October 07, 2024

Electronica Finance Limited: [ICRA]A (Stable) assigned to Rs. 42-crore NCD programme, Rating withdrawn for Rs. 33.75-crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCDs)	33.75	0.00	[ICRA]A (Stable); withdrawn
NCDs	0.00	42.00	[ICRA]A (Stable); assigned
Total	**33.75**	**42.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into consideration Electronica Finance Limited's (Electronica) improved capitalisation profile and the enhancement in its scale of operations. The company raised ~Rs. 373-crore capital in Q1 FY2025 (~Rs. 27 crore to be raised in H2 FY2025), strengthening its capital base and leading to a decline in the managed gearing[1] to 3.3 times as on June 30, 2024 from 6.7 times as on March 31, 2024. This, along with its diversified funding profile, shall support Electronica's medium-term growth plans. The company has been able to increase its scale at a compound annual growth rate (CAGR) of ~24% from March 2019 to March 2024 and it reported assets under management (AUM) of Rs. 3,778 crore as on March 31, 2024 (Rs. 4,003 crore in June 2024). ICRA expects Electronica to continue scaling up its AUM at 30-35% over the near-to-medium term, supported by the growth of its core machine financing segment as well as the expansion of the loan against property (LAP) and solar rooftop financing segments.

The rating continues to factor in Electronica's established track record of more than three decades in machine financing. Further, the asset quality remains comfortable with gross non-performing assets (NPAs) of 1.8% as on June 30, 2024 (1.4% as on March 31, 2024; 1.1% as on March 31, 2023). ICRA notes that the NPAs remain comfortable despite increasing gradually. Credit costs also remained under control at 0.9%, in relation to average managed assets (AMA), in FY2024 vis-à-vis 0.8% in FY2023. ICRA draws comfort from Electronica's established track record in the asset financing business with demonstrated ability to manage the asset quality over cycles.

The rating is, however, constrained by the company's moderate earnings profile on account of the relatively higher operating expenses. Further, the rating takes into account the inherent risks associated with the target borrower segment of small and medium industrial units that are susceptible to economic shocks, which might lead to asset quality challenges on the portfolio. The company's ability to keep its asset quality under control, especially in the relatively newer product segments, namely micro-LAP, affordable LAP and rooftop solar loans, would be important. Electronica's ability to improve its operating efficiency while controlling credit costs as its scales up the portfolio will be important from a credit perspective.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to benefit from its experienced management team and the further scale-up of its operations while maintaining an adequate capitalisation profile and the asset quality metrics.

ICRA has withdrawn the [ICRA]A (Stable) rating assigned to Electronica's Rs. 33.75-crore NCD programme as no amount is outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

[1] *Managed gearing = (On-book debt + Off-book portfolio) / Net worth*

Key rating drivers and their description

Credit strengths

Improvement in capitalisation profile – Electronica reported an improvement in its capitalisation profile in Q1 FY2025, supported by the Rs. 373-crore capital raise in the form of equity and compulsorily convertible preference shares (CCPS) during the quarter from two new investors. It intends to raise an additional Rs. 27 crore in H2 FY2025. Consequently, the managed gearing declined to 3.3 times from 6.2 times as on March 31, 2024 (5.4 times as on March 31, 2023). The company's reported capital adequacy ratio improved to 28.7% as on June 30, 2024 from 18.3% as on March 31, 2024 (19.3% as on March 31, 2023). Given the recent capital infusion, Electronica is adequately capitalised to support its growth plans over the next 2-3 years while keeping its gearing (managed) below 5 times.

Established track record of operations in asset finance – As it commenced operations in machine financing in 1990 (given the background of its parent group of equipment manufacturers), Electronica draws competitive advantage, in terms of critical know-how of machine usage and resale, by leveraging the operational and management experience of its promoter group entities. Moreover, the company takes higher exposure only in case of repeat borrowers with a successful repayment track record or in case of adequate group entity comfort and/or with sufficient collateral to support the loan. Aided by the experience of its senior management team and its track record of over 30 years, Electronica was managing AUM of Rs. 4,003 crore (Rs. 3,778 crore as on March 31, 2024) spread across 16 states/Union Territories as on June 30, 2024.

Comfortable asset quality – Electronica's asset quality remains comfortable with gross NPAs of 1.8% as on June 30, 2024 (1.4% as on March 31, 2024; 1.1% as on March 31, 2023). ICRA notes that the NPAs have been increasing gradually, but remain comfortable. ICRA draws comfort from Electronica's established track record in the asset financing business with demonstrated ability to manage the asset quality over cycles. Further, the portfolio remains granular in nature with the company catering to more than 47,000 clients and the top 20 borrowers comprising ~3% of the total portfolio outstanding as on March 31, 2024. Nevertheless, Electronica's ability to keep its asset quality under control while managing growth, especially in the relatively newer product segments, namely micro-LAP, affordable LAP and rooftop solar loans, would be important.

Credit challenges

Moderate earnings profile – Electronica's earnings profile remains moderate on account of the relatively higher operating expenses. While the company reported an improvement in its overall profitability in FY2024, the same was largely driven by the relatively higher direct assignment (DA) transactions and the consequent gains. Electronica's net interest margin (NIM; including DA gains) rose to 8.9% of AMA in FY2024 from 7.7% in FY2023 on the back of improved yields with the increasing share of the relatively higher-yielding micro-LAP portfolio and the rise in income from DA transactions. However, operating expenses increased to 7.3% of AMA in FY2024 from 5.1% in FY2023 due to higher employee and administrative expenses as the company continued to open new branches and hire personnel to support its envisaged growth plans. Credit costs remained low at 0.9% of AMA in FY2024 (0.8% in FY2023), given the comfortable asset quality.

Electronica reported a profit after tax of Rs. 64 crore in FY2024 (Rs. 10 crore in Q1 FY2025), translating into a return of 2.1% on AMA and 16.1% on average net worth against Rs. 42 crore, 1.8% and 12.2%, respectively, in FY2023. In ICRA's opinion, Electronica's ability to improve its operating efficiency while keeping the credit costs under control, as its further scales up its portfolio, will be important from a credit perspective.

Modest credit profile of target customer segment – The portfolio is prone to asset quality challenges on account of lending to small and medium industrial units that are susceptible to economic shocks. However, with strong underwriting norms, the company has been able to navigate through various macro-economic events in the past, including the Covid-19 pandemic. Electronica has a stringent appraisal and risk management framework, which includes multiple site visits, know your customer (KYC) verification, credit bureau checks and financial due diligence, wherein the focus remains on assessing the debt repaying ability of the borrower based on his existing scale of business. While the relationship managers remain responsible for the respective accounts, the company has a separate collection team for follow-ups/personal visits in case of delays.

Liquidity position: Adequate

Electronica's liquidity profile is adequate given the on-book liquidity of Rs. 340 crore as on June 30, 2024, the expected inflows from advances and the availability of sanctioned unutilised lines. As per the structural liquidity statement as on June 30, 2024, the company had scheduled collections of Rs. 820 crore against scheduled debt obligations of Rs. 711 crore till June 30, 2025. The presence of ~Rs. 217 crore of sanctioned unutilised funding lines also supports Electronica's liquidity profile. Moreover, it has a fairly diversified borrowing profile and maintains a healthy debt pipeline comprising sanctions for term loans, DA and co-lending arrangements.

Rating sensitivities

Positive factors – A sustainable increase in the scale of operations and an improvement in the earnings profile, while keeping the asset quality and capitalisation at prudent levels, could positively impact the rating.

Negative factors – A significant deterioration in the asset quality or weakening of the capitalisation profile with the managed gearing exceeding 5.5 times on a sustained basis could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking finance companies (NBFCs) Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Electronica Finance Limited, formerly known as Electronica Leasing and Finance Limited, is a non-banking financial company (NBFC) incorporated in 1990 and is a part of SRP Electronica Group (the Group). At present, Electronica provides financial assistance to small and medium-sized industrial units (mostly tier II, tier III and tier IV ancillary units) serving multiple sectors such as engineering, metal cutting and forming, auto ancillary, plastic, printing, textiles, woodwork, packaging and other manufacturing industries. The company reported an AUM of Rs. 4,003 crore (Rs. 3,778 crore as on March 31, 2024) spread across 16 states/Union Territories as on June 30, 2024.

SRP Electronica Group is a manufacturing company started by a group of first-generation technocrats. Given its manufacturing background and understanding of machines and engineering equipment, Electronica had a leverage in starting machine financing, which was a pioneering effort. It also started providing other innovative services like doorstep finance and assessment-based financing. Soon thereafter, it started providing machine financing to other manufacturers in the machine tool as well as other industries. Electronica's products, services and last mile connectivity were also recognised by Small Industries Development Bank of India (SIDBI), which resulted in a partnership of 15+ years.

Key financial indicators (audited)

Electronica Finance Limited	FY2023	FY2024	Q1 FY2025*
Total income	327	536	144
PAT	42	64	10
Total managed assets	2,667	3,455	3,843^{E}
Return on managed assets	1.8%	2.1%	1.1%^{E}
Managed gearing (times)	5.4	6.2	3.3^{E}

Electronica Finance Limited	FY2023	FY2024	Q1 FY2025*
Gross NPA	1.1%	1.4%	1.8%
CRAR	19.3%	18.3%	28.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; E – Estimated*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)						Chronology of rating history for the past 3 years					
						FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct-07-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD programme	Long term	33.75	[ICRA]A (Stable); withdrawn	Sep-16-2024	[ICRA]A (Stable)	Sep-26-2023	[ICRA]A- (Stable)	Sep-27-2022	[ICRA]A- (Stable)	Sep-28-2021	[ICRA]A- (Stable)
NCD programme	Long term	42.00	[ICRA]A (Stable)	-	-	-	-	-	-	-	-
Subordinated debt	Long term	0.00	-	-	-	-	-	Sep-27-2022	[ICRA]A- (Stable); withdrawn	Sep-28-2021	[ICRA]A- (Stable)
										Aug-09-2021	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE612U07068^	**NCD**	Sep-27-2021	10.30%	Mar-13-2026	33.75	[ICRA]A (Stable); withdrawn
To be placed	**NCD**	NA	NA	NA	42.00	[ICRA]A (Stable)

^ INE612U07068 was redeemed in July 2024

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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