June 14, 2023

Clix Capital Services Private Limited: Rating confirmed as final for PTCs backed by business loan receivables issued by Dabyan 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dabyan 2023	Series A1 PTC	61.33	[ICRA]AA-(SO); provisional rating confirmed as final
	Equity Tranche	4.18	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In April 2023, ICRA had assigned a Provisional [ICRA]AA-(SO) rating to Series A1 PTC and a Provisional [ICRA]A-(SO) rating to the equity tranche issued by Dabyan 2023 Trust. The pass-through certificates (PTCs) are backed by a pool of Rs. 69.69 crore (pool principal; receivables of Rs. 84.14 crore) of unsecured business loan (BL) receivables 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 May 2023 payouts is shown in the table below.

Parameter	Dabyan 2023
Months post securitisation	1
Pool amortisation	4.29%
Series A1 PTC Amortisation	4.87%
Cumulative prepayment rate %	0.00%
Cumulative collection efficiency	100.00%
Loss cum 0+ dpd	0.00%
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 CE in the form of EIS, over-collateralisation and CC.
- Pool consists of nil overdue and nil restructured contracts; moreover, ~99% of the contracts have never been delinquent since origination.

Credit challenges

- Moderate geographical concentration in the initial pool with top 3 states accounting for 55.3% of the principal outstanding.
- Moderation in asset quality witnessed at portfolio level following the onset of the pandemic; performance of recent originations (Q3FY2021 onwards) however has 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 monthly cash flow schedule comprises the promised interest payment to Series A1 PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTC is promised on maturity, i.e. the last payout date of September 15, 2025. On each payout date, after meeting the promised Series A1 PTC interest payouts, all excess cash flow to the extent of the principal billed, will be paid out to meet the expected Series A1 PTC principal payout.

After the complete redemption of the Series A1 PTCs, the principal payments on the equity tranche would be done. The equity tranche payouts are completely subordinated to Series A1 PTC payouts and the equity tranche principal payments are promised on the final maturity date. 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 over-collateral of 6.00% of the pool principal for Series A1 PTC while the equity tranche has subordination in the form of over-collateral of 6.00% of the pool principal. Credit support is available in the form of an EIS of 11.88% of the pool principal. A CC of 6.0% 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 6.6 months. It has moderate geographical concentration with the top 3 states (Maharashtra, Karnataka and Telangana) accounting for 55.3% of the pool's principal outstanding. The performance of Clix's BL 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 May 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 BL segment, ICRA has also considered the credit quality experience of other more established players and ICRA's expectation of the credit quality of BLs. 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 4.5-5.5%, 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 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 investor. 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 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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				June 14, 2023	April 5, 2023	-	-	-
Dabyan 2023	Series A1 PTC	61.33	61.33	**[ICRA]AA-(SO)**	Provisional [ICRA]AA-(SO)	-	-	-
	Equity Tranche	4.18	4.18	**[ICRA]A-(SO)**	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Equity tranche	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
Dabyan 2023	**Series A1 PTC**	March 2023	10.40%	September 2025	61.33	[ICRA]AA-(SO)
	Equity Tranche	March 2023	NA	September 2025	4.18	[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.

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