

September 05, 2023

Clix Capital Services Private Limited: Provisional [ICRA]A+(SO) rating assigned to Series A1 PTCs backed by personal loan receivables issued by Graphorn 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Graphorn 2023	Series A1 PTCs	47.63	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 a Provisional [ICRA]A+(SO) rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Clix Capital Services Private Limited (Clix). The PTCs are backed by a pool of Rs. 52.34-crore (pool principal; receivables of Rs. 67.98 crore) personal loan (PL) receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 7.50% of the initial pool principal to be provided by Clix (originator), (ii) subordination of 9.00% of the pool principal in the form of over-collateralisation of 6.50% and an equity tranche of 2.50% for Series A1 PTCs, and (iii) the entire excess interest spread (EIS) of 18.96% in the structure, as well as 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 CE in the form of EIS, subordination, and CC
- Nil overdue contracts in the pool and ~99% of the contracts have never been delinquent since origination as on cut-off date
- Weighted average seasoning of ~7 months with pre-securitisation amortisation of ~12% as on cut-off date

Credit challenges

- Moderate geographical concentration in the initial pool with top 3 states accounting for ~40% 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 any macro-economic shocks/business disruptions

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 PTCs at the predetermined interest rate on the principal outstanding, while the entire principal is promised on the final maturity date (i.e. February 17, 2027). During the tenure of Series A1 PTCs, on each payout date, the pool's collections, after meeting the promised Series A1 PTCs interest payouts, will be used to make the expected principal payouts (to the extent of pool principal billing). This principal payout is, however, not promised and any shortfall in making the expected principal payment to Series A1 PTCs would be carried forward to the subsequent payout. The EIS, if any, shall flow back to the originator on every payout date after making all the promised and expected payouts to Series A1 PTCs as per the waterfall mechanism.

The Series A1 PTCs in the transaction have the support of subordination in the form of an over-collateralisation of 6.50% and an equity tranche of 2.50% of the pool principal. Additionally, the EIS of 18.96% of the pool principal provides CE support. A CC of 7.50% of the initial pool principal, provided by Clix, will 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.

There were no overdues in the pool as on the cut-off date. The pool has a weighted average seasoning of 7.4 months. It has moderate geographical concentration with the top 3 states (Maharashtra, Karnataka, Telangana) accounting for 39.9% of the pool's principal. The company witnessed a moderation in the asset quality at the portfolio level, post the onset of the Covid-19 pandemic, resulting in the build-up of delinquencies. ICRA notes that a large part of the portfolio stress in the PL segment has emanated from the old and/or restructured book. Further, the recent originations (post Covid) 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 also impact its performance.

Past rated pools' performance: ICRA has, so far, rated 25 PL pools originated by Clix, of which 19 were live as of the August 2023 payout month. Though collections were impacted for a few months due to the pandemic, live pools, which have completed at least 3 payouts as of the August 2023 payout date, have reported a healthy cumulative collection efficiency of more than 90%. 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 based on the values observed in the analysis of the past performance of Clix's loan portfolio. Given Clix's short track record in the PL business, ICRA has 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 8.0% p.a.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the PTCs holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Also, the cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A1 PTCs 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 analysis of the performance of Clix's PL 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), 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 Clix¹. 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.

¹ GE Money was rechristened Clix Capital Services Private Limited while GE Capital was rechristened Clix Finance India Private Limited

Key financial indicators

Particulars	FY2021 (Audited)	FY2022 (Audited)*	FY2023 (Provisional)
Total income	494.76	663.5	703.00
Profit after tax	3.97	-93.91	45.00
Total managed assets	3,027	3,560	4,373
Gross NPA	3.59%	4.95%	2.40%
Net NPA	1.46%	1.42%	1.50%

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
				September 5, 2023			
Graphorn 2023	Series A1 PTCs	47.63	47.63	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	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
Graphorn 2023	Series A1 PTCs	August 2023	10.05%	February 2027	47.63	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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