February 07, 2025

WheelsEMI Private Limited: Provisional [ICRA]A-(SO) assigned to Series A1 PTC and Provisional [ICRA]BBB(SO) assigned to Series A2 PTC backed by vehicle loan receivables issued by Kalki 2024

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Kalki 2024	Series A1 PTC	20.74	Provisional [ICRA]A-(SO); assigned
	Series A2 PTC	1.89	Provisional [ICRA]BBB(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) 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. 23.57 crore (underlying pool receivables of Rs. 29.92 crore). WheelsEMI would also act as the Servicer for the transaction.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for the follow-on pools, 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 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 Series A1 PTC. 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

After the replenishment period, the transaction would follow a two-tranche structure, whereby Series A2 PTC is subordinate to Series A1 PTC. As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout to the outstanding senior tranche. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) to the outstanding senior tranche 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 the outstanding senior tranche principal. Following the maturity of Series A1 PTC, a similar structure would be followed for Series A2 PTC.

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. 1.41 crore, to be provided by the Originator, (ii) subordination of 12.00% of the initial pool principal for Series A1 PTC and 4.00% of the initial pool principal for Series A2 PTC, and (iii) the EIS of 12.04% of the initial pool principal for Series A1 and A2 PTCs.

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 the 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 30% 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.

- Utilisation of CC to service Series A1 interest
- 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 6.0% 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 3,295 contracts and the top 10 contracts forming only 1.12% of the total pool. Also, basis the eligibility criteria, the follow-on pools are expected to be granular, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The initial pool had no 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.

Servicing capability of originator – The company has adequate processes for the servicing of the loan accounts in the securitised pool. It has demonstrated a long track record of regular collections and recoveries across a wide geography and multiple economic cycles.

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 specified eligibility criteria, the follow-on pools may have lower seasoning, lower interest rate contracts, contracts from weaker geographies and a moderate share of contracts with lower bureau scores. The higher presence of lower interest rate contracts would impact the EIS adversely, which acts as a credit enhancement in the structure.

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz Uttar Pradesh, Bihar and Madhya Pradesh, contributing ~49% to the initial pool principal amount. Its 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.

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 crystalised at the end of the replenishment period at 6.75% 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 ratings for the instruments.

Liquidity position

For Series A1 PTC: 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 ~3.50 times the estimated loss in the pool.

For Series A2 PTC: Adequate

The liquidity for Series A2 PTC is adequate after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~2.50 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 ratings are unlikely to be upgraded till the final pool is crystalised. The ratings could be upgraded basis healthy collections observed in the final crystalised pool, leading to the buildup of the credit enhancement cover over the rated PTCs.

Negative factors – The ratings 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 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 December 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 ratings are 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

WheelsEMI Private Limited is a Pune-based, registered non-deposit taking non-banking financial company (NBFC), which provides financing for new as well as pre-owned two-wheelers (2Ws). It is promoted by Mr. Srinivas Kantheti and Mr. V Karunakaran, who acquired Vardnarayan Savings and Investment Co Pvt Ltd., a small finance company based out of 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.

The company has a wholly-owned subsidiary, BluBird Auto Trade Private Limited (BluBird), incorporated in April 2019. BluBird's primary business is the leasing and renting of vehicles, primarily to logistics companies. It also deals in the purchase and sale of used vehicles.

Key financial indicators (standalone)

WheelsEMI	FY2023	FY2024	Q1 FY2025*
Total income	183	253	66
Profit after tax	(37)	0.6	0.3
Total managed assets	1,096	1,636	1,668
Gross stage 3^	3.6%	5.4%	5.4%
CRAR	48.4%	37.6%	30.9%

*Source: Company, ICRA Research; * Provisional numbers; ^ On AUM; 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.	Trust name	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Current amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & Ra rating in FY2023	Date & rating in FY2022
					Feb 07, 2025	-	-	-
1	**Kalki 2024**	Series A1 PTC	20.74	20.74	**Provisional [ICRA]A-(SO)**	-	-	-
		Series A2 PTC	1.89	1.89	**Provisional [ICRA]BBB(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Series A1 PTC	Moderately Complex
Series A2 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.)	Scheduled maturity date	Current amount rated (Rs. crore)	Current rating
Kalki 2024	Series A1 PTC	January 31, 2025	11.75%	June 24, 2029	20.74	Provisional [ICRA]A-(SO)
	Series A2 PTC	January 31, 2025	Residual	June 24, 2029	1.89	Provisional [ICRA]BBB(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.

For more information, visit www.icra.in

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