

## Press Release

### Electronica Finance Limited

February 05, 2021



#### Rating Reaffirmed; outlook revised and withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 46.36 Cr. (Reduced from Rs. 375.00 Cr.)
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable (Rating Reaffirmed; outlook revised & Withdrawn)
<b>Short Term Rating</b>	ACUITE A2+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 43.36 Cr. bank facilities and the 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 has been revised from '**Positive**' to '**Stable**'.

Acuite has withdrawn the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 328.64 Cr. bank facilities of Electronica Finance Limited (EFL). The rating is being withdrawn on account of request received from the company and No due certificates from the bankers.

#### Rationale for Revision in Outlook

The revision in the outlook is primarily driven by sharp increase in delinquencies across soft buckets, as the 30 to 90dpd increased from 0.81 percent as on March 31, 2020 to 6.66 percent as on September 30, 2020. Further, the rating also considers the moderation in the earning profile depicted through the decline in Net Interest Margins to 7.54 percent in H12020 as against 9.48 percent in FY2020. The rating also factors the lower than expected growth in company's AUM, which registered a modest growth of 3.57% and stood at Rs. 1438.98 Cr. as on September 30, 2020 (Rs. 1389.37 Cr. as on March 31, 2020) compared to Rs.1264 Cr. as on March 31, 2019 owing to the lower-than-envisaged disbursements, primarily on account of Covid-19.

The rating, however, continues to derive strength from its established presence in the MSME lending sector with over 30 years of experience in asset financing. The rating is supported by EFL's well diversified borrowing profile and demonstrated ability to attract funding from global investors. In FY2020, the company raised Rs. 107 Cr. from Encourage Capital in the form of Compulsory Convertible Debentures.

#### Analytical Approach:

Acuite 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 72 branches across 15 states. The company's Asset Under Management (AUM) stood at Rs. 1438.98 Cr. as on September 30, 2020.

#### 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 Pophale and the day to day operations are managed by her daughter Ms. Shilpa Pophale. Ms. Pophale is the Managing Director of the company and is having 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, in order to leverage its expertise in manufacturing business, the company extended its scope by lending for machineries manufactured by players 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 72 branches as on September 30, 2020. 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. 1438.98 Cr. as on September 30, 2020 (Rs. 1389.37 Cr. as on March 31, 2020) as against Rs. 1264.36 Cr. as on March 31, 2019. Of the overall AUM as on September 30, 2020, machine loans comprised 67 percent, business loans comprised 13 percent, industrial property loans comprised 7 percent, loans to NBFCs/MFIs comprised 6 percent and emerging enterprise loans comprised 4 percent. The remaining 2 percent are machine loans originated as a credit delivery partner to SIDBI. In FY2020, The company also introduced a new product, rooftop solar finance for financing Solar Assets to MSMEs upto Rs. 1 Cr., as on September 30, 2020, Solar Loan Portfolio stood at Rs. 4.14 Cr as compared to Rs. 2.31 Cr. as on March 31, 2020.

Acuite believes that EFL's business profile will continue to benefit from the established presence in the MSME lending segment backed by strong managerial support along with a fairly diverse industrial/product portfolio.

### • Demonstrated resource raising ability; diversified lender and investor base

EFL's AUM has grown from Rs. 1101.26 Cr. as on March 31, 2018 to Rs. 1438.98 Cr. as on September 30, 2020. The growth has been derived by raising debt from various banks and NBFCs. The company's Networth stood at Rs. 278 Cr. and the overall borrowings stood at Rs 625 Cr. as on September 30, 2020. The borrowings are in the form of term debt, working capital loans, Non-convertible debentures, Subordinated Debt and Masala Bonds. In FY2019, EFL has raised funds through Masala bonds which is subscribed by Global climate partnership fund, which is managed by a Zurich based impact asset manager 'Responsibility'. The company's funding flexibility is also supported by its ability to securitise and assign its loan assets to various banks and NBFCs as a large proportion of EFL's AUM qualifies for priority sector lending.

In FY2020, EFL has attracted investment in the form of Compulsorily Convertible Preference Shares (CCPS) of Rs. 107 Cr. from a New York based investor Encourage Capital. Post the conversion of CCPS in Equity, Encourage Capital through its impact fund, Encourage Solar finance held ~23 percent in EFL. The infusion has been done by way of fresh equity issue in the form of Compulsory Convertible Preference Shares and stake sale by existing shareholder.

Acuite believes that EFL's ability to raise resources from a diverse set of lenders and investors will support EFL with requisite financial flexibility to scale up its operations in a smooth manner.

## **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 and the on-going pandemic. EFL's Gross Non-Performing assets stood at 2.36 percent as on September 30, 2020 as against 2.77 percent and 1.74 percent as on March 31, 2020 and March 31, 2019 respectively. The company has reported a surge in delinquencies across buckets, the on-time collection declined from 90.69 percent as March 31, 2019 to 81.51 percent as on March 31, 2020 and improved marginally to 82.03 percent as on March 31, 2019. The elevated stress level is reflected in other buckets as well, the 30 to 90dpd increased from 0.81 percent as on March 31, 2020 to 6.66 percent as on September 30, 2020. The company has written off Rs. 3.08 Cr. and Rs. 6.3 Cr. in FY2020 and FY2019. The company reported Net NPA of 1.8 percent as on September 30, 2019. The company's ability to manage its asset quality at moderate levels will remain a key monitorable.

The company reported Return on Average Assets (ROAA) of 1.83 percent in H12021 (annualised) as against 1.92 percent in FY2020. The profitability is underpinned by high credit costs. The company reported Net Interest Margins of 7.54 percent in H12020 (annualised) as against 9.48 percent in FY2020. The company's operating costs to earning assets ratio for H12021 was 4.87 percent as against 6.39 percent in FY2020.

The company has diversified its product base by lending to emerging enterprises. The yield on these products are relatively on the higher side earning profile. The company's earning profile is expected to be supported by its ability to avail low cost funding/ Equity funding along with growth in high yielding products.

Acuite believes that the company's ability to scale up its operations in a sustainable manner while maintaining 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. As per the confirmation received from client, vide mail dated January 27, 2020, the company has been compliant with these covenants.

## **Liquidity Position: Adequate**

EFL had adequately matched asset liability profile as on September 30, 2020 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 cash and bank balances of Rs. 11 Cr. and unutilized working capital lines of Rs. 37 Cr. as on December 31, 2020.

## **Outlook: Stable**

Acuite has revised the outlook on EFL's credit profile from 'Positive' to 'Stable' on account of asset quality pressures and profitability parameters. The outlook may be revised to 'Positive' if the company demonstrates steady and sustainable growth in scale of operations while improving profitability and asset quality parameters. Conversely, the outlook will be revised to 'Negative', 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	FY2020 (Actual)	FY2019 (Actual)
Total Assets	Rs. Cr.	954.74	865.08
Total Income*	Rs. Cr.	85.17	71.14
PAT	Rs. Cr.	17.46	13.34
Net Worth	Rs. Cr.	268.88	148.24
Return on Average Assets (RoAA)	(%)	1.92	1.67
Return on Average Net Worth (RoNW)	(%)	11.19	9.36
Total Debt/Tangible Net Worth (Gearing)	Times	4.02	3.98
Gross NPA	(%)	2.77	1.74
Net NPA	(%)	1.45	1.42

\* Total income equals to Net interest income plus other income

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

Not Applicable

### 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/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of the Instruments/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
December 20, 2019	Term Loan	Long Term	15.31	ACUITE A- (Withdrawn)
	Term loan	Long Term	9.97	ACUITE A- (Withdrawn)
	Term loan	Long Term	1.33	ACUITE A- (Withdrawn)
	Term loan	Long Term	1.38	ACUITE A-/Positive (Reaffirmed)
	Term loan	Long Term	3.29	ACUITE A- (Withdrawn)
	Term loan	Long Term	23.85	ACUITE A- (Withdrawn)
	Term loan	Long Term	4.98	ACUITE A- (Withdrawn)
	Term loan	Long Term	22.58	ACUITE A-/Positive (Reaffirmed)
	Term loan	Long Term	10.81	ACUITE A-/Positive (Reaffirmed)
	Term loan	Long Term	1.04	ACUITE A-/Positive (Reaffirmed)
	Term loan	Long Term	4.5	ACUITE A- (Withdrawn)
	Cash credit	Long Term	2.1	ACUITE A-/Positive (Reaffirmed)
	Cash credit	Long Term	9	ACUITE A-/Positive (Reaffirmed)

	Cash credit	Long Term	5	ACUITE A-/Positive (Reaffirmed)
	Cash credit	Long Term	20	ACUITE A-/Positive (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A2+ (Withdrawn)
	Proposed Bank Facility	Long Term	300.09	ACUITE A-/Positive (Reaffirmed)
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	Not Available	Not Available	Not Available	1.38	ACUITE A-(Withdrawn)
Term loan	Not Available	Not Available	Not Available	11.67	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term loan	Not Available	Not Available	Not Available	2.69	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Term loan	Not Available	Not Available	Not Available	1.04	ACUITE A-(Withdrawn)
Cash Credit	Not Available	Not Available	Not Available	2.10	ACUITE A-(Withdrawn)
Cash Credit	Not Available	Not Available	Not Available	9.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Cash Credit	Not Available	Not Available	Not Available	5.00	ACUITE A-(Withdrawn)
Cash Credit	Not Available	Not Available	Not Available	20.00	ACUITE A-/Stable (Reaffirmed; Outlook Revised)
Letter of Credit	Not Available	Not Available	Not Available	3.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Available	Not Available	Not Available	319.12	ACUITE A-(Withdrawn)

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