

September 23, 2022

Clix Capital Services Private Limited: Rating confirmed as final for PTCs backed by merchant loan receivables issued by ML Animagus Trust May 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Animagus Trust May 2022	Series A1 PTC	42.07	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In June 2022, ICRA had assigned Provisional [ICRA]AA(SO) rating to Series A1 PTC issued by ML Animagus Trust May 2022. The passthrough certificates (PTCs) are backed by a pool of Rs. 52.14-crore merchant loan receivables (underlying pool principal of Rs. 44.76 crore) originated by Clix Capital Services Private Limited. 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 August 2022 payout is shown in the table below.

In %	ML Animagus Trust May 2022
Months post securitisation	3
Actual pool amortisation	48.24%
PTC amortisation	51.76%
Average monthly prepayment rate	8.39%
Cumulative collection efficiency	97.44%
Monthly collection efficiency	98.10%
Loss cum 0+ dpd	5.66%
Loss cum 30+ dpd	0.98%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of CE in the form of subordination, EIS and CC
- Absence of overdue contracts as on pool cut-off date
- All contracts in the pool had a bureau score of more than 700 at the time of onboarding

Credit challenges

- High delinquencies seen in the portfolio in the past; limited vintages post underwriting revision undertaken after the onset of the Covid-19 pandemic
- Pool's performance will remain exposed to any fresh disruptions caused by the pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payments to Series A1 PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTC is promised on the last payout date (October 2023). The collections from the pool, after making the promised interest payouts to Series A1 PTC,

will be used to make the expected principal payouts to Series A1 PTC, though this is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. Any surplus EIS after meeting the promised payouts would flow back to the originator.

During the tenure of Series A1 PTC, money will be trapped in the Collection and Payout Account due to the retention of residual amounts in relation to the loans forming a part of the receivables with days past due (dpd) of more than 60 days (termed as as trapped EIS). This is to be used only for foreclosure payment to the investor against portfolio at risk (PAR)>90 contracts. If the trapped EIS is insufficient to meet the foreclosure payment to the investor against the PAR>90 contracts, the subordinated EIS¹ will be utilised for meeting the shortfall. Also, 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. 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. Furthermore, as per the agreement with the partner, all dues against the 90+ dpd contracts in the pool shall be set off from the pool's collections/cash lying in the Trust Account/Loss Reserve being maintained by Clix under the risk sharing arrangement with its digital wallet/fintech partner (Partner) on a quarterly basis.

The first line of support for Series A PTC in the transaction is in the form of over-collateralisation of 6.0% of the pool principal. The EIS (12.45% of initial pool principal) available in the structure and a CC of 14.0% of the initial pool principal (i.e. Rs. 6.27 crore) provided by Clix acts as further CE in the transaction.

The current pool consists of receivables from Clix's merchant loans 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 1.0%. The contracts in the pool have low seasoning with a weighted average seasoning of ~4 months and pre-securitisation amortisation of ~25%. The company had reported high delinquencies for 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 asset quality, however, remains moderate while the portfolio seasoning remains limited. Also, the performance of the pool would remain exposed to any fresh disruptions caused by the pandemic.

Past rated pools: ICRA has ratings outstanding on five PTC transactions of Clix's merchant loan portfolio. One of these pools has a replenishment structure with the pool amortisation yet to commence. The performance of the remaining four pools has been satisfactory with a cumulative collection efficiency of more than 97% with nil CC utilisation and nil 180+ days past due (dpd).

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 merchant loan portfolio. ICRA has also factored in Clix's credit quality experience and ICRA's expectation of the credit quality of the merchant loan portfolio. Overall, Clix's merchant loan 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.

¹ Subordinated EIS – The entire EIS, which, as per the waterfall mechanism, has been paid to the Seller after meeting all the required payments in terms thereof, and which has not been deposited by the Seller in the Collection and Payout Account for meeting any subsequent shortfall in the monies available in the trapped EIS to prepay the principal portion of Series A PTC to the extent of the PAR>90 amounts

For the transaction, after adjusting for key features like ticket size, bureau score, original tenure, seasoning and risk decile separately in the pool, 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 for the underlying pool is estimated at 1.5-4.5% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A1 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 A1 PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

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 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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

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 rebranded as Clix². 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

	FY2020	FY2021	FY2022*
Total income	506.44	494.76	663.89
Profit after tax	20.75	3.97	-84.45
Assets under management	2,539	3,027	3,540
Gross non-performing assets (NPA)	1.10%	3.59%	4.9%
Net NPA	0.52%	1.46%	1.47%

Source: Company data, ICRA Research; Amount in Rs. crore; *Provisional financials

² GE Money was rechristened Clix Capital Services Limited while GE Capital was rechristened Clix Finance India Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 23, 2022	June 6, 2022			
1	ML Animagus Trust May 2022	Series A1 PTC	42.07	42.07	[ICRA]AA(SO)	Provisional [ICRA]AA(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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate [^]	Maturity Date	Amount Rated (Rs. crore)	Current Rating
ML Animagus Trust May 2022	Series A1 PTC	May 2022	8.75%	October 2023*	42.07	[ICRA]AA(SO)

[^]p.a.p.m.; * Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: 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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