

May 25, 2022

Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) rating assigned to Series A PTCs backed by merchant loan receivables issued by ML Lumos April 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Lumos April 2022	Series A PTC	60.91	Provisional [ICRA]AA(SO); assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Clix Capital Services Private Limited (Clix). The PTCs are backed by a pool of Rs. 79.12-crore merchant loan receivables (underlying pool principal of Rs. 67.68 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.0% of the initial pool principal to be provided by the originator, (ii) over-collateralisation of 10.0% of the pool principal for Series A PTC, and (iii) subordination of the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating 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 subordination, EIS and credit collateral
- Absence of overdue contracts as on cut-off date
- ~94% contracts in the pool have bureau score above 700 at the time of onboarding

Credit challenges

- High delinquencies seen in the portfolio in the past; limited vintages, post underwriting revision undertaken after Covid-19 pandemic
- Pool performance will remain exposed to any fresh disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payments to Series A PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A PTC is promised on the last payout date. During the tenure of Series A PTC, the collections from the pool, after making the promised interest payouts to Series A PTC, will be used to make the expected principal payouts to Series A PTC, though this principal payout is not promised and any shortfall in making the expected principal payment to Series A PTC would be carried forward to the subsequent payout. Also, 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. Further, in the event of excess collections in a month – after meeting the promised PTC payouts – such excess would first be used to top up the CC to the extent of past utilisation.

The first line of support for Series A PTC in the transaction is in the form of over-collateralisation of 10.0% of the pool principal. Additionally, the EIS (13.09% of initial pool principal) available in the structure and a CC of 10.0% of the initial pool principal (i.e. Rs. 6.77 crore) provided by Clix acts as further CE in the transaction. Moreover, all dues against the 90+ days past due (dpd) contracts in the pool shall be set off from the pool's collections/cash lying in the trust account/loss reserve being maintained by Clix under the risk sharing arrangement with its digital wallet/fintech partner (Partner) on a quarterly basis.

The current pool consists of receivables from Clix's merchant loans under its lending programme with the Partner. There were no overdues in the pool as on the cut-off date. The pool has a low obligor concentration with the top 10 borrowers having a share of 0.6%. The contracts in the pool have low seasoning with a weighted average seasoning of ~4 months and pre-securitisation amortisation of 27%. The company had reported high delinquencies for this asset class during the early stages of the product, though there was an improvement in the second half of the previous fiscal under the tighter lending regime. The asset quality, however, remains moderate while the portfolio seasoning remains limited. Also, the performance of the pool would remain exposed to any fresh disruptions caused by the pandemic.

Past rated pools: ICRA has previously rated two merchant loan receivables transactions. While one has a replenishing structure for which the amortisation of the PTCs is yet to start, the other has completed one payout and has a collection efficiency of around 99%.

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 merchant loan portfolio. ICRA has also factored in Clix's credit quality experience and ICRA's expectation of the credit quality of the merchant loan portfolio. Overall, Clix's merchant loan target borrower segment could be financially vulnerable as well as subject to various seasonality factors.

The resulting collections from the pool – after incorporating the impact of losses and prepayments – 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 transaction, after adjusting for key features like ticket size, bureau score, original tenure, seasoning and risk decile separately in the pool, 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 for the underlying pool is estimated at 1.5-4.5% per annum.

Liquidity position: Strong

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

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 on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, 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 merchant loan portfolio till March 2022, 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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Know your customer (KYC) Chartered Accountant’s certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the company

Clix Capital Services Private Limited (Clix) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). It provides retail financing products (personal loans, business loans, micro, small & medium enterprise (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 was rebranded as Clix¹. In April 2022, Clix Finance India Private Limited (CFIPL; erstwhile GE Capital) was merged with Clix. Following the merger, Clix’s portfolio comprises 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, primarily provides housing/mortgage finance products.

¹ GE Money was rechristened as Clix Capital Services Private Limited while GE Capital was rechristened as Clix Finance India Private Limited

Key financial indicators

Consolidated	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Provisional)
Total Income	506.44	494.76	663.89
Profit after Tax	20.75	3.97	-84.45
Total Managed Assets	2,539	3,027	3,540
Gross NPA%	1.10%	3.59%	4.9%
Net NPA%	0.52%	1.46%	1.47%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 25, 2022	-	-	-
1 ML Lumos April 2022	Series A PTC	60.91	60.91	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A PTC	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

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate [^]	Maturity Date	Amount Rated (Rs. crore)	Current Rating
ML Lumos April 2022	Series A PTC	May 2022	8.85%	August 2023*	60.91	Provisional [ICRA]AA(SO)

[^]p.a.p.m.; * 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.

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

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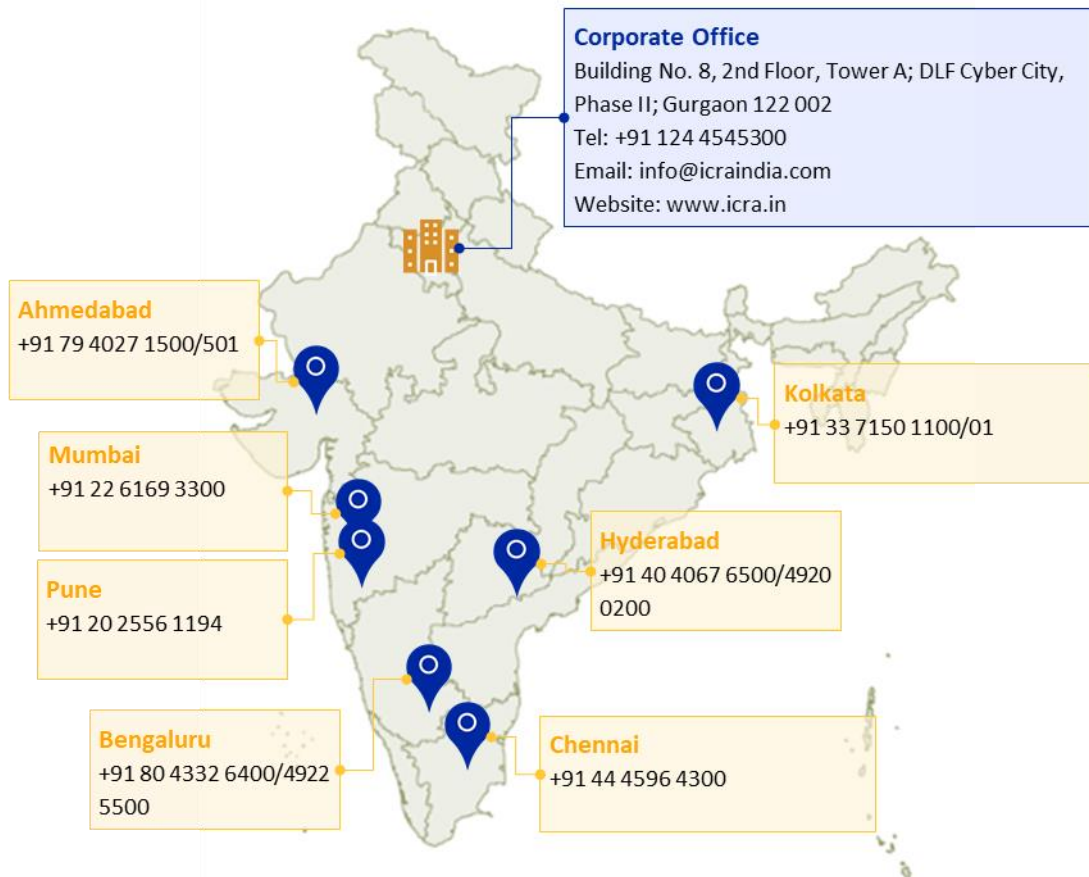
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