October 10, 2022 (Revised)

WheelsEMI Private Limited: [ICRA]BBB (Stable) assigned to NCDs and bank loans

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	100.00	[ICRA]BBB (Stable); assigned
Long-term bank loans	100.00	[ICRA]BBB (Stable); assigned
Total	**200.00**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the rating, ICRA has considered the consolidated financials of WheelsEMI Private Limited (WPL) and its subsidiary – BluBird Auto Trade Private Limited, given their common senior management team, business linkages and operational synergies.

The rating factors in the long-standing experience of the founders in the two-wheeler (2W) lending space. WPL is promoted by Mr. Srinivas Kantheti and Mr. V Karunakaran, who have significant experience in the 2W segment. Further, the senior management team comprises personnel with adequate functional experience, including personnel who have been involved in 2W financing. The rating also considers the adequate capitalisation, which has been supported by regular equity infusions. The company raised Rs. 142 crore in H1 FY2023 from existing as well as new investors. Its net worth stood at Rs. 162.4 crore as on June 30, 2022 with on-book gearing of 2.5x. With the equity infusion of Rs. 70 crore in Q2 FY2023, the gearing is likely to reduce further. Given the aggressive growth plans, WPL would require additional capital over the next 2-3 years. ICRA draws comfort from the company's demonstrated record of raising equity and the increasing share of the off-balance sheet co-lending portfolio.

The rating is constrained by the moderate scale of operations with assets under management (AUM) of Rs. 685.9 crore as of June 30, 2022. Given the moderate scale and high operating expenses, the company is yet to post profits. While the asset quality had been impacted due to Covid-19, the same has improved with 90+ days past due (dpd) of 3.9% as on June 30, 2022. The portfolio seasoning, however, remains low. Going forward, ICRA expects the profitability to improve on the back of operating efficiency as the company scales up its operations, provided it is able to control its credit costs. An improvement in WPL's ability to raise funds from diverse sources at competitive rates will also remain a key monitorable.

Key rating drivers and their description

Credit strengths

Management with extensive experience in 2W sales and financing – Established in April 2017, the promoters have over 30 years of experience and have been associated with 2W as part of one of the leading 2W and 2W financing companies. Further, the company has a strong management team with relevant experience in 2W financing for various functions such as credit, collections, operations and sales. From inception, the company has adequate processes and systems for credit underwriting and monitoring. Loan sanctioning, underwriting and disbursal are done digitally. The company also has an in-house collections team apart from tie-ups with external agencies for repossession. The adequate controls and systems are likely to help WPL scale up its portfolio. Further, the board consists of six directors including two founder members, two representatives from investors (Elevar Equity and Faering Capital) and two independent directors.

Adequate capitalisation supported by regular equity infusions – The company's net worth stood at Rs. 162.4 crore as on June 30, 2022 with on-book gearing of 2.5x (managed gearing, including off-book, of 3.8x). While the company has been reporting losses, its capitalisation is supported by the regular equity infusions. WPL recently received Rs. 72 crore of equity from existing investors in Q1 FY2023 and Rs. 70 crore from a new investor in Q2 FY2023. Prior to this, it had received Rs. 23 crore in FY2022, Rs. 105 crore in FY2020 and Rs. 100 crore in FY2019. The capitalisation is further supported by the increasing share of the off-balance sheet co-lending portfolio, thereby limiting the capital requirement. Given the growth plans and that the company is yet to turn profitable, ICRA expects WPL to raise further equity in the medium term while maintaining on-balance sheet gearing of less than 3x.

Credit challenges

Low seasoning due to limited track record of operations; monoline nature of business – The company started its operations in April 2017. The scale of operations remains modest with an AUM of Rs. 685.9 crore as on June 30, 2022 (Rs. 397.3 crore as on March 31, 2021). With the Covid-19 pandemic, the disbursements were subdued in FY2021, though the same picked up in FY2022. While the company was previously focussed primarily on used 2Ws (77% as on March 31, 2020), the growth in the last two years was driven by the new 2W segment. Given the small scale and the growth that was largely in the last year, the portfolio seasoning remains low. Additionally, WPL's portfolio vulnerability remains relatively high on account of the inherent risks associated with 2W financing and the relatively weaker credit profile of the borrowers. Further, its nature of business is monoline with the entire portfolio comprising 2W financing. Moreover, it does not have plans to diversify.

The company's asset quality deteriorated in FY2021 and Q1 FY2022 due to the impact of the pandemic. Its 90+dpd peaked at 6.9% as on June 30, 2021. It improved to 3.9% as on June 30, 2022 (4.8%, including write-offs, during the quarter) with the improvement in the collection efficiency and the growth in the loan book, coupled with high write-offs. The cumulative write-offs during the FY2022 and Q1FY2023 stood at 6% of AUM as on March 31, 2021. The ability to maintain the asset quality and contain credit costs, with the seasoning of the portfolio, would be a key monitorable.

Weak profitability due to high operating expenses – Given the moderate scale and high operating expenses, the company is yet to break even with a net loss of Rs. 44.4 crore in FY2022 (net loss of Rs. 43.1 crore in FY2021). The operating costs have remained high, given the investment in manpower and technology, with the same at 17.3% of the average managed assets (AMA) in FY2022. However, the cost to income is expected to moderate in the medium term with the envisaged growth. The credit costs were high at 4.5% in FY2021, as the asset quality was impacted due to the pandemic, though the same moderated to 2.2% in FY2022.

On a consolidated basis, the profitability was weaker with a net loss of Rs. 55.3 crore in FY2022 (net loss of Rs. 47.0 crore in FY2021). Going forward, ICRA expects the profitability to improve with the scale-up in the portfolio, leading to an improvement in the operating efficiency, provided the company is able to control its credit costs.

Limited financial flexibility – WPL's financial flexibility remains limited with the resource profile largely comprising higher-cost funding from non-banking financial companies (NBFCs). ICRA takes note of the company's plans to grow its co-lending portfolio (Rs. 249.0 crore; 36.3% of AUM as of June 30, 2022), which would help meet a part of its funding requirements. However, given the significant growth planned by the company, its ability to diversify its funding profile and raise resources at better pricing would be critical for scaling its loan book.

Liquidity position: Adequate

As on June 30, 2022, WPL held Rs. 135 crore of cash and liquid investments along with Rs. 16 crore of unutilised bank lines. The liquidity is supported by the expected repayments of ~Rs. 504 crore from the loan portfolio till March 31, 2023. Against this, the company has debt repayments (including interest expenses) and operating expenses of Rs. 426 crore till March 31, 2023. WPL had no negative cumulative mismatches in the asset-liability management (ALM) statement as on June 30, 2022.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to increase its scale of operations while maintaining good asset quality and improving its earnings profile.

Negative factors – ICRA could downgrade the rating or change the outlook if there is a delay in reaching a break-even level. Also, a sustained and significant deterioration in the asset quality and a sustained increase in the gearing to over 4x would be a key negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

Pune-based WheelsEMI is a registered systemically important non-deposit taking NBFC, which provides financing for new as well as pre-owned 2Ws. The company is promoted by Mr. Srinivas Kantheti, Mr. V Karunakaran and Mr. Ratheesh K. Bharathan, who acquired Vardnarayan Savings and Investment Co Pvt Ltd., a small finance company from Nanded (Maharashtra) with a loan book of Rs. 35 lakh (at the time of acquisition) in 2017. WheelsEMI provides 2W financing to low-income customers.

WPL also has a wholly-owned subsidiary, BluBird Auto Trade Private Limited, incorporated in April 2019. BluBird Auto Trade deals with the purchase and sale of pre-owned 2Ws. While the company currently purchases used 2Ws, refurbishes them and sells them to dealers, it would move to a marketplace model for used 2Ws.

Key financial indicators (audited)

WheelsEMI Private Limited (standalone)	FY2020	FY2021	FY2022
Total revenues	52.1	84.1	142.9
Profit after tax	(36.9)	(43.1)	(44.4)
Net worth	64.1	127.5	107.3
Loan book (AUM)	249.5	397.3	664.2
Total assets	286.2	509.4	559.5
PAT/AMA	-15.9%	-10.4%	-7.0%
Return on average equity	-45.1%	-45.0%	-37.9%
Gross NPA	2.5%	6.0%	4.6%
Net NPA	1.9%	4.4%	4.1%
Gearing (times)	3.2	2.7	3.8
Solvency (Net stage 3/Net worth)	7.5%	13.7%	25.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

WheelsEMI Private Limited (consolidated)	FY2020	FY2021	FY2022
Profit after tax	(38.5)	(47.0)	(55.3)
Net worth	62.5	121.9	90.8
Total assets	284.8	508.0	544.6
PAT/AMA	-25.9%	-11.4%	-8.8%
Return on average equity	-123.3%	-51.0%	-52.0%

WheelsEMI Private Limited (consolidated)	FY2020	FY2021	FY2022
Gearing (times)	3.3	2.8	4.5
Solvency (Net stage 3/Net worth)	7.7%	14.4%	29.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct-10-2022	-	-	-
1	Non-convertible debenture programme	Long term	100.00	-	[ICRA]BBB (Stable)	-	-	-
2	Long-term bank lines	Long term	100.00	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank lines	Simple
Non-convertible debenture programme	Very Simple

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

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-convertible debenture programme^**	NA	NA	NA	100.00	[ICRA]BBB(Stable)
NA	**Long-term bank lines – Fund based^**	**NA**	**NA**	**NA**	**100.00**	**[ICRA]BBB(Stable)**

Source: Company
^Unutilised

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
BluBird Auto Trade Private Limited	100%	Full Consolidation

Corrigendum

Document dated October 10, 2022, has been corrected with revisions as detailed below:

- Name of the section: Complexity level of the rated instruments, Page No. 5 of the document
- The complexity indicator for bank lines programme changed from ‘Very Simple’ to ‘Simple’ and for Non-convertible debenture programme it is changed from ‘Very Simple/Simple’ to ‘Very Simple’.

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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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