

July 28, 2023

Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) rating assigned to instruments backed by business loan receivables issued by Hestia 2023

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|-------------|--------------|----------------------------------|------------------------------------|
| Hestia 2023 | Series A1 SN | 44.35 | 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 |
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Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) rating to the Series A1 securitisation notes (SN) originated by Clix Capital Services Private Limited (Clix/originator). The SNs are backed by a pool of Rs. 50.40 crore (pool principal; receivables of Rs. 60.71 crore) of unsecured business loan (BL) receivables.

The provisional rating is 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 8.00% of the pool principal to be provided by the originator, (ii) subordination in the form of an equity tranche of 12.00% of the pool principal for Series A1 SN, (iii) excess interest spread (EIS) of 12.37% in the structure for Series A1 SN, and the integrity of the legal structure. The rating is 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 EIS, over-collateralisation and CC
- Pool consists of nil overdue and nil restructured contracts; moreover, none of the contracts have been delinquent since origination as on cut-off date.
- Higher share of borrowers having bureau score more than 750 attributing to ~65% of the initial principal outstanding.

Credit challenges

- Moderate geographical concentration in the initial pool with top three states attributing to ~59% of the principal outstanding.
- 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 promised cash flow schedule for Series A1 SN, on a monthly basis, comprises the interest payment at a predetermined yield on the outstanding SN principal and the principal to the extent of 88% of the billed pool principal amount for each month. The balance 12% is not promised and is to be paid on an expected basis. During the tenure of Series A1 SN, the collections from the pool, after making the promised and expected payouts to Series A1 SN1, as per the waterfall mechanism, would be used for interest payments on the equity tranche.

Support for Series A1 SN in the transaction is in the form of EIS of 12.37% and subordination of 12.00% of the pool principal. A CC of 8.00% 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 SN 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. The pool has a weighted average seasoning of 6.1 months. It has moderate geographical concentration with the top 3 states (Maharashtra, Karnataka and Tamil Nadu) accounting for 58.8% of the pool's principal outstanding. The performance of Clix's BL portfolio was impacted by the Covid-19 pandemic, resulting in an increase in the delinquency levels although the company has managed to reduce the same largely on account stable collection efficiency. 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.

Past rated pools' performance: ICRA has rated 19 BL pools, so far, originated by Clix. Though collections were impacted for a few months due to the pandemic, live pools, which have completed 3 payouts as of the June 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 Clix's short track record 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 5.5-6.5%, with certain variability around it. The prepayment rate in the pool is estimated at 3.2-12.0% p.a.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 8% of the initial pool principal amount. Assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stressed scenario, the CC would cover the shortfall in the scheduled SN payouts for a period of five months.

Rating sensitivities

Positive factors – The rating could be upgraded based on sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future SN payouts from the credit enhancements.

Negative factors – The rating could be downgraded based on sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of Clix's 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 rating is provisional and would be converted into a final rating 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 rating 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 rating, the provisional rating 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 (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 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; *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 in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | July 28, 2023 | | | |
| Hestia 2023 | Series A1 SN | 44.35 | 44.35 | Provisional [ICRA]AA(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|--------------|----------------------|
| Series A1 SN | 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 |
|-------------|--------------|-----------------------------|--------------------------|----------------|--------------------------|--------------------------|
| Hestia 2023 | Series A1 SN | July 2023 | 10.10% | December 2025 | 44.35 | Provisional [ICRA]AA(SO) |

[^]p.a.p.m.; *Scheduled SN 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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