

November 04, 2024

## WheelsEMI Private Limited: Rating confirmed as final for PTCs 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                            | [ICRA]A-(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTC) issued by Buttercup 2024 under a securitisation transaction originated by WheelsEMI Private Limited {WheelsEMI/ Originator; rated [ICRA]BBB (Stable)}. The PTCs are backed by a pool of vehicle loan receivables originated by WheelsEMI with an aggregate principal outstanding of Rs. 13.80 crore (pool receivables of Rs. 16.80 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

### Pool performance summary

| Parameter                                     | Buttercup 2024 |
|---|----------------|
| Payout month                                  | September 2024 |
| Months post securitisation                    | 2              |
| Series A1 PTC amortisation <sup>^</sup>       | 4.26%          |
| Cumulative prepayment rate                    | 0.18%          |
| Cumulative collection efficiency <sup>1</sup> | 93.30%         |
| Loss-cum 0+ days past due (dpd) <sup>2</sup>  | 7.35%          |
| Loss cum 30+ dpd <sup>3</sup>                 | 1.30%          |
| Loss cum 90+ dpd <sup>4</sup>                 | 0.00%          |
| Cumulative cash collateral utilisation        | 0.00%          |

<sup>^</sup>Although the transaction is going through a replenishment period of 12 months, the PTC amortisation in September 2024 payout occurred due to exchange of pool database between the investor and the Originator taking longer than expected, leading to insufficient time available to select a follow-on pool with a quantum similar to the initial pool. Hence, the follow-on pool had a lower quantum than the initial pool, resulting in PTC amortisation as per the transaction waterfall.

### Transaction structure

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

<sup>1</sup> Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup> Unbilled and overdue principal portion of contracts delinquent for more than 0 days, as a % of Initial pool principal

<sup>3</sup> Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

<sup>4</sup> Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

### 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, 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% 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.

## Details of key counterparties

The key counterparties in the rated transactions are as follows:

| Transaction Name                   | Buttercup 2024                                |
|------------------------------------|---|
| Originator                         | WheelsEMI Private Limited                     |
| Servicer                           | WheelsEMI Private Limited                     |
| Trustee                            | MITCON Credentia Trusteeship Services Limited |
| CC holding bank                    | Suryoday Small Finance Bank Limited           |
| Collection and payout account bank | Suryoday Small Finance Bank Limited           |

## 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

## 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. 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 leasing and renting of vehicles, primarily to logistics companies. BluBird also deals in the purchase and sale of used vehicles.

### Key financial indicators (standalone)

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

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

\* Provisional numbers; ^on AUM

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

| 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 |
|                       |               |                                  |                                  | Nov 04, 2024                                      | Jul 30, 2024             |                         |                         |                         |
| <b>Buttercup 2024</b> | Series A1 PTC | 12.42                            | 12.42                            | [ICRA]A-(SO)                                      | 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 Type | Date of Issuance / Sanction | Coupon Rate (p.a.p.m.) | Maturity Date     | Current Rated Amount (Rs. crore) | Current Rating |
|-----------------------|-----------------|-----------------------------|------------------------|-------------------|----------------------------------|----------------|
| <b>Buttercup 2024</b> | Series A1 PTC   | July 19, 2024               | 11.75%                 | December 23, 2027 | 12.42                            | [ICRA]A-(SO)   |

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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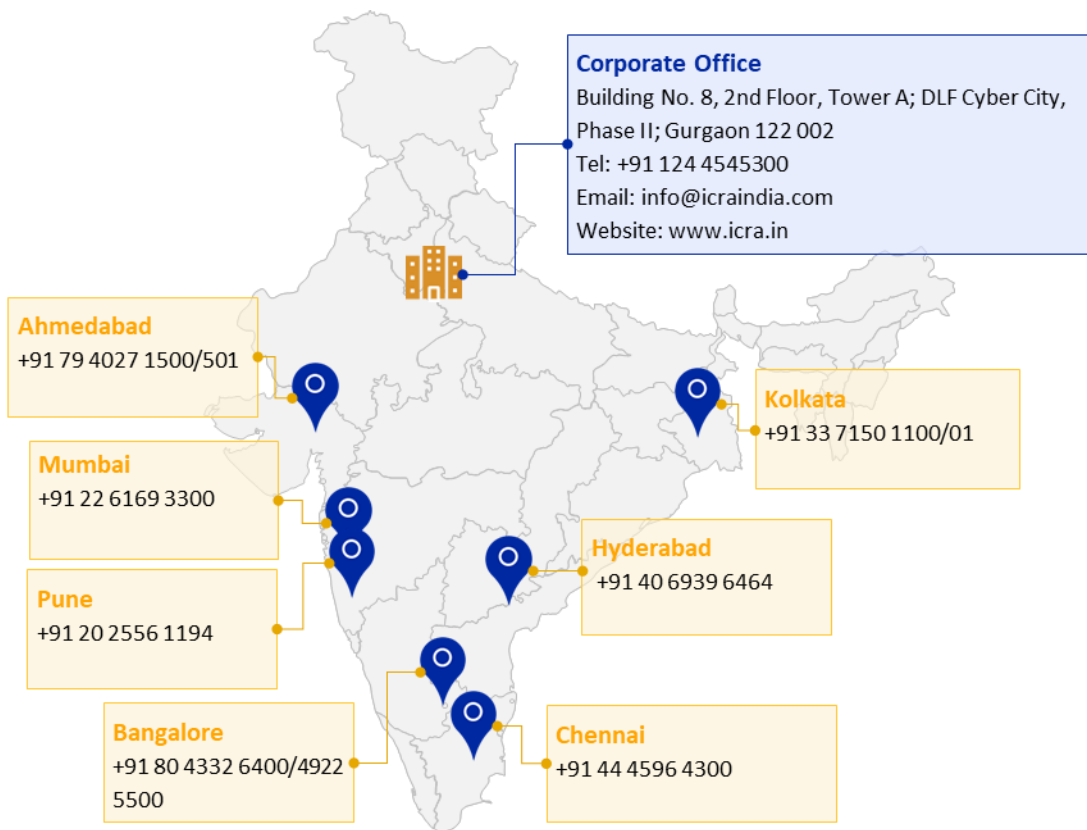
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