

February 06, 2023

Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) rating assigned to Series A1 SN backed by business loan receivables issued by BL Diadem Jan 2023

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------|--------------|----------------------------------|------------------------------------|
| BL Diadem Jan 2023 | Series A1 SN | 29.58 | Provisional [ICRA]AA(SO); assigned |

*Instrument details are provided in Annexure I

| | |
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| 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 [ICRA]AA(SO) rating to the securitisation notes (SN) issued under a securitisation transaction originated by Clix Capital Services Private Limited (Clix). The SNs are backed by a pool of Rs. 40.69-crore business loan receivables (underlying pool principal of Rs. 32.87 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) subordination (in the form of equity tranche) of 10.0% of the pool principal for Series A1 SN, and (iii) the entire excess interest spread (EIS) of 12.56% 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 EIS, subordination and CC
- Pool consists of zero overdue and no restructured contracts; moreover, more than 99% of contracts have never been delinquent since origination

Credit challenges

- High geographical concentration in the initial pool with top 3 states accounting for 62.1% in the pool
- Moderation in the asset quality at portfolio level, post the onset of the Covid-19 pandemic; performance of recent originations (Q3 FY2021 onwards) has, however, been better though the track record remains limited
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could also be affected by macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The underlying loans follow a monthly payment schedule. The promised cash flow schedule for Series A1 SN on a monthly basis comprises the interest payment at a predetermined yield on the outstanding SN principal and the principal to the extent of 90% of the billed pool principal amount for each month. The balance 10% is not promised and is to be paid on an expected basis. During the tenure of Series A1 SN, the collections from the pool, after making the promised and expected payouts to Series A1 SN¹, as per the waterfall mechanism, would be used for interest payments on the equity tranche.

¹ Promised principal for Series A1 SN is to the extent of 90% of the billed pool principal; the balance 10% is to be paid on an expected basis

The first line of support for Series A1 SN in the transaction is in the form of subordination of 10.00% 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 SN 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 and the majority (99%) of the contracts in the pool have been regular since origination {demonstrated nil peak days past due (dpd)}. The pool consists of loans with a weighted average seasoning of 7.6 months. It has high geographical concentration with the top 3 states (Maharashtra, Telangana and Delhi) accounting for 62.1% of the pool principal. The performance of Clix's business loan portfolio was adversely impacted by the pandemic, resulting in an increase in the delinquency levels. ICRA notes that a large part of the portfolio stress emanated from the old and/or restructured book while the performance of recent originations (Q3 FY2021 onwards) has been healthy. This notwithstanding, the track record remains limited and the pool's performance is expected to remain exposed to the underlying credit risks inherent in the asset class and macro-economic shocks/business disruptions.

Past rated pools' performance: ICRA has rated 16 business loan pools of Clix. Three of these pools have matured and reported a healthy performance with no instance of CC utilisation. The live pools, which have completed at least three payouts up to November 2022, have reported low delinquencies with a cumulative collection efficiency of more than 95% and nil CC utilisation.

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 business loan segment, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of unsecured business loans. The company'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 5.25-6.25%, with certain variability around it. The prepayment rate in the pool is estimated at 1.6-6.0% p.a. with a mean of 4.00%.

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 10% of the pool principal amount. 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 SN payouts for eight months.

Rating sensitivities

Positive factors – The rating could be upgraded based 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 SN payouts from the CE.

Negative factors – The rating could be downgraded 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 business loan portfolio till September 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 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 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 Clix². 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.

² GE Money was rechristened Clix Capital Services Private Limited while GE Capital was rechristened Clix Finance India Private Limited

Key financial indicators

| | FY2021 (Audited) | FY2022 (Audited) | H1 FY2023 (Provisional) |
|-----------------------------|------------------|------------------|-------------------------|
| Total income | 494.76 | 663.5 | 325.08 |
| Profit after tax | 3.97 | -93.91 | 10.07 |
| Total managed assets | 3,027 | 3,560 | 3,904 |
| Gross NPA | 3.59% | 4.95% | 2.90% |
| Net NPA | 1.46% | 1.42% | 1.31% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Data from FY2022 pertains to merged entity

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 |
| | | | | February 6, 2023 | | | |
| BL Diadem Jan 2023 | Series A1 SN | 29.58 | 29.58 | Provisional [ICRA]AA(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------------|----------------------|
| Series A1 SN | 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 I: Instrument details

| Trust Name | Instrument | Date of Issuance / Sanction | Coupon Rate [^] | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|---------------------------|--------------|-----------------------------|--------------------------|----------------|--------------------------|--------------------------|
| BL Diadem Jan 2023 | Series A1 SN | February 2023 | 10.25% | July 2025 | 29.58 | Provisional [ICRA]AA(SO) |

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