

May 29, 2023

Clix Capital Services Private Limited: Provisional ratings assigned to PTCs backed by a pool comprising personal loan and business loan receivables issued by Murakami 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Murakami 2023	Series A1(a)	23.68	Provisional [ICRA]AA+(SO); assigned
	Series A1(b)	2.63	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(a) pass-through certificate (PTC) and Provisional [ICRA]A+(SO) to the Series A1(b) PTC originated by Clix Capital Services Private Limited (Clix/ originator). The PTCs are backed by a pool of Rs. 29.24 crore (pool principal; receivables of Rs. 36.95 crore) of personal loan (PL) and business loan (BL) 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 5.00% of the pool principal to be provided by the originator, (ii) subordination in the form of an equity tranche/over-collateralisation (OC) of 9.00% and Series A1(b), of 10.00% of the pool principal for Series A1(a) and OC of 10.00% for Series A1(b), (iii) the excess interest spread (EIS) of 15.82% in the structure for Series A1(a) and Series A1(b), 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
- Pool consists of nil overdue contracts; ~99% of the contracts have never been delinquent since origination as on the cut-off date
- Pool has weighted average seasoning of ~8 months with pre-securitisation amortisation of ~15%

Credit challenges

- Moderately high geographical concentration in the initial pool with top 3 states accounting for ~57% 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 first line of support for PTC Series A1(a) in the transaction is in the form of a subordination of 19.00% of the pool principal {includes principal payable to PTC Series A1(b)}. After PTC Series A1(a) has been fully paid, subordination of 10.00% of the pool principal (includes equity tranche/OC) will be available for PTC Series A1(b). Further credit support is available in the form of an EIS of 15.82% for both series of PTCs. A CC of 5.00% of the initial pool principal, to be provided by Clix, would act 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 same.

As per the transaction structure, the equity tranche PTC payouts are completely subordinated to the PTC Series A1 payouts. Till May 17, 2025, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and A1(b) on a pari passu basis. After making the promised interest payouts to PTC Series A1(a) and A1(b), collections will be used to make the expected principal payouts to PTC Series A1(a) till its redemption followed by the expected principal payout to PTC Series A1(b). The entire principal repayment to PTC Series A1(a) and A1(b) is promised on the scheduled maturity date of the respective tranches. From May 18, 2025 till the final maturity date, the collections from the pool will be used for making the promised interest payouts to PTC Series A1(a) and A1(b) on a pari passu basis. After this, collections will be utilised for the redemption of PTC Series A1(a) and A1(b) on a pari passu basis. The EIS available after meeting the expected and promised PTC payments will flow back to the originator on a monthly basis. All prepayment amounts would be passed on to PTC Series A1(a) till May 17, 2025. From May 18, 2025, the prepayment amounts would be passed on to PTC Series A1(a) and A1(b) on a pari passu basis for the respective amounts outstanding till complete redemption.

There were no overdues in the pool as on the cut-off date. The pool has a weighted average seasoning of ~8 months. It has moderately high geographical concentration with the top 3 states (Maharashtra, Tamil Nadu and Karnataka) accounting for ~57% of the pool's 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 and BL 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 18 were live as of the April 2023 payout month. ICRA also has rated 15 BL pools originated by Clix, of which 8 were live as of the April 2023 payout month. Though collections were impacted for a few months due to the pandemic, live pools, which had completed 3 payouts as of the April 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 on a pari-passu basis to both tranches of 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 both tranches of PTC investors.

Rating sensitivities

Positive factors – The ratings 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 ratings could be downgraded based 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 PL and BL 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 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 & 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 was rebranded as Clix. In April 2022, Clix Finance India Private Limited (CFIPL; erstwhile GE Capital) was merged with Clix. Following the merger, Clix's portfolio comprises the MSME business (secured and unsecured) along with education and healthcare (K-12 school financing, healthcare equipment financing) and the platform business through end-to-end digital partnerships (merchant loans and personal loans). 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	3,650	4,373
Gross NPA%	3.6%	5.0%	2.4%
Net NPA%	1.5%	1.4%	1.5%

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 29, 2023			
Murakami 2023	Series A1(a)	23.68	23.68	Provisional [ICRA]AA+(SO)	-	-	-
	Series A1(b)	2.63	2.63	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1(a)	Moderately Complex
Series A1(b)	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)	Rating
Murakami 2023	Series A1(a)	May 2023	10.45%	April 2027	23.68	Provisional [ICRA]AA+(SO)
	Series A1(b)	May 2023	12.45%	April 2027	2.63	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

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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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