September 09, 2022

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Galleon July 2022	Series A PTC	90.00	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

Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) rating to the Series A 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. 116.21-crore merchant loan receivables (underlying pool principal of Rs. 100.00 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 12.50% 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 over-collateralisation, EIS and CC
- Absence of overdue contracts as on cut-off date
- All 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 collections from the pool will be used for the promised cash flow schedule, which would comprise the promised interest and principal payouts (i.e. 90% of the billed principal) to Series A PTCs. After making the promised payouts, the collections will be used to make the expected principal payments (10% of billed principal). 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. Shortfalls, if any, in making the expected principal payment to Series A PTCs would be carried forward to the subsequent months. Further, in case of excess collections in a month – after meeting the promised PTC payouts – would first be used to top up the CC to the extent of past utilisation. The excess EIS available after meeting promised payouts to the PTCs will be passed on to the originator every month.

The first line of support for Series A PTCs in the transaction is in the form of over-collateralisation of 10.0% of the pool principal. The EIS (12.91% of initial pool principal) available in the structure and a CC of 12.50% of the initial pool principal (i.e. Rs. 12.50 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 its 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 0.45%. 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. One of these pools 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+ days past due (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 5.25-6.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 3.0-4.5% per annum.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 12.50% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the scheduled PTC payouts for a period of three months.

Rating sensitivities

Positive factors – The rating could be upgraded on the 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 CE.

Negative factors – Pressure on the rating could emerge on 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 merchant loan 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	[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. 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 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 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*

[1] *GE Money was rechristened Clix Capital Services Limited while GE Capital was rechristened 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
				September 09, 2022	-	-	-
ML Galleon July 2022	Series A PTC	90.00	90.00	**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 I: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate^	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
ML Galleon July 2022	Series A PTC	September 2022	9.10%	November 2023	90.00	Provisional [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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