

September 25, 2023

Clix Capital Services Private Limited: Provisional [ICRA]AA(SO) rating assigned to Series A PTC backed by merchant loan receivables issued by Minerva 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Minerva 2023	Series A PTC	92.44	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 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. 102.71-crore (pool principal; receivables outstanding of Rs. 122.90 crore) merchant loan (ML) 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 11.00% of the initial pool principal to be provided by Clix (originator), (ii) over-collateralisation (OC) of 10.00% of the pool principal for Series A PTC, and (iii) the entire excess interest spread (EIS) of 14.84% 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 OC, EIS and CC
- Absence of overdue contracts as on cut-off date
- All the contracts in the initial pool have a bureau score of at least 700 at the time of onboarding

Credit challenges

- Moderate geographical concentration with top 3 states accounting for ~45% of the initial pool principal
- High delinquencies seen in the portfolio in the past; limited vintages, post underwriting revision undertaken after the Covid-19 pandemic
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; pool's performance could remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the underlying loans follow a monthly payment schedule. The monthly cash flow schedule (for the PTC investors) comprises the promised interest payment to Series A PTC at the predetermined interest rate on the principal outstanding and the scheduled principal payment (to the extent of 90% of the pool billing amount). The balance 10% of the principal is expected to be paid on a monthly basis but is not promised. During the tenure of the PTCs, the collections from the pool, after making the promised payouts to Series A PTC, will be used to make the expected principal payouts to Series A PTC, though a portion of the monthly principal payout (10%) is not promised. All the collections in the form of prepayments would be used for the accelerated principal redemption of Series A PTC. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

The first line of support for Series A PTC in the transaction is in the form of a subordination of 10.00% of the pool principal. The originator will provide a CC of 11.00% of the total pool principal (amounting to Rs. 11.30 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. Further, 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 0.42% and it had a weighted average seasoning of 4.2 months as of the cut-off date. Around 52% of the initial pool consists of contracts with a bureau score (at the time of onboarding) of more than 750. 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 macroeconomic shocks/business disruptions.

Past rated pools' performance: ICRA has rated 16 PTC transactions backed by ML receivables, of which 10 have matured. The performance of the live pools (which have completed at least two payouts), post the August 2023 payouts, has been healthy with a cumulative collection efficiency of more than 97% while CC utilisation was nil for 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 the credit quality experience of Clix and ICRA's expectations of the credit quality of 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 4.25-5.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 1.2-4.5% per annum.

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 11.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the scheduled PTC payouts for a period of four months.

Rating sensitivities

Positive factors – The rating 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 rating 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 June 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 (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 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 (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
				September 25, 2023			
Minerva 2023	Series A PTC	92.44	92.44	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A 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
Minerva 2023	Series A PTC	September 2023	9.35%	December 2024	92.44	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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