

May 04, 2023

Clix Capital Services Private Limited: Provisional ratings assigned to PTCs backed by personal loan receivables issued by PL Carnation 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PL Carnation 2023	Series A1 PTC	33.36	Provisional [ICRA]AA-(SO); assigned
	Equity Tranche PTC	2.27	Provisional [ICRA]A-(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 ratings of Provisional [ICRA]AA-(SO) to the Series A1 pass-through certificate (PTC) and Provisional [ICRA]A-(SO) to the equity tranche PTC originated by Clix Capital Services Private Limited (Clix/the originator). The PTCs are backed by a pool of Rs. 37.91 crore (pool principal; receivables of Rs. 50.27 crore) of personal loan (PL) receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by the originator, (ii) subordination in the form of an equity tranche of 6.00% and over-collateralisation (OC) of 6.00% of the pool principal for Series A1 PTC and 6.00% of the pool principal for the equity tranche PTC, (iii) the excess interest spread (EIS) of 21.50% in the structure for Series A1 PTC and the equity tranche PTC, and the integrity of the legal structure. The ratings are 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
- No overdue contracts in the pool; ~93% of the contracts have never been delinquent since origination as on the cut-off date
- Pool has weighted average seasoning of ~10 months with pre-securitisation amortisation of ~17%

Credit challenges

- Moderate geographical concentration in the initial pool with top 3 states accounting for ~39% of the initial pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; pool's performance 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. As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A1 PTCs at the predetermined interest rate on the principal outstanding. The principal repayment for the PTCs are promised on the final maturity date, i.e., September 15, 2027. During the tenure of Series A1 PTC, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to Series A1 PTC. This principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payouts. After Series A1 PTC has been fully redeemed,

collections from the pool will be used to redeem the equity tranche PTCs. The EIS available, after meeting the promised PTC payments, shall flow back to the originator on every payout date.

The PTCs in the transaction are supported by subordination in the form of an equity tranche of 6.00% and OC of 6.00% of the pool principal for Series A1 PTC and 6.00% for the equity tranche. Credit support is available in the form of an EIS of 21.50% for Series A1 PTC and the equity tranche. A CC of 6.00% of the initial pool principal provided by Clix acts as further CE in the transaction.

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 (Maharashtra, Tamil Nadu and Karnataka) accounting for ~39% of the principal. The company had witnessed a moderation in the asset quality at the portfolio level, post the onset of the Covid-19 pandemic, resulting in a build-up of delinquencies. ICRA notes that a large part of the portfolio stress in the PL segment has emanated from the old and/or restructured book. Furthermore, the recent originations (post August 2020) have demonstrated a healthy performance, but with a limited track record. The pool's performance will remain exposed to the inherent credit risk associated with the unsecured nature of the asset class. Macro-economic shocks/business disruptions could have a further bearing on the performance.

Past rated pools' performance: ICRA has, so far, rated 23 PL pools originated by Clix of which 2 were not placed and 3 have matured. Though collections were impacted for a few months due to the pandemic, live pools, which have completed 3 payouts as of the March 2023 payout date, have reported a healthy cumulative collection efficiency of more than 94%. There has not been any CC utilisation in any of the transactions till date and the CE has built up in all the live 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 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 loan portfolio. Given the short track record of Clix in the PL business, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of PLs. 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 of the 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 5.0-6.0%, with certain variability around it. The prepayment rate in the pool is estimated at 3.2-12.0% p.a. with a mean of 8.00%.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction to the Series A1 PTC and equity tranche PTC investors. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A1 PTC and equity tranche PTC investors.

Rating sensitivities

Positive factors – The ratings could be upgraded basis 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 ratings could be downgraded basis 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 PL portfolio till March 2023, 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 ratings are provisional and would be converted into final ratings 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 ratings 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 ratings 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), 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.

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

Following the merger, Clix's portfolio comprises MSME and consumer lending along with healthcare and equipment finance and digital lending (onboarded from CFIPPL). Additionally, Clix Housing Finance Private Limited, a wholly-owned subsidiary of Clix, primarily provides housing/mortgage finance products.

Key financial indicators

Particulars	FY2021 (Audited)	FY2022 (Audited)*	FY2023 (Provisional)
Total income	494.76	663.5	703.00
Profit after tax	3.97	-93.91	45.00
Total managed assets	3,027	3,560	4,373
Gross NPA	3.59%	4.95%	2.40%
Net NPA	1.46%	1.42%	1.50%

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 (FY2024)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				May 04, 2023			
PL Carnation 2023	Series A1 PTC	33.36	33.36	Provisional [ICRA]AA-(SO)	-	-	-
	Equity tranche PTC	2.27	2.27	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Equity tranche 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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate [^]	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PL Carnation 2023	Series A1 PTC	April 2023	10.40%	September 2027	33.36	Provisional [ICRA]AA-(SO)
	Equity tranche PTC	April 2023	NA	September 2027	2.27	Provisional [ICRA]A-(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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

Sachin Joglekar

+91 22 61143470

sachin.joglekar@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar

+91 22 6169 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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