September 09, 2022

Clix Capital Services Private Limited: Rating confirmed as final for PTCs backed by merchant loan receivables issued by ML Centaur July 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Centaur July 2022	PTC Series A1(a)	35.88	[ICRA]AA(SO); provisional rating confirmed as final
	PTC Series A1(b)	5.05	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In September 2022, ICRA had assigned Provisional [ICRA]AA(SO) rating to PTC Series A1(a) and PTC Series A1(b) issued by ML Centaur July 2022. The passthrough certificates (PTCs) are backed by a pool of Rs. 52.58-crore merchant loan receivables (underlying pool principal of Rs. 43.55 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.

Key rating drivers

Credit strengths

- Availability of CE in the form of over-collateralisation, EIS and CC
- Around 74% of the contracts in the pool have a credit bureau score of 700 and above at the time of onboarding

Credit challenges

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

Description of key rating drivers highlighted above

As per the transaction structure, the promised cash flow schedule would comprise the interest to Series A1(a) and Series A1(b) PTCs on a pari passu and monthly basis (at the predetermined yield) on the outstanding (o/s) PTC principal on each payout date and the entire principal on the final maturity date. On each payout date, after meeting the promised interest payout, all excess cash flow to the extent of the principal billed, will be paid out to meet the expected PTC Series A1(a) principal payout until PTC Series A1(a) is completely repaid, following which it will be used to repay the PTC Series A1(b) principal. Any prepayments would be utilised for the payment of the principal of Series A1(a) PTCs till the same is fully repaid and would then be utilised for the payment of principal of Series A1(b). The surplus EIS available after meeting the promised payouts to the PTCs will be passed on to the originator every month.

An amount equivalent to the principal o/s on the 60+ days past due (dpd) contracts is to be held back in the Collection and Payment Account. This is referred to as trapped EIS, which is to be utilised for the prepayment of the principal portion to the extent of the 90+dpd amount (Series A1(a) first till it is live). Any shortfall in prepaying the 90+ dpd contracts is to be met by Clix. The amount collected upon the pre-termination of a contract will be paid to Series A PTCs. Following such prepayment, the future payment schedule for the PTCs will be revised. All dues (principal amount outstanding and interest accrued) against the 90+ 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 Clix-Paytm risk-sharing arrangement on a quarterly basis. The monies utilised from the Loss Reserve for the same shall form a part of the pool's collections and shall be passed on to the Trust Account by the Servicer.

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 same. Further, in case of excess collections in a month – after meeting the promised PTC payouts – the same would first be used to top up the CC to the extent of past utilisation.

The first line of support for Series A1(a) and Series A1(b) PTC in the transaction is in the form of over-collateralisation of 6.0% of the pool principal. The EIS (16.13% of initial pool principal) available in the structure and a CC of 14.0% of the initial pool principal (i.e. Rs. 6.10 crore) provided by Clix acts as further CE in the transaction.

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 low obligor concentration with the top 10 borrowers having a share of 0.98%. The contracts in the pool have low seasoning with a weighted average seasoning of ~4 months. 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 ratings outstanding on five PTC transactions of Clix's merchant loan portfolio of which one pool has a replenishment structure with the pool amortisation yet to commence. The performance of the remaining four pools has been satisfactory with a cumulative collection efficiency of more than 97% with nil CC utilisation and nil 180+ dpd.

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 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 5.0-6.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 3.0-4.5% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 (a) and Series A1 (b) PTC holders on a pari passu and 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 A1(a) and Series A1(b) 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 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	[Rating Methodology for Securitisation Transactions]()
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

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[1]. 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.

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

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
				September 09, 2022	September 02, 2022	-	-	-
ML Centaur July 2022	PTC Series A1(a)	35.88	35.88	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(SO)**	-	-	-
	PTC Series A1(b)	5.05	5.05	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(SO)**			

[1] *GE Money was rechristened Clix Capital Services Limited while GE Capital was rechristened Clix Finance India Private Limited*

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	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 I: Instrument details

ISIN No	Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate^	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INE0N5215016	**ML Centaur July 2022**	PTC Series A1(a)	August 2022	9.25%	November 2023	35.88	[ICRA]AA(SO)
INE0N5215024	**ML Centaur July 2022**	PTC Series A1(b)	August 2022	9.25%	November 2023	5.05	[ICRA]AA(SO)

*^ p.a.p.m.; * Scheduled PTC 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.

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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