

Press Release

Electronica Finance Limited

December 20, 2019



Rating Reaffirmed and Withdrawn

Total Bank Facilities Rated*	Rs. 375.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Positive
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 372.00 Cr. bank facilities and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 3 Cr. bank facilities of Electronica Finance Limited (EFL). The outlook continues to be '**Positive**'.

Acuité has withdrawn the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 64.23 Cr. bank facilities of Electronica Finance Limited (EFL). The rating is being withdrawn on account of request received from the company and No due certificate from the bankers.

Analytical Approach:

Acuité has adopted a standalone approach on EFL's business and financial risk profile for arriving at the rating.

About EFL:

Pune based Electronica Finance Limited (EFL), is a systemically important NBFC primarily engaged in machinery financing and other asset financing. The company was incorporated in 1990 and is a part of SRP Group. The company was initially engaged in financing of machineries manufactured by the Group companies and has diversified its scope since then. The key product offerings include machinery loans, business loans for working capital requirements, industrial property loans, institutional lending i.e. loans to NBFCs/MFIs and has recently forayed in lending to emerging enterprises.

The company is promoted by Mr. S R Pophale and the day to day operations at EFL are managed by his daughter Ms. Shilpa Pophale. The company operates through a network of 53 branches across 15 states. The company's Asset under Management (AUM) stood at Rs. 1349 Cr. as on September 30, 2019.

Key Rating Drivers

Strengths

- **Established presence in MSME lending:**

EFL has nearly three decades of expertise in asset financing business. The company is promoted by Mr. S R Pophale and the day to day operations are managed by his daughter Ms. Shilpa Pophale. Ms. Pophale, the Managing Director of the company, has over two decades of experience in financial services. The company's board also comprises three independent directors who have extensive experience in banking and financial services. The management is supported by professionals with significant experience in various functional areas.

The company commenced its lending operations in 1990 by extending credit for machine manufactured by its group companies. Later on, the company leveraged on its expertise in machinery business by diversifying into lending for machineries manufactured by other players (i.e. other than its group companies). The manufacturing background introduced EFL to an existing network of dealers along with the expertise of the machine tools industry. Gradually, EFL has diversified its offerings across industries from machine tools to plastic, textile, wood working, printing and packaging along with lending for genset and compressors. The

key philosophy of the company is lending to industrial/MSME segment. The company's key product offerings include, machine loans, working capital loans for business needs, industrial property loans, loans to MFIs and NBFCs and emerging enterprise loans.

The company's operations are spread over 15 states and operates through a network of 53 branches as on September 30, 2019. The company also has established relationships with a wide network of equipment vendors and intermediaries for supporting the MSME lending segment.

The company's Asset under Management (AUM includes on book and off book portfolio) has grown to Rs. 1349 Cr. as on September 30, 2019 (Rs. 1264 Cr. as on March 31, 2019) as against Rs. 1101 Cr. as on March 31, 2018. Of the overall AUM as on September 30, 2019, machine loans comprised 69 percent, business loans comprised 10 percent, industrial property loans comprised 8 percent, loans to NBFCs/MFIs comprised 8 percent and emerging enterprise loans comprised 1 percent. The remaining 3 percent are the loans originated as a credit delivery partner to SIDBI.

Acuité believes that EFL's business profile will continue to benefit from the established presence in the MSME lending segment, wide branch network and strong managerial support.

- Demonstrated resource raising ability; diversified lender and investor base**

EFL's AUM has grown from Rs. 1034 Cr. as on March 31, 2017 to Rs. 1349 Cr. as on September 30, 2019. The growth has been primarily driven by raising debt from various banks and NBFCs. The company's Networth stood at Rs. 173 Cr. and the overall borrowings stood at Rs. 980 Cr. as on September 30, 2019. The borrowings are diversified across banks, financial institutions and capital markets. Besides, bank borrowings like term debt, working capital loans, EFL has also raised resources through Non-convertible debentures, Subordinated Debt and Masala Bonds. In FY2019, EFL has raised funds through Masala bonds which were subscribed by Global climate partnership fund, which is managed by a Zurich based impact asset manager 'Responsibility'.

In the current year, EFL has attracted investment in the form of Compulsorily Convertible Preference Shares (CCPS) of Rs. 113 Cr. from a New York based investor Encourage Capital. Of the total investment of Rs. 113 Cr. , Rs.91 Cr. has already been infused in December 2019 and the remaining is expected to flow in by March 2020. Encourage Capital through its impact fund, Encourage Solar finance will hold ~24 percent in EFL, post the conversion of CCPS into Equity. The infusion will be through a mix of fresh equity issue and stake sale by existing shareholder. Besides the borrowings from various banks and financial institutions, the company's funding flexibility is also supported by its ability to securitise and assign its loan receivables through direct assignments/securitization transactions. Since EFL's loan assets mostly qualify for priority sector lending, it is able to tap this source of funding from various banks and NBFCs on an ongoing basis.

Acuité believes that EFL's ability to raise resources from a diverse set of lenders and investors will support EFL's financial flexibility over the near to medium term.

Weaknesses:

Moderate asset quality and profitability parameters; albeit expected improvement:

EFL primarily is engaged in secured lending with marginal unsecured exposures. The company caters to MSMEs and undertakes industrial exposures. The philosophy of the management to identify the marketability of the underlying asset and realizable value while the focus is on recoveries through cashflow. The company's is diversifying its presence across various products and has recently forayed into emerging enterprise loans and will be extending loans for solar assets. The company has faced asset quality pressures mainly on account of the weakness in the overall economic scenario. EFL's Gross Non-Performing assets stood at 2.2 percent as on September 30, 2019 as against 1.7 percent and 1.2 percent as on March 31, 2019 and March 31, 2018 respectively. The company reported Net NPA of 1.8 percent as on September 30,2019. The company's ability to manage its asset quality while expanding its assets under management will be a key monitorable.

The company reported Net Interest Margins of 5.5 percent in H12020 (annualised) as against 4.9 percent in FY2019. The company's operating costs to earning assets ratio for H12020 was 4.2 percent as against 4.1 percent in FY2019. The company has written off Rs. 6.3 Cr. and Rs. 14.4 Cr. in FY2019 and FY2018. The

company's Provision coverage ratio stood at ~19 percent as on September 30, 2019.

The company reported Return on Average Assets (ROAA) of 2.1 percent in H12020 (annualised) as against 1.9 percent in FY2019 and 1.7 percent in FY2018. The high credit costs during FY 2018 and FY 2019 have impacted the profitability.

EFL's loan portfolio mostly comprises small and medium enterprises. The borrower profile is susceptible to the level of economic activity and during times of continued economic slowdown are likely to exhibit elevated level of stress. While the company has been attempting to diversify its product offerings to reduce its dependence on SME segment, the overall asset quality and profitability of EFL will be dependent on effective diversification across various product categories.

Acuité believes that the company's ability to scale up its assets under management while demonstrating a sustainable improvement in its asset quality and profitability metrics will be a key monitorable.

Rating Sensitivities

- Movement in asset quality and profitability
- Movement in leverage indicators
- Scaling up of operations

Material Covenants: Based on documents submitted by the company, the lenders have stipulated certain covenants relating to capitalisation levels, leverage and asset quality metrics and the company has been compliant with these covenants.

Liquidity Position: Adequate

EFL had adequately matched asset liability profile as on September 30, 2019 with cumulative surplus in all maturity buckets. The company has demonstrated an ability to raise funds through assignment of its portfolio and securitisation which supports its liquidity profile. The company has adequate liquidity buffers by way of unutilized working capital limits. The company has working capital limits of Rs. 119 Cr. which was on an average utilized up to 35 percent over the seven months ended October 31, 2019.

Outlook: Positive

Acuité has placed the outlook on EFL's credit profile as 'Positive' on the back of established track record in MSME financing along with demonstrated resource raising ability from a diverse set of lenders/investors. The rating may be upgraded in case of steady and sustainable growth in scale of operations while improving profitability and asset quality parameters. Conversely, the outlook will be revised to 'Stable', in case the company faces challenges in improving asset quality and profitability indicators or in case of headwinds faced in scaling up its operations.

About Electronica Finance Limited (Standalone) - Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	1124.7	989.1
Total Income*	Rs. Cr.	79.1	93.9
PAT	Rs. Cr.	20.3	16.8
Net Worth	Rs. Cr.	161.3	142.8
Return on Average Assets (RoAA)	(%)	1.9	1.7
Return on Average Net Worth(RoNW)	(%)	15.3	14.8
Total Debt/Tangible Net Worth (Gearing)	Times	5.5	5.4
Gross NPA	(%)	1.7	1.2
Net NPA	(%)	1.4	1.0

* Total income equals to Net interest income plus other income

Any other information

Not Applicable

Applicable Criteria

- Rating of Non-Banking Financing Entities : <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition : <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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 the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
November 14, 2018	Term Loan	Long Term	15.31	ACUITE A-/Positive (Reaffirmed)
	Term Loan	Long Term	164.59	ACUITE A-/Positive (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE A-/Positive (Reaffirmed)
	Letter of Credit	Short Term	5.57	ACUITE A2+ (Reaffirmed)
	Proposed Bank facilities	Long Term	147.53	ACUITE A-/Positive (Reaffirmed)
August 11, 2017	Term Loan	Long Term	16.42	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	41.53	ACUITE A-/Stable (Withdrawn)
	Term Loan	Long Term	68.25	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE A-/Stable (Withdrawn)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	244.33	ACUITE A-/Stable (Reaffirmed)
May 19, 2017	Term Loan	Long Term	25.00	ACUITE A- (Indicative)
	Term Loan	Long Term	219.12	ACUITE A- (Indicative)
	Cash Credit	Long Term	46.50	ACUITE A- (Indicative)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Indicative)
	Proposed Working Capital Demand Loan	Long Term	80.38	ACUITE A- (Indicative)
January 13, 2016	Term Loan	Long Term	25.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	219.12	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	46.50	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Assigned)
	Proposed Working Capital Demand Loan	Long Term	80.38	ACUITE A-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	NA	NA	NA	15.31	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	9.97	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	1.33	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	1.38	ACUITE A-/Positive (Reaffirmed)
Term loan	NA	NA	NA	3.29	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	23.85	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	4.98	ACUITE A- (Withdrawn)
Term loan	NA	NA	NA	22.58	ACUITE A-/Positive (Reaffirmed)
Term loan	NA	NA	NA	10.81	ACUITE A-/Positive (Reaffirmed)
Term loan	NA	NA	NA	1.04	ACUITE A-/Positive (Reaffirmed)
Term loan	NA	NA	NA	4.50	ACUITE A- (Withdrawn)
Cash credit	NA	NA	NA	2.10	ACUITE A-/Positive (Reaffirmed)
Cash credit	NA	NA	NA	9.00	ACUITE A-/Positive (Reaffirmed)
Cash credit	NA	NA	NA	5.00	ACUITE A-/Positive (Reaffirmed)
Cash credit	NA	NA	NA	20.00	ACUITE A-/Positive (Reaffirmed)
Letter of Credit	NA	NA	NA	3.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	NA	NA	NA	1.00	ACUITE A2+ (Withdrawn)
Proposed Bank Facility	NA	NA	NA	300.09	ACUITE A-/Positive (Reaffirmed)

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About Acuité Ratings & Research:

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