May 25, 2023

Clix Capital Services Private Limited: Rating confirmed as final for PTCs backed by business loan receivables issued by Indigo 034

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Indigo 034	Series A1 PTC	26.45	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In February 2023, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Series A1 PTC issued by Indigo 034 Trust. The pass-through certificates (PTCs) are backed by a pool of Rs. 35.17-crore business loan receivables (underlying pool principal of Rs. 28.75 crore) originated by Clix Capital Services Private Limited (Clix/originator). 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 as on April 2023 payouts is shown in the table below.

Parameter	Indigo 034
Months post securitisation	3
Pool amortisation	11.44%
Series A1 PTC Amortisation	12.44%
Cumulative prepayment rate %	1.23%
Cumulative collection efficiency	98.04%
Loss cum 0+ dpd	4.37%
Loss cum 30+ dpd	0.45%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

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 as on cut-off date.

Credit challenges

- High geographical concentration in the initial pool with top 3 states accounting for 61.1% 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, if any.

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 PTC at the predetermined interest rate on the principal outstanding, while the entire principal is promised on the final maturity date. 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 (principal promised on maturity) and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. The EIS available, after meeting the PTC payments as per the waterfall mechanism, shall flow back to the originator on every payout date.

The first line of support for Series A1 PTC in the transaction is in the form of subordination of 8.00% of the pool principal. Additionally, the EIS available in the structure provides CE support. A CC of 12.0% 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 PTC 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 8.5 months. It has high geographical concentration with the top 3 states (Karnataka, Tamil Nadu and Maharashtra) accounting for 61.1% 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 previously rated 17 BL pools, originated by Clix, of which 10 were live as of the April 2023 payout month. Though collections were impacted for a few months due to the pandemic, live pools, which have completed 3 payouts as of the April 2023 payout date, have reported a healthy collection efficiency of more than 97%. 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 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 business, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of business loans. The company's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though Clix 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 5.75-6.75%, 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

As per the transaction structure, only the interest amount is promised to the PTC holders on a 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 PTC investors.

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 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

	FY2021 (Audited)	FY2022 (Audited)*	FY2023 (Provisional)
Total income	494.76	663.5	703
Profit after tax	3.97	-93.91	45
Total managed assets	3,027	3,560	4,373
Gross NPA	3.59%	4.95%	2.4%
Net NPA	1.46%	1.42%	1.5%

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

[1] *GE Money was rechristened Clix Capital Services Private 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 (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 25, 2023	February 06, 2023	-	-
Indigo 034	Series A1 PTC	26.45	26.45	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(SO)**	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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
Indigo 034	Series A1 PTC	February 2023	10.10%	July 2025	26.45	[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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