

Press Release
Electronica Finance Limited

May 03, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	-	ACUITE A2+ Reaffirmed & Withdrawn
Bank Loan Ratings	43.36	ACUITE A- Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	46.36	-	-

Rating Rationale

Acuite has withdrawn the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 43.36 Cr. bank facilities of Electronica Finance Limited (EFL).

Acuite has also withdrawn the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 3.00 Cr.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The rating is being withdrawn on account of request received from the company and No due certificate/ No objection certificate from the bankers as per Acuite's policy on withdrawal of ratings.

The rating continues to derives strength from its established presence in the MSME lending sector with over 3 decades of experience in asset financing. The rating is supported by EFL's capitalization levels and well diversified borrowing profile with demonstrated ability to attract funding from global investors. The rating considers EFL's comfortable capitalization levels marked by CAR of 24.14 percent as on December 31, 2021. The rating also factors in growth in EFL's AUM, which grew to Rs. 1,787.14 Cr. as on December 31, 2021 from Rs. 1,592.77 Cr. as on March 31, 2021 (Rs. 1,438.98 as on March 31, 2020).

The rating is however, constrained due to moderate asset quality marked by GNPA of 2.50 percent and NNPA of 1.19 percent as on December 31, 2021 (GNPA: 2.20 percent and NNPA: 0.96 percent as on March 31, 2021) and exposure towards inherent risks in asset financing and lending to MSME segments.

About the company

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. 1787.17 Cr. as on December 31, 2021.

Analytical Approach

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

Key Rating Drivers

Strength

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 65 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. 1787.17 Cr. as on December 31, 2021 (Rs. 1592.77 Cr. as on March 31, 2021) as against Rs. 1389.37 Cr. as on March 31, 2020.

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. 1592.77 Cr. as on March 31, 2021 to Rs. 1787.14 Cr. as on December 31, 2021. The growth has been primarily driven by raising debt from various banks and NBFCs. The company's Networth stood at Rs. 202.49 Cr. as on December 31, 2021 and the overall borrowings stood at Rs. 866.05 Cr. as on December 31, 2021. 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 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.

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.

Weakness

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 2.50 percent as on December 31, 2021 as against 2.20 percent and 2.77 percent as on March 31, 2021 and March 31, 2020 respectively.

The company reported Net NPA of 1.19 percent as on December 31, 2021. The company's ability to manage its asset quality while expanding its assets under management will be a key monitorable.

The company reported Return on Average Assets (ROAA) of 1.89 percent in 9MFY2022 (annualised) as against 2.17 percent in FY2021 and 1.92 percent in FY2020. The profitability is underpinned by high credit costs. The company reported Net Interest Margins of 9.64 percent in 9MFY2022 (annualised) as against 10.46 percent in FY2021. The company's operating costs to earning assets ratio for 9MFY2022 was 7.01 percent (annualised) as against 6.18 percent in FY2021. 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.

Acuité 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 Sensitivity

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

Material Covenants

EFL is subject to certain covenants stipulated by its lenders/investors in respect of various parameters relating to capitalisation levels, leverage and asset quality metrics.

Liquidity: Adequate

EFL had adequately matched asset liability profile as on December 31, 2021 with cumulative surplus in all maturity buckets. The company has demonstrated an ability to raise funds through assignment of its portfolio and securitization which supports its liquidity profile. The company has adequate liquidity buffers by way of unutilized working capital limits.

Outlook:

Not Applicable

Key Financials - Standalone / Originator

Parameters	Unit	FY2021(Actual)	FY2020 (Actual)
Total Assets	Rs. Cr.	1098.69	954.74
Total Income*	Rs. Cr.	101.10	85.17

PAT	Rs. Cr.	22.31	17.46
Net Worth	Rs. Cr.	186.79	163.92
Return on Average Assets (RoAA)	(%)	2.17	1.92
Return on Average Net Worth (RoNW)	(%)	12.73	11.19
Total Debt/Tangible Net Worth (Gearing)	Times	3.93	4.02
Gross NPA	(%)	2.20	2.77
Net NPA	(%)	0.96	1.45

*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

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Feb 2021	Cash Credit	Long Term	2.10	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	9.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	1.04	ACUITE A- (Withdrawn)
	Term Loan	Long Term	11.67	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- (Withdrawn)
	Proposed Bank Facility	Long Term	319.12	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.69	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	1.38	ACUITE A- (Withdrawn)
	Term Loan	Long Term	9.97	ACUITE A- (Withdrawn)
	Letter of Credit	Short Term	1.00	ACUITE A2+ (Withdrawn)

20 Dec 2019	Term Loan	Long Term	10.81	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	1.04	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	1.33	ACUITE A- (Withdrawn)
	Term Loan	Long Term	23.85	ACUITE A- (Withdrawn)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	300.09	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	4.50	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	5.00	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	2.10	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	3.29	ACUITE A- (Withdrawn)
	Term Loan	Long Term	1.38	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	22.58	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	15.31	ACUITE A- (Withdrawn)
		Long		ACUITE A- Positive (Reaffirmed)
	Cash Credit	Term	9.00	
	Term Loan	Long Term	4.98	ACUITE A- (Withdrawn)
14 Nov 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 Facility	Long Term	147.53	ACUITE A- Positive (Reaffirmed)
11 Aug 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 Bank Facility	Long Term	244.33	ACUITE A- Stable (Reaffirmed)

19 May 2017	Term Loan	Long Term	25.00	ACUITE A- (Issuer not co-operating*)
	Term Loan	Long Term	219.12	ACUITE A- (Issuer not co-operating*)
	Cash Credit	Long Term	46.50	ACUITE A- (Issuer not co-operating*)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	80.38	ACUITE A- (Issuer not co-operating*)
13 Jan 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)
09 Dec 2015	Term Loan	Long Term	25.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Reaffirmed & Withdrawn
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A- Reaffirmed & Withdrawn
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	11.67	ACUITE A- Reaffirmed & Withdrawn
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.69	ACUITE A- Reaffirmed & Withdrawn

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About Acuité Ratings & Research

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