

September 06, 2022

## Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) assigned to PTCs backed by personal loan receivables issued by PL Hedwig Aug 2022

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
PL Hedwig Aug 2022	Series A PTCs	43.11	Provisional [ICRA]AA(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of 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 rating to Series A PTCs 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. 61.01-crore personal loan receivables (underlying pool principal of Rs. 47.37 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 11.0% of the initial pool principal to be provided by the originator, (ii) over-collateralisation of 9.00% of the pool principal for Series A PTCs, and (iii) 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, over-collateralisation and CC
- Absence of overdue contracts as on pool cut-off date
- Low obligor concentration of the pool

#### Credit challenges

- Moderate geographical concentration with top 3 states accounting for around 59% of the pool
- Rise in delinquencies at portfolio level especially restructured book due to the Covid-19 pandemic; however, improvement in collections seen, post second wave, for the non-restructured book
- Pool's performance will remain exposed to any fresh disruptions caused by the 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 Series A PTCs at the predetermined interest rate on the principal outstanding, and the entire principal is promised 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.

The first line of support for Series A PTCs in the transaction is in the form of over-collateralisation of 9.00% of the pool principal. Additionally, the EIS available in the structure provides CE support. A CC of 11.0% 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 has a weighted average seasoning of ~10 months. It has moderate geographical concentration with the top 3 states (Haryana, Karnataka and Telangana) accounting for ~59% of the pool principal. The rating also factors in the rise in delinquencies in Clix's personal loan portfolio, post the pandemic, though some moderation was seen with the improvement in collections. While Clix's recent originations have exhibited a better performance, the track record remains limited post origination. The pool's performance would remain exposed to any fresh disruptions caused by the pandemic.

**Past rated pools:** ICRA has rated 12 other personal loan pools originated by Clix. The pools, which were originated before the onset of the pandemic, 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 the CE 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 lognormal 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 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 4.75-5.75%, with certain variability around it. The prepayment rate in the pool is estimated at 3.2-12.0% p.a.

### 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 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 June 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) 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 ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://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 and 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 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 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.

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

## Key Financial Indicators

	FY2020	FY2021	FY2022*
Total income	506.44	494.76	663.89
Profit after tax	20.75	3.97	-84.45
Assets under management	2,539	3,027	3,540
Gross non-performing assets (NPA)	1.10%	3.59%	4.9%
Net NPA	0.52%	1.46%	1.47%

Source: Company data, ICRA Research; Amount in Rs. crore; \*Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					September 6, 2022			
1	PL Hedwig Aug 2022	Series A PTCs	43.11	43.11	Provisional [ICRA]AA(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A PTCs	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: [Click Here](#)

## Annexure II: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PL Hedwig Aug 2022	Series A PTC	September 2022	9.75%	February 2027	43.11	Provisional [ICRA]AA(SO)

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

Source: Company

## Annexure II: 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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