

Press Release

Electronica Finance Limited (EFL)

11 August, 2017



Rating Reaffirmed

Total Facilities Rated*	Rs.375.00 Cr
Long Term Rating	SMERA A-/Stable (Reaffirmed)
Short Term Rating	SMERA A2+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA A-**' (read as SMERA A minus) and short term rating of '**SMERA A2+**' (read as SMERA A two plus) on the Rs. 375.00 crore facilities (including proposed facilities of Rs.244.33 crore) of Electronica Finance Limited (EFL). The outlook is '**Stable**'. Further, SMERA has also withdrawn the rating of '**SMERA A-**' (read as SMERA A minus) on the Rs.46.03 crore bank facilities of EFL as the facilities have been have been closed as confirmed by the bankers.

EFL is a Non-Deposit taking, Systemically Important Non-Banking Finance Company (NBFC-ND-SI) incorporated in 1990 by Mr. Shrikant Pophale. The Pune-based company is led by Ms. Shilpa Pophale, the Managing Director. Ms. Pophale, a Harvard Business School alumnus has been associated with EFL for nearly 20 years.

EFL offers machinery financing, business loans, industrial property loans and working capital financing to Small and Medium Enterprises (SME) and Micro, Small and Medium Enterprises (MSMEs). The company, with operations in 13 states through its 35 branches has recently begun extending advances to NBFC-MFIs.

The rating reaffirmation reflects EFL's ability to scale up its Assets Under Management (AUM) in line with SMERA's expectations while maintaining its asset quality. The ratings continue to be supported by its experienced management, established market position, geographically diversified asset portfolio and significant financial flexibility. The ratings are, however, constrained by the profitability pressures emanating from the challenging macro-economic environment and the competitive landscape in the NBFC sector.

List of Key Rating Drivers and their detailed description

Strengths:

Established market position and experienced management: EFL has a track record of over two decades in the asset financing industry. The company was promoted by Mr. Shrikant Pophale who possesses experience of around 25 years in the non-banking finance industry. He also has extensive experience in machinery financing. Further, the senior management has substantial industry experience having been with the company for over a decade. EFL also has adequate risk management processes and information technology systems in place with credit approval centralised at Pune.

Sustained growth in loan portfolio: EFL reported healthy growth in its loan portfolio. The AUM stood at Rs.1033.53 crore as on 31 March, 2017 (previous year Rs.855.63 crore). The company currently has 35 branches in FY2016-17 and plans to expand it further to 39 in the current fiscal. The AUM growth is expected to continue over the medium term with new loan products and established branch network. EFL has access to a variety of on-balance and off-balance sheet funding. The company, with a healthy

securitisation portfolio has demonstrated its ability to raise capital market borrowings and has been availing banking facilities from several financial institutions.

Healthy asset quality and comfortable capitalisation levels: EFL reported low Gross NPA ratio of 2.55 per cent as on 31 March, 2016 and 2.22 per cent as on 31 March, 2017. The overall asset quality continued to remain healthy despite challenging economic conditions in December on account of muted credit growth and demonetisation. EFL's prudent underwriting practices enabled it to contain growth in non-performing assets while growing its loan book.

EFL is comfortably capitalised for its current scale of operations. The networth stood at Rs.122.70 crore as on 31 March, 2017 as against Rs.99.91 crore in the previous year. The company reported a comfortable net debt-to-adjusted networth ratio of 5.94 times on 31 March, 2017 compared to 6.47 times on 31 March, 2016. The capital adequacy stood at 19.31 per cent on 31 March, 2017 compared to 20.66 per cent on 31 March, 2016. The promoters' plan to infuse Rs.10 crore during the current financial year and raise Tier II capital which is expected to help maintain CAR at comfortable levels.

Weaknesses:

Susceptibility of operating performance to level of economic activity: EFL primarily finances SMEs and MSMEs in the manufacturing sector. Currently, a substantial portion (over 70%) of the AUM comprises machinery financing while the balance constitutes working capital loans. EFL's ability to sustainably grow its loan book will depend on the level of economic activity. Lower than expected capital expenditure in the manufacturing sector can impinge on EFL's ability to grow its loan book. Further, sub-optimal demand may also adversely impact the credit profile of EFL's borrowers – which may result in asset quality pressures for EFL.

Moderate profitability metrics: EFL's Net Interest Margin (NIM) declined to 5.71 per cent in FY2016-17 from 6.19 per cent in FY2015-16. The reduction in NIMs is largely due to prepayment of loans due to the current downward interest rate cycle. EFL reported a spike in its operating expenses in FY2016-17 on account of asset quality pressures leading to heightened collection efforts. The operating expenses increased from Rs.40.99 crore in FY2015-16 to Rs.45.00 crore in FY2016-17. The reduction in NIMs and increase in operating expenses translated to moderation of RoAA (return on average assets) over the last two financial years. EFL reported a RoAA of 1.61 per cent in FY2016-17 as compared to 1.78 per cent in FY2015-16.

SMERA believes that EFL's profitability will depend on its ability to grow its loan book while maintaining asset quality and keeping its operational expenses under control.

Analytical approach: SMERA has considered the standalone business and financial risk profile of EFL to arrive at the rating.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that EFL will maintain a stable outlook, adequate capitalisation and sound asset quality. The company will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if EFL scales up and diversifies its loan portfolio significantly, while maintaining capital position, asset quality, and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its asset quality indicators. Decline in EFL's profitability, resulted in stress on its capital position. Substantial increase in provisioning of bad assets may also lead to revision of outlook to 'Negative'.

About the Rated Entity – Key Financials

For FY2016-17, EFL reported net profit of Rs. 14.21 crore on operating income of Rs.125.46 crore compared to net profit of Rs. 13.60 crore on operating income of Rs. 108.98 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
19 May, 2017	Term Loans	Long Term	25.00	SMERA A-/Stable Issuer not co-operating*
	Term Loans	Long Term	219.12	SMERA A-/Stable Issuer not co-operating*
	Cash Credit	Long Term	46.50	SMERA A-/Stable Issuer not co-operating*
	Letter of Credit	Short Term	4.00	SMERA A2+ Issuer not co-operating*
	Long Term Bank Facilities (Proposed)	Long Term	80.38	SMERA A-/Stable Issuer not co-operating*
13 Jan, 2016	Term Loans	Long Term	25.00	SMERA A-/Stable (Reaffirmed)
	Term Loans	Long Term	219.12	SMERA A-/Stable (Assigned)
	Cash Credit	Long Term	46.50	SMERA A-/Stable (Assigned)
	Letter of Credit	Short Term	4.00	SMERA A2+ (Assigned)
	Short/Long Term Bank Facilities (Proposed)	Short Term/Long Term	80.38	SMERA A-/Stable/SMERA A2+ (Assigned)
9 Dec 2015	Term Loans	Long Term	25.00	SMERA A-/Stable (Assigned)

* The issuer did not co-operate; Based on best available information.

***Annexure – Details of instruments rated:**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loans	N.A	N.A	N.A	16.42	SMERA A-/Stable (Reaffirmed)
Term Loans	N.A	N.A	N.A	41.53	Withdrawn
Term Loans	N.A	N.A	N.A	68.25	SMERA A-/Stable (Reaffirmed)
Cash Credit	N.A	N.A	N.A	42.00	SMERA A-/Stable (Reaffirmed)
Cash Credit	N.A	N.A	N.A	4.50	Withdrawn
Letter of Credit	N.A	N.A	N.A	4.00	SMERA A2+ (Reaffirmed)
Long Term Bank Facilities (Proposed)	N.A	N.A	N.A	244.33	SMERA A-/Stable (Reaffirmed)

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ABOUT SMERA

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