

CareEdge Global assigns Long Term Foreign Currency Rating of 'CareEdge B-/Stable' to the External Commercial Borrowing Bonds of WheelsEMI Private Limited

USD 10 million External Commercial Borrowing Bonds	CareEdge B-/Stable
USD 20 million External Commercial Borrowing bonds (Proposed)	CareEdge B-/Stable

CareEdge Global has assigned '**CareEdge B-/Stable**' to WheelsEMI Private Limited's (WheelsEMI) USD 30 million External Commercial Borrowing Bonds, to be issued in tranches starting at USD 10 million.

Rating Rationale

The rating is primarily driven by the established track record and experience of the management and promoters in the two-wheeler financing industry and the strong systems and processes established by the management. However, these credit strengths are partially offset by low profitability, moderate seasoning, weak asset quality, and a concentrated resource profile.

Analytical Approach

CareEdge Global has consolidated the business and financial risk profiles of WheelsEMI and its wholly owned subsidiary, BlueBird Auto Trade Private Limited.

Key Rating Drivers

Strengths

Established Track Record and Experience of the Management and Support from the Promoters

WheelsEMI primarily finance pre-owned and new two-wheelers in urban and semi-urban areas. It has also recently forayed into financing electric two-wheelers and three-wheelers. The founders, Mr Srinivas Kantheti and Mr V Karunakaran have over three decades of experience in the two-wheeler industry. Previously, they held leadership positions at leading companies in this sector. The promoters are supported by a management team with extensive experience in the two-wheeler financing industry.

The company is backed by large and diversified institutional investors, including Faering Capital, Elevar Capital, DEG (Deutsche Investitions – Und Entwicklungsgesellschaft MBH), and Women's World Banking Asset Management on its cap table. The promoters have consistently supported the company, resulting in a robust capitalisation profile with an overall capital adequacy ratio of 30.5% as of 30 September 2024. To support its growth plans, the company is in the early stages of discussions with investors to raise new equity and anticipates completing this in FY26.

Strong systems and processes

With their strong experience, the company's management has successfully implemented strong systems and risk management processes from the outset. The company has made substantial investments in technology, including effective software like Salesforce for customer acquisition and Finnone Neo, developed by Nucleus for collections and loan management. This comprehensive underwriting management system enables the company to achieve faster turnaround times, improves the accuracy of credit assessments, and reduces the risk of defaults. The collection systems are supported by robust IT frameworks, allowing the company to optimise collections, automate tasks, and enhance customer experience, all while improving overall efficiency in recovering dues.

Weaknesses

Low Profitability

WheelsEMI reported a consolidated loss of Rs 2 crore during FY24 against a loss of Rs 44 crore for FY23. On a standalone basis, it reported a profit of Rs 0.6 crore in FY24 as against a loss of Rs 36 crore in FY23. The improvement in profitability during FY24 was mainly driven by the increasing scale of operations as reflected in its assets under management (AUM), which rose to Rs 1,315 crore as of March 31, 2024, up from Rs 929 crore on March 31, 2023. This growth was also supported by establishing new funding sources, such as issuances of Pass-Through Certificates (PTCs), and a significant increase in co-lending volumes, which now account for over half of the total AUM. Operating expenses / as a percentage of Average AUM, although improving stood relatively high at 15.4% in FY24 compared to 19.5% in FY23. It further improved to 13.6% (on an annualised basis) in H1FY25. The company has made significant technological investments by implementing a strong collections system and a robust underwriting engine.

Credit Costs/ average AUM for the company also increased to 3.2% for FY24 against 1.9% for FY23 due to increased Non-Performing Asset (NPA) provisions and higher write-offs. As the company caters to a segment susceptible to macroeconomic shocks, its ability to manage credit costs with the increase in scale will be a key monitorable.

During H1FY25, profitability improved, with the company reporting a profit of Rs 0.8 crore on a standalone level. Still, it continued to have losses on a consolidated level, with a loss of Rs 0.9 crore. With the company being in a growth phase and its increasing scale of operations,

its ability to source funds at competitive rates and keep operational expenses under control would be critical to attaining profitability on a sustainable basis. It would drive the growth prospects going ahead.

Moderate Seasoning and Weak Asset Quality

The company primarily caters to the middle-class and lower-middle-class segments to finance used and new two-wheelers. Gross NPA on a total AUM basis increased to 5.40% as of March 2024 from 3.60% as of March 2023, primarily due to challenges in specific locations within the new vehicles segment. In response, the company has recalibrated its decision engine and slowed down the incremental disbursements in these areas to arrest the decline in asset quality.

The company reported an improvement in its Gross NPA on a total AUM basis at 3.84% as of September 2024, primarily due to write-offs and the sale of its stressed books to ARCs.

Furthermore, as most AUM has been added in the last two years, the seasoning remains low; therefore, the reported GNPA numbers may not reflect the seasoning impact. To adjust for this, GNPA has also been calculated on a two-year lagged basis, which was at 10.69% as of March 31, 2024.

Going forward, as the company increases its scale of operations, the stability of the asset quality numbers needs to be seen over an extended period.

Concentrated Resource profile

WheelsEMI relies heavily on non-banking financial companies (NBFCs) for its debt requirements, which come at a relatively high cost compared to other financing sources, adversely impacting the company's profitability. As of September 30, 2024, WheelsEMI's average borrowing cost stood at 12.3%, with borrowings from NBFCs contributing to 86% of total borrowings.

The company is trying to optimise its borrowing profile by exploring other financing options, including international debt issuances, which are expected to be fully hedged as well as by adding new banks and small finance banks. The pace of reduction in NBFC borrowings is likely to be gradual, as a large portion of current borrowings are from NBFCs.

The company's debt-to-equity ratio was comfortable at 2x as of March 31, 2024. However, it increased to 2.5x as of September 30, 2024, with the increased scale of operations.

CareEdge Global expects that, with its planned growth trajectory, the company will maintain a buffer of approximately 5-10% above the regulatory capitalisation requirements (currently

at 15%) while keeping its AUM/Networth ratio within the range of 5x to 6x over the medium term.

Liquidity

WheelsEMI's liquidity position is comfortable, with no negative cumulative mismatches reported in the asset-liability mismatch statement as of September 30, 2024. Additionally, the company holds liquidity of around Rs 90 crore in the form of cash and bank balance as of September 30, 2024. This amount is sufficient to meet the upcoming near-term debt maturities over six months.

Outlook: Stable

The stable rating outlook reflects CareEdge Global's expectation that WheelsEMI will maintain comfortable capitalisation levels and improve profitability while sustaining moderate growth in scale of operations over the medium term. Furthermore, WheelsEMI's growth is expected to be consistently supported by its promoters and other key investors.

Rating Sensitivities

Upward Factors

- Significant increase in its scale of operations in a profitable manner with Return on Assets (ROA) above 3% on a sustained basis
- Significant improvement and sustenance in asset quality

Downward Factors

- Continuation of weak asset quality and moderation in its capitalization profile
- Increase in asset under management (AUM) to net worth above 6x on a sustained basis

Environmental, Social and Governance (ESG) considerations

CareEdge Global observes that WheelsEMI is making efforts towards green financing in the form of financing for electric vehicles (2W & 3W) which contributes to a sustainable future. The company serves borrowers in semi-urban areas with relatively weaker credit profiles, including women, individuals involved in agriculture and related activities, and informal micro-enterprises. Many of these borrowers are new to credit. So, the company is actively promoting sustainable practices among them.

From a social perspective, the company addresses critical social risks by focusing on low-ticket two-wheeler financing. This approach enhances credit accessibility for underserved segments, in rural areas, thereby contributing to financial inclusion and socioeconomic development.

On the governance front, while the company demonstrates reasonable commitment to governance practices, further improvements in board structure and practices could enhance resilience and stakeholder confidence.

About the company

WheelsEMI Private Limited is an RBI registered non-banking financial company that specializes in financing of Pre-Owned, New and Electric Two-Wheelers. Bike Bazaar is the brand name of WheelsEMI Private Limited. The management team is led by Mr K Srinivas, and Mr V Karunakaran who have more than three decades of experience in the Two-Wheeler industry and have successfully scaled businesses in the past. The company is backed by prominent investors including Elevar Equity, Faering Capital, Women's World Banking Asset Management Company and DEG.

As of September-24, Wheels EMI is present in 12 states viz Delhi, Gujarat, Karnataka, Maharashtra, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Bihar, etc with a network 12 branches and book size of Rs 1,399 crore. The company has recently transitioned from a base-layer NBFC to a middle-layer NBFC, as its total assets have surpassed Rs 1,000 crore.

About BlueBird Auto Trade Private Limited

It is a wholly owned subsidiary of WheelsEMI. It provides leasing of two-wheelers to the delivery partners of platforms like Zomato and Swiggy, etc., for their last-mile delivery agents. BlueBird mainly operates in Bangalore and Hyderabad. It is planning to expand into other states as well. The company has a net worth of Rs 4 crore and is currently in losses, reporting a loss of Rs 3 crore for FY24.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowing Bonds	Long Term Foreign Currency (Solicited)	CareEdge B-/Stable	January 28, 2025

Criteria Applied

[CareEdge Global's Rating Methodology for Financial Institutions Consolidation](#)

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