

February 23, 2023

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Thestral Dec 2022	Series A PTC	95.10	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In December 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Series A PTC issued by ML Thestral Dec 2022 trust. The pass-through certificates (PTCs) are backed by a pool of Rs. 105.66-crore (pool principal; receivables outstanding of Rs. 128.43 crore) merchant loan (ML) receivables originated by Clix Capital Services Private Limited (Clix). 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.

A summary of the pool's performance after the January 2023 payouts is shown in the table below:

Parameter	ML Thestral Dec2022
Months post securitisation	1
Pool amortisation	21.42%
Series A PTC Amortisation	25.97%
Average monthly prepayment rate %	15.31%
Cumulative collection efficiency	99.53%
Loss cum 0+ dpd	4.00%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of overcollateralisation, EIS and cash collateral
- Absence of overdue contracts as on cut-off date
- All contracts in the pool have bureau score of 700 and above at the time of onboarding

Credit challenges

- High delinquencies seen in the portfolio in past, limited vintages post underwriting revision undertaken after Covid-19 pandemic
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; performance of the pool could remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule (for the PTC investors) comprises the promised interest payment to Series A PTC at the predetermined interest rate on the principal outstanding and the scheduled principal payment (to the extent of 90% of pool billing amount). The balance 10% principal is expected to be paid monthly but is not promised. During the tenure of Series A PTC, the collections from the pool, after making the promised payouts to Series A PTC, will be used to make the expected principal payouts to Series A PTC, though a portion of the monthly principal payout (10%) is not promised. All the collections from the pool, after making the promised payouts to Series A PTC, will be used for the prepayment of the principal to Series A PTC. The EIS shall flow back to the originator on every payout date after making all the payouts to Series A PTC as per the waterfall mechanism.

The first line of support for Series A PTC in the transaction is in the form of a subordination of 10.00% of the pool principal. The originator has provided a CC of 11.50% of the total pool principal (amounting to Rs. 12.15 crore). In the event of a shortfall in meeting the promised PTC payouts during any month, the CC will be used to meet such shortfall. 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 current pool consists of receivables from Clix's MLs 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 0.41%. The contracts in the pool have a weighted average seasoning of 4.14 months. The pool had an adequate borrower credit profile with all the contracts in the pool having CIBIL score of above 700. 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 seasoning of the post-Covid portfolio, however, remains limited. 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: ICRA has ratings outstanding on eleven PTC transactions of Clix's ML portfolio of which one pool has matured. The performance of live pools after January 2022 payouts has been satisfactory with a cumulative collection efficiency of ~96% and above 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 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 4.5-5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 1.5-4.5% 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 11.50% 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 four 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 PTC 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 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 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 whollyowned subsidiary of Clix, primarily provides housing/mortgage finance products.

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; FY2022 onwards data 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 23, 2023	December 27, 2022			
ML Thestral Dec 2022	Series A PTC	95.10	95.10	[ICRA]AA(SO)	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: [Click Here](#)

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate [^]	Maturity Date [*]	Amount Rated (Rs. crore)	Current Rating
ML Thestral Dec 2022	Series A PTC	December 2022	9.35%	June 2024	95.10	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Samriddhi Chowdhary

+91 22 6114 3462

samriddhi.chowdhary@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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