

July 30, 2024

WheelsEMI Private Limited: Provisional [ICRA]A-(SO) assigned to Series A1 PTC backed by vehicle loan receivables issued by Buttercup 2024

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Buttercup 2024	Series A1 PTC	12.42	Provisional [ICRA]A-(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

The pass-through certificates (PTCs) would be backed by a pool of vehicle loan receivables originated by WheelsEMI Private Limited {WheelsEMI/Originator; rated [ICRA]BBB (Stable)} with an aggregate principal outstanding of Rs. 13.80 crore (underlying pool receivables of Rs. 16.80 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the tenure of the pool shall be divided into two periods – replenishment period and amortisation period.

Replenishment period

The replenishment period will be for 12 months from the commencement date of the transaction. During this period, the Series A1 PTC investors will receive only the promised interest payouts on a monthly basis and the balance pool collections will be used by the trust to purchase fresh loan receivables, as per the selection criteria, such that the pool remains unchanged. If there is any shortfall in assigning eligible contracts, the difference between the principal repayment of the pool and replenishment done for the month shall be used for amortising the PTCs. Any residual amount will flow back to the Originator.

The transaction also entails certain trigger events for early amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs during the replenishment period, the tenure of the PTCs shall be reduced and will be co-terminus with the remaining tenure of the pool of receivables assigned to the trust.

Amortisation period

Post the replenishment period, the residual pool collections will be utilised to repay Series A1 PTC. The monthly cash flow schedule will comprise the promised interest payout for Series A1 PTC. The principal for Series A1 PTC is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 6.00% of the initial pool principal, amounting to Rs. 0.83 crore, to be provided by the Originator, (ii) subordination of 10.00% of the initial pool principal for Series A1 PTC and (iii) the EIS in the structure.

Key eligibility criteria for the receivables

The eligibility criteria shall be met:

- On the commencement of the transaction
- At each replenishment event for all the new assets being added as well as for the updated pool (as applicable)

The following key eligibility criteria will have to be met:

- Weighted average internal rate of return (IRR) of replenished pool should not be less than weighted average IRR of initial pool minus 2%; and
- Maturity date of the underlying loans of replenished pool should not be beyond the final maturity date of the transaction;
- None of the states should contribute more than 35% to the total pool.

Trigger events for early amortisation

On the occurrence of any of the following trigger events, the replenishment period will end immediately with no further loans/receivables being purchased and the PTCs will move to the amortisation period.

- Rating downgrade of Originator/Servicer (WheelsEMI) by two notches from the date of transaction
- 30+ portfolio at risk (PAR) on the outstanding pool breaches 10% and/or 90+ PAR on the outstanding pool breaches 5%
- Satisfaction of conditions that will trigger turbo amortisation trigger:
 - PAR 90 of the pool exceeds 7.0% of the initial pool principal
 - Cumulative liquidity mismatch in any of the standard buckets of the Servicer
 - Capital adequacy ratio of the Servicer falls below 15%
 - Net non-performing loans of the Servicer exceeds 5%

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The current pool is granular with 1,974 contracts and the top 10 contracts forming 0.9% of the total pool. Also, basis the eligibility criteria, the follow-on pools are expected to be granular, reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The initial pool did not have any overdue contracts as on the pool cut-off date. Further, any follow-on pool would not include any overdue contracts on the date of assignment to the trust, which is a credit positive.

Credit challenges

Moderate pool selection criteria – A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria, the follow-on pools may have lower seasoning, contracts with lower interest rates, contracts from weaker geographies and a moderate share of contracts with lower credit bureau scores. A higher presence of lower interest rate contracts would adversely impact the EIS, which acts as credit enhancement in the structure.

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz Uttar Pradesh, Bihar and Telangana, contributing 76% to the initial pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The performance of the initial as well as the follow-on pools would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

- ICRA’s cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. However, since the pool in the current transaction would be revised during the replenishment period, its characteristics would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a potential loss for the follow-on pools. The resulting collections from the current pool and follow-on pools, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

• For the current transaction, ICRA has estimated the shortfall in the principal of the pool crystallised at the end of the replenishment period at 6.00% at the end of its tenure with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 2.4-9.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

The liquidity for Series A1 PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~3.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on the crystallisation of the final pool, the rating is unlikely to be upgraded till the final pool is crystallised. The rating could be upgraded basis healthy collections observed in the final crystallised pool, leading to the buildup of the credit enhancement cover over the rated PTCs.

Negative factors – The rating could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools such that the delinquencies during the amortisation period are higher than expected. Weakening in the credit profile of the servicer (WheelsEMI) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of WheelsEMI’s portfolio till June 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's 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

Pune-based WheelsEMI is a registered non-deposit taking non-banking financial company (NBFC), which provides financing for new as well as preowned two-wheelers and electric vehicle (EV) three-wheelers. It is promoted by Mr. Srinivas Kantheti and Mr. V Karunakaran, who acquired Vardnarayan Savings and Investment Co. Pvt. Ltd., a small finance company from Maharashtra's Nanded with a loan book of Rs. 35 lakh (at the time of acquisition) in 2017. WheelsEMI provides financing for low-income customers and operates under the brand name – Bike Bazaar Finance.

WheelsEMI also has a 100% subsidiary – BluBird Auto Trade Private Limited, which was incorporated in April 2019. BluBird Auto Trade purchases and sells preowned two-wheelers. While it currently purchases used two-wheelers, refurbishes them and sells them to dealers, it plans to move to a marketplace model for used two-wheelers.

Key financial indicators (standalone)

	FY2022	FY2023	FY2024*
Total income	142.86	183.61	253.03
Profit after tax	(44.4)	(43.6)	59.75
Total assets	559.5	618.4	821.87
Gross stage 3	4.96%	3.60%	5.84%
CRAR[^]	--	48.36%	37.60%

Source: Company, ICRA Research; All ratios and values are as per ICRA's calculations

Amount in Rs. crore

*Provisional numbers; Accounting as per IGAAP

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Jul 30, 2024	-	-	-
1	Buttercup 2024	Series A1 PTC	12.42	12.42	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 (p.a.p.m.)	Maturity Date	Current Amount Rated (Rs. crore)	Current Rating
Buttercup 2024	Series A1 PTC	July 19, 2024	11.75%	December 23, 2027	12.42	Provisional [ICRA]A-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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