July 07, 2023

Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) assigned to Series A1 PTC and Provisional [ICRA]AA-(SO) assigned to Series A2 PTC backed by merchant loan receivables issued by Mockingbird 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Mockingbird 2023	Series A1 PTC	38.89	Provisional [ICRA]AA(SO); assigned
	Series A2 PTC	1.11	Provisional [ICRA]AA-(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

Rationale

ICRA has assigned a provisional [ICRA]AA(SO) rating to the Series A1 pass-through certificates (PTCs) and a Provisional [ICRA]AA-(SO) rating to the Series A2 PTCs issued under a securitisation transaction originated by Clix Capital Services Private Limited (Clix). The PTCs are backed by a pool of Rs. 44.45-crore (pool principal; receivables outstanding of Rs. 53.42 crore) merchant loan (ML) 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 9.00% of the pool principal to be provided by the originator, (ii) subordination of 12.50% of the pool principal for Series A1 PTC and 10.00% of the pool principal for Series A2 PTC, (iii) excess interest spread (EIS) of 16.26% for Series A1 PTC and 16.00% for Series A2 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 credit enhancement in the form of overcollaterlisation, EIS and cash collateral
- Absence of overdue contracts as on cut-off date
- More than 88% of contracts in the initial pool have bureau score of atleast 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, if any

Description of key rating drivers highlighted above

As per the transaction structure, the promised cash flow schedule for Series A1 PTC on a monthly basis will comprise the interest (at the predetermined yield) on the outstanding PTC principal on each payout date and the entire principal on the final maturity date. Payouts for Series A2 PTC are subordinate to Series A1 PTC. The interest payouts to Series A2 PTC will be on expected principal basis till Series A1 PTC has been fully redeemed. The final maturity date for both PTCs is September 17, 2024.

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 (till the extent of pool principal billing) to Series A1 PTC. However, 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 payout. Once Series A1 PTC has been fully redeemed, the collections from the pool will be used to make the expected principal payouts to Series A2 PTC. As in the case of the principal payout to Series A1 PTC, the principal payout on Series A2 PTC is not promised till the respective final maturity date mentioned above and any shortfall in making the expected principal payment would be carried forward to the subsequent payout.

Prepayments in the pool will first be utilised for accelerated redemption towards Series A1 PTC till complete redemption and then towards Series A2 PTC till complete redemption. The EIS will be used to prepay the principal of the PTCs after the promised and expected payouts have been made every month.

The first line of support for Series A1 PTC and Series A2 PTC in the transaction is in the form of a subordination of 12.50% and 10.00% of the pool principal, respectively. Further credit support is available in the form of an EIS of 16.26% for Series A1 PTC and 16.00% for Series A2 PTC. The originator will provide a CC of 9.00% of the initial pool principal (amounting to Rs. 4.00 crore). In the event of a shortfall in meeting the promised PTC payouts during any month, the CC will be used to meet the same. 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 ~1% and a weighted average seasoning of ~4 months as on the cut-off date. More than 88% of the initial pool consists of contracts with a bureau score (at the time of onboarding) of at least 700. The company had reported high delinquencies from 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' performance: ICRA has rated 14 PTC transactions backed by ML receivables of which six have matured. The performance of the live pools (which have completed at least 2 payouts), post the May 2023 payouts, has been healthy with a cumulative collection efficiency of more than 97% and there has been nil CC utilisation in all the transactions.

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 based on the values observed in the analysis of the past performance of Clix's ML portfolio. ICRA has also considered Clix's credit quality experience and ICRA's expectation of the credit quality for ML portfolios. Overall, Clix's ML 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 seasoning and risk decile separately in the pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.50-5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 1.2-4.5% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A 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 A PTC investors.

Rating sensitivities

Positive factors – The ratings could be upgraded 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 – Pressure on the ratings could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, 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 ML 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 originator

Clix Capital Services Private Limited (Clix) is a non-banking financial company registered with the Reserve Bank of India. 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 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. In April 2022, Clix Finance India Private Limited (CFIPL; erstwhile GE Capital) was merged with Clix. Following the merger, Clix's offering 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), is primarily engaged in housing/mortgage finance products.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Total income	494.8	663.5	703
Profit after tax	3.9	-93.9	45
Total managed assets	3,027	3,650	4,375
Gross NPA	3.6%	4.9%	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; 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 (FY2024)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				July 07, 2023	-	-	-
Mockingbird 2023	Series A1 PTC	38.89	38.89	**Provisional [ICRA]AA(SO)**	-	-	-
	Series A2 PTC	1.11	1.11	**Provisional [ICRA]AA-(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 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
Mockingbird 2023	Series A1 PTC	June 2023	9.60%	September 2024	38.89	Provisional [ICRA]AA(SO)
	Series A2 PTC	June 2023	12.00%	September 2024	1.11	Provisional [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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