

September 09, 2024

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

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|--------------|------------------|----------------------------------|------------------------------------|
| Bronzor 2024 | Series A1(a) PTC | 19.96 | Provisional [ICRA]A(SO); Assigned |
| | Series A1(b) PTC | 2.22 | 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 |
|--|--|

Rationale

The pass-through certificates (PTCs) are backed by a pool of two-wheeler and E-rickshaw loan receivables originated by WheelsEMI Private Limited {WheelsEMI/ Originator; rated [ICRA]BBB (Stable)} with an aggregate principal outstanding of Rs. 25.34 crore (underlying pool receivables of Rs. 30.67 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional ratings are 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 collections from the pool will be used for making the promised interest payouts to Series A1(a) PTC and Series A1(b) PTC on a pari-passu basis. Till December 15, 2025, after making the promised interest payouts to Series A1(a) PTC and A1(b) PTC, collections will be used to make the expected principal payouts to Series A1(a) till its redemption followed by the expected principal payouts to Series A1(b). From December 16, 2025 till the final maturity date, after making the promised interest payouts to Series A1(a) and A1(b), collections will be used for the redemption of Series A1(a) PTC and Series A1(b) PTC on a pari-passu basis. The entire principal repayment to Series A1(a) and Series A1(b) is promised on the scheduled maturity date of the respective tranches. Any prepayment in the pool would be first used for the prepayment of the Series A1(a) PTC principal till redemption and then for the prepayment of the Series A1(b) principal till redemption.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal, amounting to Rs. 1.27 crore, to be provided by the Originator, (ii) subordination of 21.25% of the initial pool principal for Series A1(a) PTC and 12.50% of the initial pool principal for Series A1(b) PTC, and (iii) the excess interest spread (EIS) of 13.61% of the initial pool principal for Series A1(a) PTC and Series A1(b) PTC.

Key rating drivers and their description

Credit strengths

Granular pool with available credit enhancement – The pool is granular, consisting of 3,958 contracts, with top 10 contracts forming only 0.5% of the pool principal, thereby 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 pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of contracts in the total pool have been delinquent post loan disbursement, thereby reflecting the borrowers' relatively better credit profile, which is a credit positive.

Healthy bureau score of borrowers –The entire pool has a CIBIL score of 700 and above while none of the contract are new to credit, which reflects their relatively better credit profile.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz Uttar Pradesh, Bihar and Telangana, contributing 77% 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 pool's performance 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. Moreover, the considerable share (18.35%) of E-rickshaw loans with relatively weaker borrower profiles may pose additional stress to the pool's performance.

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 pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 6.00%, 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 the instruments is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.50 times the estimated loss in the pool for Series A1(a) PTC and ~4.00 times the estimated loss in the pool for Series A1(b) PTC.

Rating sensitivities

Positive factors – The ratings 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 credit enhancement cover for the remaining payouts.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (WheelsEMI) could also exert pressure on the ratings.

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 | | | |
|--------|--------------|------------------|----------------------------------|----------------------------------|---|-------------------------|-------------------------|-------------------------|
| | | | Initial Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| 1 | Bronzor 2024 | Series A1(a) PTC | 19.96 | 19.96 | Sep 09, 2024 Provisional [ICRA]A(SO) | - | - | - |
| | | Series A1(b) PTC | 2.22 | 2.22 | Provisional [ICRA]A-(SO) | - | - | - |
| | | | | | | | | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|------------------|----------------------|
| Series A1(a) PTC | Moderately Complex |
| Series A1(b) 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 Rated Amount (Rs. crore) | Current Rating |
|---------------------|---------------------|-------------------------------|---------------------------|---------------------|-------------------------------------|--------------------------|
| Bronzor 2024 | Series A1(a) PTC | August 30, 2024 | 11.70% | January 15, 2028 | 19.96 | Provisional [ICRA]A(SO) |
| | Series A1(b) PTC | August 30, 2024 | 12.20% | January 15, 2028 | 2.22 | Provisional [ICRA]A-(SO) |

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.

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.

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