



## Press Release

### Electronica Finance Limited

November 14, 2018

### Rating Reaffirmed

|                                |  |
|--------------------------------|--|
| <b>Total facilities rated*</b> | Rs. 375.00 Cr  |
| <b>Long Term Rating</b>        | ACUITE A-/ Outlook: Positive<br>(Rating reaffirmed; outlook revised from 'Stable' to 'Positive') |
| <b>Short Term Rating</b>       | ACUITE A2+<br>(Reaffirmed)   |

### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 375.00 Cr and short term rating of 'ACUITE A2+' (read as ACUITE A two plus) bank loan facilities of Electronica Finance Limited (EFL). The outlook has been revised to '**Positive**' from 'Stable'.

The outlook revision is driven by the steady increase in EFL's scale of operations over the years supported by its established position in micro, small and medium enterprises (MSMEs) financing segment while maintaining asset quality and profitability. Acuité expects EFL to sustain a healthy lending portfolio in the MSME sector along with an adequate capital position.

### About the company

EFL, a non-deposit taking, systemically important non-banking financial company (NBFC-ND-SI), was incorporated in 1990 by Mr. Shrikant Pophale in Pune, Maharashtra. Currently, Ms. Shilpa Pophale is serving as Managing Director of the company and has been associated with EFL for nearly 21 years.

EFL is engaged in providing machinery financing, business loans, industrial property loans and working capital financing to MSMEs. EFL has recently started lending to NBFC-MFIs for supporting micro-finance activities. EFL has its footprint in 13 states via 39 branches.

### Analytical approach

Acuité has considered the standalone business and financial risk profile of EFL to arrive at the rating.

## Key rating drivers

### Strengths

#### Established market position in MSME financing segment

EFL has a track record of over almost three decades in the asset financing industry. The company was promoted by Mr. Shrikant Pophale who possesses around 25 years' experience in the financial services business. Ms. Shilpa Pophale, Managing Director, also has around two decades of experience in this segment. Further, most of the senior management team has substantial industry experience having been with the company for over a decade.

EFL has an established franchise in the machinery financing segment with deep understanding of the customer profile given its long established track record in the segment. Additionally, the promoter group is engaged in equipment manufacturing which gives EFL a competitive advantage in terms of technical know-how and machine valuation.

EFL has diversified across other product segments such as industrial property loans, working capital financing and bill discounting to meet the financing needs of its customers. It also extends loans to NBFC-MFIs as diversification strategy. EFL reported a sustained growth in its loan portfolio at a compounded annual growth rate of ~13.60% over the past five years with AUM of Rs. 1101 Cr as on 31 March 2018. EFL also benefits from the priority sector eligibility status of its loan book and hence originates loans on behalf of other financiers through various modes. Machinery financing constituted nearly two-thirds of the AUM, and industrial property financing and business loans constituted 8.5% and 15.3% of the AUM. Loans to MFIs and CDA portfolio for SIDBI accounted for 3.6% and 5.6%, respectively.

Acuite believes that EFL's AUM is expected to continue to grow sustainably over the medium term on account of the established market position in MSME financing, diversified loan products and potential for significant geographical penetration.

#### Healthy asset quality supported by good credit appraisal processes, monitoring and risk management mechanisms

EFL has healthy asset quality as reflected in gross NPAs (90+ dpd basis) of 1.23% on 31 March 2018 as against 2.22% on 31 March 2017. EFL reported zero delinquencies in its managed portfolio. The company also wrote-off NPAs of around Rs.14.8 crore during FY2018, which partly supported decline in the gross NPAs during the year.

EFL's asset quality is supported by good credit appraisal and monitoring processes. This has helped the company to manage various macro challenges such as demonetization and GST implementation. The company has stringent underwriting norms wherein primarily borrowers with established business track-record and healthy credit history are provided financial assistance. The company has maintained a conservative credit appraisal policy besides maintaining auto-debit authorization on most loans. The company primarily finances standardized machinery of leading manufacturers under the machinery financing segment to maintain good asset quality. Moreover, EFL has also established a track record of efficient repossession and sale of the underlying assets, which results in low ultimate losses from NPAs. The company undertakes regular monitoring of all large ticket loans as part of its monitoring process to effectively manage the risks in the underlying portfolio. However, the asset quality in some of the newer business segments is yet to be established and will remain a key monitorable.

### **Adequate capitalisation**

EFL's adequate capitalisation is reflected in its net worth (excluding revaluation reserves) and gearing of Rs. 123.1 Cr and 6.4 times, respectively, as on March 31, 2018 (Rs.103.81 Cr and 7.5 times, respectively, a year ago). The adjusted gearing (excluding cash collateral) was at 3.5 times as on March 31, 2018 (4.3 times as on March 31, 2017). It reported overall CAR of 19.94% on 31 March 2018 as against 19.31% on 31 March 2017. Capitalisation is supported by steady accruals to net worth as reflected in the return on average net worth of 14.8% in FY2018 as against 14.6% in the previous year. EFL is proposing to raise equity capital over the next few quarters to support its growth plans over the medium term.

EFL also has healthy coverage for net NPAs and hence provide cushion against asset side risks – Net NPAs as a proportion of tangible net worth stood at 7% as on 31 March 2018 as against 15% as on 31 March, 2017.

Acuite believes that EFL will maintain adequate capitalisation over the medium term to support its growth plans underpinned by steady accruals to net worth and capital raising plans.

### **Weaknesses**

#### **Susceptibility of borrowers' operating performance to business cycles**

EFL's borrower profile comprises of micro, small and medium industrial units operating primarily in engineering, auto ancillary and plastic industries. Currently, a substantial portion (over 67%) of the AUM comprises of machinery financing while the remaining mainly comprises of working capital, industrial property loans. This borrower segment is fundamentally susceptible to external events like demand slowdown for their products / services, delayed payments and strain on liquidity.

EFL's ability to sustainably grow its loan book will be contingent on the demand for capital goods in the industry. Lower than expected capital expenditure in the manufacturing sector can impinge on EFL's ability to grow its loan book. Further, lower than expected demand/offtake may also adversely impact the credit profile of EFL's borrowers resulting in asset quality pressures for EFL.

#### **Susceptibility of profitability**

EFL's profitability is susceptible to the high competitive intensity in MSME financing segment; the average lending yield declined to 14.1% in FY 2017 from 14.6% in the previous year. The average lending rate increased to 16.6% in FY 2018 primarily on account of the impact of change in accounting policies. The interest income is higher by Rs.27.51 Cr in FY 2018 (including Rs.18.72 Cr in respect of previous year) on account of the accounting policy changes. The rate would have increased to 14.4% in FY18 had the earlier accounting policy continued in FY 2018.

EFL's borrowing cost is highly competitive at 8.53% in FY 2018 (8.01% in previous year). It benefits primarily from the security deposits/cash collateral raised from customers comprising around 45% of EFL's resource profile. EFL pays loyalty bonus on the cash collateral or security deposits (25%-40% of asset value) from customers which enables the company to manage its borrowing costs.

EFL reported return on average assets of 1.72% in FY18 as compared to 1.61% in FY17. The improvement in profitability was mainly because of change in the accounting policy. However, the improvement was not very significant as the company wrote off a substantial portion of NPAs of Rs.14.45 Cr during the year.

EFL's profitability may be impacted during FY 2019 due to funding challenges faced by the NBFC sector and which may also slowdown the AUM growth. Nevertheless, EFL has option to undertake securitization/co-lending with banks since its loan book primarily comprises of lending to MSME segment and enables the banks to meet their priority sector lending requirements.

Acuité believes that EFL's profitability will depend on its ability to grow its loan book profitably on a sustained basis, while keeping the asset quality, and hence credit costs, under control. Any sharp deterioration in asset quality will adversely impact the company's profitability and will remain a key monitorable.

### **Analytical Approach**

Acuité has considered the standalone business and financial risk profiles of IFL.

### **Outlook: Positive**

Electronica Finance will continue to benefit from its established track record in MSME financing segment and adequate capitalisation. The rating may be upgraded if there is a steady increase in the company's scale of operations and improvement in profitability while maintaining asset quality. Conversely, the outlook will be revised to 'Stable', if there is deterioration in asset quality, profitability or capitalisation.

### About the Rated Entity - Key Financials

| Particulars                             | Unit    | FY18 | FY17 | FY16 |
|---|---------|------|------|------|
| Total Assets                            | Rs. Cr. | 989  | 964  | 807  |
| Total Income (net of interest expenses) | Rs. Cr. | 94   | 69   | 63   |
| PAT                                     | Rs. Cr. | 17   | 14   | 14   |
| Net Worth                               | Rs. Cr. | 143  | 123  | 100  |
| Return on Average Assets (RoAA)         | (%)     | 1.7  | 1.6  | 1.8  |
| Return on Tangible Net Worth (RoNW)     | (%)     | 13.6 | 13.7 | 14.9 |
| Total Debt/Tangible Net Worth (Gearing) | Times   | 5.35 | 6.17 | 6.36 |
| Gross NPA                               | (%)     | 1.2  | 2.2  | 2.6  |
| Net NPA                                 | (%)     | 1    | 1.9  | 2.2  |

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-10.htm>

Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-40.htm>

Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

| Date     | Name of Instrument / Facilities      | Term       | Amount (Rs. Cr.) | Ratings/Outlook                   |
|----------|--------------------------------------|------------|------------------|-----------------------------------|
| 11-08-17 | Term Loan                            | Long Term  | 16.42            | ACUITE A-/ Stable<br>(Reaffirmed) |
|          | Term Loan                            | Long Term  | 41.53            | ACUITE A-/ Stable<br>(Withdrawn)  |
|          | Term Loan                            | Long Term  | 68.25            | ACUITE A-/ Stable<br>(Reaffirmed) |
|          | Cash Credit                          | Long Term  | 42               | ACUITE A-/ Stable<br>(Reaffirmed) |
|          | Cash Credit                          | Long Term  | 4.5              | ACUITE A-/ Stable<br>(Withdrawn)  |
|          | Letter of Credit                     | Short Term | 4                | ACUITE A2+<br>(Reaffirmed)        |
|          | Proposed Working Capital Demand Loan | Long Term  | 244.33           | ACUITE A-/ Stable<br>(Reaffirmed) |
| 19-05-17 | Term Loan                            | Long Term  | 25.00            | ACUITE A-<br>(Indicative)         |
|          | Term Loan                            | Long Term  | 219.12           | ACUITE A-<br>(Indicative)         |
|          | Cash Credit                          | Long Term  | 46.50            | ACUITE A-<br>(Indicative)         |
|          | Letter of Credit                     | Short Term | 4.00             | ACUITE A2+<br>(Indicative)        |
|          | Proposed Working Capital Demand Loan | Long Term  | 80.38            | ACUITE A-<br>(Indicative)         |

|          |                                      |            |        |                                   |
|----------|--------------------------------------|------------|--------|-----------------------------------|
| 13-01-16 | Term Loan                            | Long Term  | 25.00  | ACUITE A-/ Stable<br>(Reaffirmed) |
|          | Term Loan                            | Long Term  | 219.12 | ACUITE A-/ Stable                 |
|          |                                      |            |        | (Assigned)                        |
|          | Cash Credit                          | Long Term  | 46.50  | ACUITE A-/ Stable<br>(Assigned)   |
|          | Letter of Credit                     | Short Term | 4.00   | ACUITE A2+<br>(Assigned)          |
|          | Proposed Working Capital Demand Loan | Long Term  | 80.38  | ACUITE A-/ Stable<br>(Assigned)   |
| 09-12-15 | Term Loan                            | Long Term  | 25.00  | ACUITE A-/ Stable<br>(Assigned)   |

**\*Annexure – Details of instruments rated**

| Name of the Facilities   | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Rating/ Outlook                    |
|--------------------------|------------------|-------------|---------------|-----------------------------|------------------------------------|
| Term Loan                | NA               | NA          | NA            | 15.31                       | ACUITEA-/ Positive<br>(Reaffirmed) |
| Term Loan                | NA               | NA          | NA            | 164.59                      | ACUITEA-/ Positive<br>(Reaffirmed) |
| Cash Credit              | NA               | NA          | NA            | 42                          | ACUITEA-/ Positive<br>(Reaffirmed) |
| Letter of Credit         | NA               | NA          | NA            | 5.57                        | ACUITEA2+<br>(Reaffirmed)          |
| Proposed Bank facilities | NA               | NA          | NA            | 147.53                      | ACUITEA-/ Positive<br>(Reaffirmed) |

## Contacts

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|--|---|
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### About Acuité Ratings & Research:

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