

October 06, 2023

WheelsEMI Private Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The rating factors in WheelsEMI Private Limited's (WheelsEMI) comfortable capitalisation profile, supported by the capital raise of Rs. 224.8 crore in FY2023. Its net worth stood at Rs. 277.4 crore as on June 30, 2023 with on-book gearing of 1.0 times and managed gearing¹ of 2.9 times. Nevertheless, given its aggressive growth plans, WheelsEMI would require additional capital over the next 2-3 years. ICRA draws comfort from the company's demonstrated record of raising equity. ICRA also takes note of the company's strategy of growing its assets under management (AUM) through co-lending, which would help it gain operating leverage and improve its profitability profile.

The rating is constrained by the company's limited track record of operations and low seasoning of the portfolio given the high growth seen in the last two years. Further, the company has a weak profitability profile. It is yet to report a profit on an annual basis due to the high operating expenses, mainly on account of high employee cost and collection expenses. ICRA notes that WheelsEMI reported a profit of Rs. 0.2 crore in July 2023, though the sustainability of the same remains a monitorable. While the asset quality was impacted due to the Covid-19 pandemic, the same has improved with 90+ days past due (dpd) of 3.6% as on June 30, 2023 compared to 4.6% as on March 31, 2022. 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. Further, WheelsEMI's ability to raise funds from diverse sources at competitive rates will remain a key monitorable.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will be able to maintain a steady credit profile while expanding its scale of operations and improving its profitability metrics.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – WheelsEMI's net worth stood at Rs. 277.4 crore as on June 30, 2023 with on-book gearing of 1.0 times and managed gearing of 2.9 times. While the company has been reporting losses, its capitalisation is supported by regular equity infusions. WheelsEMI received Rs. 224.8 crore by way of equity and preference shares from a mix of existing and new investors in FY2023. Prior to this, it had received Rs. 23 crore in FY2022, Rs. 105 crore in FY2020, and Rs. 100 crore in FY2018. Given its growth plans and the high operating expenses, ICRA expects WheelsEMI to raise further equity in the near to medium term.

¹ Managed gearing = (On-book debt + Off-book portfolio) / Net worth

Credit challenges

Low seasoning due to limited track record of operations and; monoline nature of business – The company started its operations in April 2017. Although the scale of operations has grown to an AUM of Rs. 1,005.0 crore as on June 30, 2023 from Rs. 686.3 crore as on June 30, 2022. Disbursements were subdued in FY2021 due to the pandemic, though the same picked up in FY2022 and FY2023. WheelsEMI disbursed Rs. 822.5 crore in FY2023 compared to Rs. 625.3 crore in FY2022 and Rs. 325.5 crore in FY2022. While it was previously focussed primarily on used two-wheelers (2Ws), the growth in the last two years was driven by the new 2W segment. Given the small scale and the growth seen in the last 2-3 years, portfolio seasoning remains low. Additionally, WheelsEMI's portfolio vulnerability remains 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 3.6% as on June 30, 2023 (4.3%, including write-offs, during the quarter) with the improvement in the collection efficiency, the growth in the loan book and high write-offs. The ability to maintain the asset quality and contain the credit costs, with the seasoning of the portfolio, would be a key monitorable.

Weak profitability due to high operating expenses – Given the high operating expenses, the company has continued to report losses with a net loss of Rs. 2.4 crore in Q1 FY2024 (net loss of Rs. 43.6 crore in FY2023). ICRA notes that the company reported a profit of Rs. 0.2 crore in July 2023, though the sustainability of the same remains a monitorable. The operating costs have remained high, given the investment in manpower and technology, with the same at 16% of the average managed assets (AMA) in FY2023. However, the cost-to-income ratio is expected to come down over the period as the company scales its operations and takes advantage of the economies of scale. The credit costs declined marginally to 1.8% in Q1 FY2024 (2.7% as on FY2023) with the improvement in the asset quality profile.

On a consolidated basis, the profitability was weak with a net loss of Rs. 50.5 crore in FY2023 (net loss of Rs. 55.3 crore in FY2022). 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 operating expenses and credit costs.

Limited financial flexibility – WheelsEMI'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. 530 crore; 52.7% of AUM as of June 30, 2023), 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 up its loan book.

Liquidity position: Adequate

As on June 30, 2023, WheelsEMI held Rs. 64.2 crore of cash and cash equivalents. The liquidity is supported by the expected monthly repayments from the on-book loan portfolio of Rs. 270.0 crore till June 30, 2024. Against this, the company has debt repayments (including interest expenses) of Rs. 187.5 crore till June 30, 2024. It had no negative cumulative mismatches in the asset-liability management (ALM) statement as on June 30, 2023.

Rating sensitivities

Positive factors – Significant increase in the scale of operations, while maintaining a good asset quality profile and improving the earnings profile, would positively impact the rating.

Negative factors – Inability to achieve profitability on a sustained basis, sustained and significant deterioration in the asset quality, with sustained increase in the managed gearing to over 6 times would be a key rating negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
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 Nanded (Maharashtra) based Vardnarayan Savings and Investment Co Pvt Ltd., a small finance company with a loan book of Rs. 35 lakh (at the time of acquisition) in 2017. WheelsEMI provides 2W financing to low-income customers.

WheelsEMI 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 intends to move to a marketplace model for used 2Ws in the near term.

Key financial indicators (audited)

WheelsEMI Private Limited (standalone)	FY2021	FY2022	FY2023	Q1 FY2024
Accounting as per	IGAAP	IGAAP	IGAAP	IGAAP
Total revenues	84.1	142.9	183.6	56.8
Profit after tax	(43.1)	(44.4)	(43.6)	(2.4)
Net worth	127.5	107.3	279.7	277.4
Total assets	509.4	559.5	618.4	634.7
PAT/AMA	-10.4%	-7.0%	-4.8%	-0.9%
Return on average equity	-45.0%	-37.9%	-22.5%	-3.5%
Gross NPA	6.0%	4.6%	3.6%	3.6%
Net NPA	4.4%	4.1%	2.9%	2.9%
Gearing (times)	2.7	3.8	0.9	1.0
Managed Gearing (times)	2.9	5.5	2.6	2.9
Solvency (Net stage 3/Net worth)	13.7%	25.2%	9.5%	10.5%

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

WheelsEMI Private Limited (consolidated)	FY2021	FY2022	FY2023
Accounting as per	IGAAP	IGAAP	IGAAP
Profit after tax	(47.0)	(55.3)	(50.5)
Net worth	121.9	90.8	256.5
Total assets	508.0	544.6	595.8
PAT/AMA	-11.4%	-8.8%	-5.7%
Return on average equity	-51.0%	-52.0%	-29.1%
Gearing (times)	2.8	4.5	1.0
Solvency (Net stage 3/Net worth)	14.4%	29.8%	9.5%

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	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
			Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct-06-2023	Oct-10-2022	-	-
1	Non-convertible debenture programme	Long term	100.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Long-term bank lines	Long term	100.00	-	[ICRA]BBB (Stable)	[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	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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Himanshu Nihalani
+91 124 4545820
himanshu.nihalani@icraindia.com

Arpit Agarwal
+91 124 4545 833
arpit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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

ICRA Limited



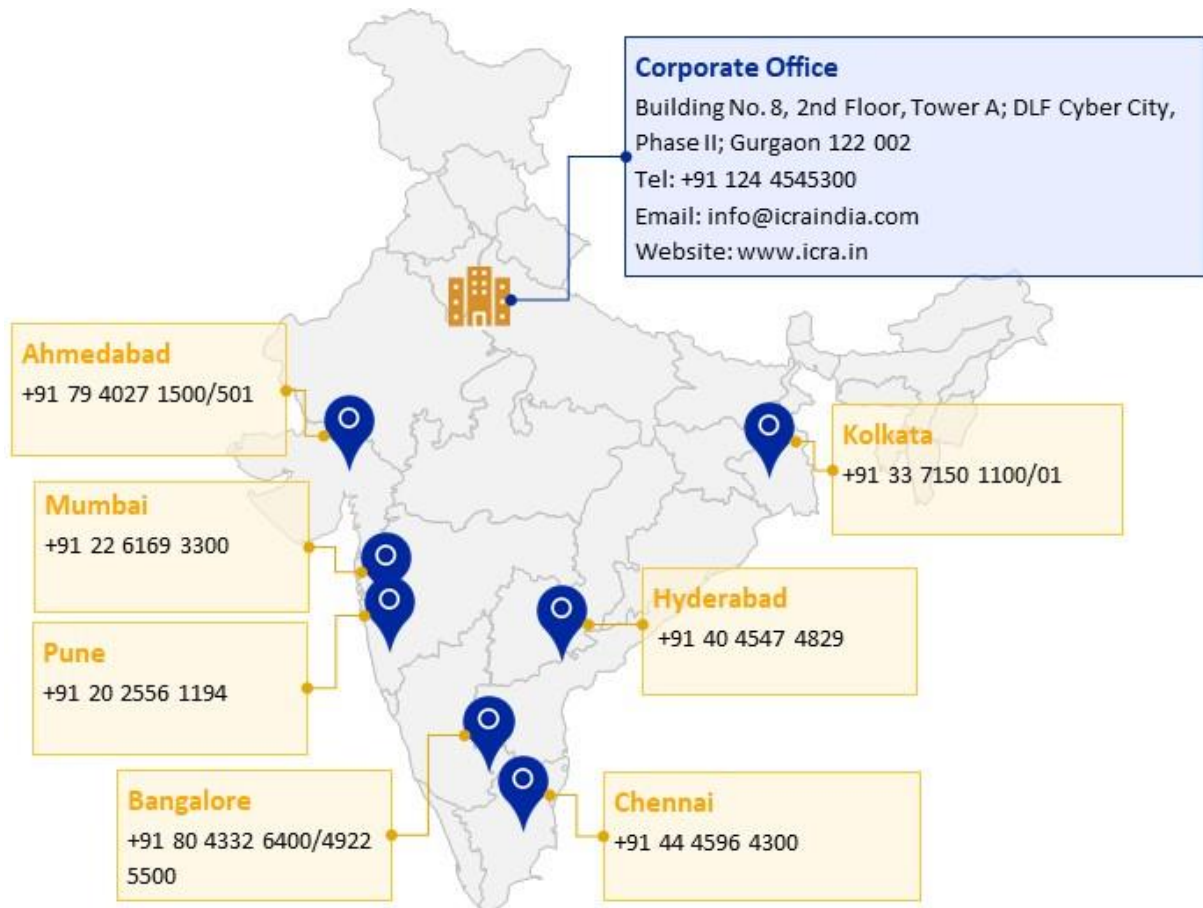
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.