruptions caused by the pandemic.

Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic. Given the marginal borrower profile, the pool's performance would also be exposed to natural calamities and political and communal risks.

**Past rated pools performance:** ICRA has nine other live personal loan pools originated by Clix. The pools which were originated pre-covid witnessed a stress in collections and thus reported higher loss cum 90+ numbers. However, there has not been any CC utilisation in any of the transactions and credit enhancement has built up in all the pools.

## 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 considered 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 considering the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 6.0-7.0%, with certain variability around it. The prepayment rate in the pool is estimated at 8.0-12.0% p.a.

## Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A investors.

## Rating sensitivities

**Positive factors** – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future PTC payouts from the credit enhancement (CE).

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency), leading to higher-than-expected delinquency levels and CE utilisation levels.

## Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

| 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 Limited (Clix) is a non-banking finance company (NBFC) registered with the Reserve Bank of India (RBI) engaged in providing retail financing products (personal loans, business loans, MSME, housing finance etc). The company, which was incorporated as GE Money Financial Services Pvt Ltd (GE Money) in 1994, formed the 'non-banking business' of the General Electric (GE) Group along with its group company GE Capital Services India (GE Capital). In September 2016, this business was acquired by a consortium comprising AION Capital Partners, Mr. Pramod Bhasin and Mr. Anil Chawla and rebranded as 'Clix'<sup>1</sup>. In April-2022, Clix Finance India Private Limited (CFIPL, erstwhile GE Capital), was merged with Clix. Following the merger, Clix's offering portfolio comprises micro, small & medium enterprise (MSME), and consumer lending along with healthcare and equipment finance and digital lending (onboarded from CFIPL). Additionally, Clix Housing Finance Private Limited, a wholly owned (subsidiary of Clix), is primarily engaged in housing/mortgage finance products.

## Key financial indicators

| Consolidated         | FY2020 (Audited) | FY2021 (Audited) | H1 FY2022 (Provisional) |
|----------------------|------------------|------------------|-------------------------|
| Total Income         | 506.44           | 494.76           | 229.01                  |
| Profit after tax     | 20.75            | 3.97             | -45.06                  |
| Total Managed Assets | 2,539            | 3,027            | 2,604                   |
| Gross NPA%           | 1.10%            | 3.59%            | 3.97%                   |
| Net NPA%             | 0.52%            | 1.46%            | 1.45%                   |

Source: Company, ICRA Research; All ratios as per ICRA calculations; Amounts in Rs. Crore;

<sup>1</sup> GE Money was rechristened as Clix Capital Services Limited while GE Capital was rechristened as Clix Finance India Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Trust Name                          | Current Rating (FY2023) |                          |                                |               | Chronology of Rating History for the Past 3 Years |                         |                         |
|-------------------------------------|-------------------------|--------------------------|--------------------------------|---------------|---|-------------------------|-------------------------|
|                                     | Instrument              | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2022                           | Date & Rating in FY2021 | Date & Rating in FY2020 |
|                                     |                         |                          |                                | May 19, 2022  | February 07, 2022                                 | -                       | -                       |
| Northern Arc 2022 PL Nebuchadnezzar | PTC Series A            | 56.12                    | 56.12                          | [ICRA]AA(SO)  | Provisional [ICRA]AA(SO)                          | -                       | -                       |

### Complexity level of the rated instrument

| Instrument   | Complexity Indicator |
|--------------|----------------------|
| PTC Series A | Moderately Complex   |

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

| Trust Name                          | Instrument   | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|-------------------------------------|--------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| Northern Arc 2022 PL Nebuchadnezzar | PTC Series A | January 2022                | 9.50%       | June 2026      | 56.12                    | [ICRA]AA(SO)   |

\* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

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

Not Applicable

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## 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.

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

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