

October 16, 2023

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

### Summary of rating action

| Trust Name       | Instrument*   | Rated Amount (Rs. crore) | Rating Action                                       |
|------------------|---------------|--------------------------|-----------------------------------------------------|
| Enchantment 2023 | Series A1 PTC | 26.26                    | [ICRA]A+(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure I

### Rationale

In July 2023, ICRA had assigned a Provisional [ICRA]A+(SO) rating to Series A1 PTCs issued by Enchantment 2023 Trust. The pass-through certificates (PTCs) are backed by a pool of Rs. 35.47 crore business loan receivables (underlying pool principal of Rs. 28.70 crore) 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 after the September 2023 payouts is shown in the table below.

| Parameter                              | Enchantment 2023 |
|----------------------------------------|------------------|
| Months post securitisation             | 3                |
| Pool amortisation                      | 11.30%           |
| PTC amortisation                       | 12.35%           |
| Average monthly prepayment rate        | 0.52%            |
| Cumulative collection efficiency       | 98.93%           |
| Loss-cum-0+ dpd                        | 2.41%            |
| Loss-cum-30+ dpd                       | 0.58%            |
| Loss-cum-90+ dpd                       | 0.00%            |
| Cumulative cash collateral utilisation | 0.00%            |

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- The pool consists of nil overdue and nil restructured contracts, moreover, none of the contracts have never been delinquent since origination as on cut-off date.
- Higher share of borrowers having bureau score more than 750 attributing to ~66% of the principal outstanding.

#### Credit challenges

- Moderate geographical concentration in the initial pool with top three states attributing to ~64% 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 underlying loans follow a monthly payment schedule. 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 November 17, 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 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 the Series A1 PTC payouts and the equity tranche principal payments are promised on the final maturity date.

The PTCs in the transaction are supported by subordination in the form of an equity tranche of 4.00% and over-collateralisation of 4.50% of the pool principal for Series A1 PTC. Credit support is available in the form of an EIS of 13.02% of the pool principal. A CC of 7.50% 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 had a weighted average seasoning of 7.3 months as on cut off date. It had moderate geographical concentration with the top 3 states (Maharashtra, Karnataka and Tamil Nadu) accounting for 64.3% of the initial 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:** 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 Sep 2023 payout date, have reported a healthy collection efficiency of more than 97% and no CC utilisation in any of the transactions. The CE has built up in all the live pools as compared to the initial levels.

## 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 5.0-6.0%, with certain variability around it. The prepayment rate in the pool is estimated at 3.2-12.0% p.a.

## 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 Series A1 PTC 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 investors.

## 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 PTC 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 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 | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable                                                     |
| Consolidation/Standalone        | Not Applicable                                                     |

## 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; 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    |                          | Date & Rating in FY2023                           | Date & Rating in FY2022 | Date & Rating in FY2021 |
|                  |                         |                          |                                | October 16, 2023 | July 05, 2023            |                                                   |                         |                         |
| Enchantment 2023 | Series A1 PTC           | 26.26                    | 26.26                          | [ICRA]A+(SO)     | Provisional [ICRA]A+(SO) | -                                                 | -                       | -                       |

### Complexity level of the rated instrument

| Instrument    | Complexity Indicator |
|---------------|----------------------|
| Series A1 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 <sup>^</sup> | Maturity Date <sup>*</sup> | Amount Rated (Rs. crore) | Current Rating |
|-------------------------|---------------|-----------------------------|--------------------------|----------------------------|--------------------------|----------------|
| <b>Enchantment 2023</b> | Series A1 PTC | June 2023                   | 10.30%                   | November 2025              | 26.26                    | [ICRA]A+(SO)   |

<sup>^</sup>p.a.p.m. <sup>\*</sup>Scheduled 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.

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## ICRA Limited

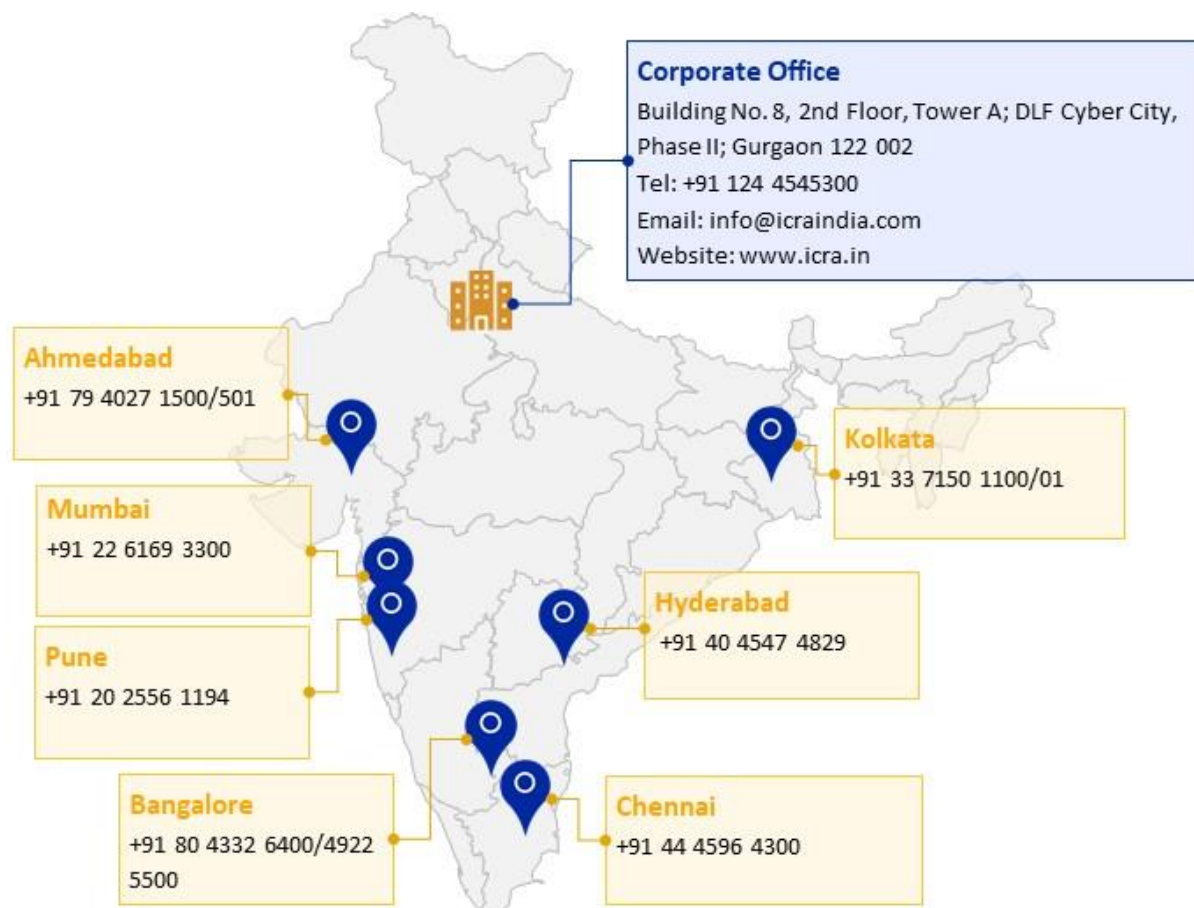


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