

January 18, 2017

## Electronica Finance Limited

Sl.	Trust Name	Instrument*	Initial Issued Amount (Rs. crore <sup>1</sup> )	Rating Action
1	MSE Loan Pool Trust XI	PTC Series A	10.85	Provisional [ICRA]A(SO) Assigned

*\*Instrument details are provided in Annexure I*

### Rating Action

ICRA has assigned Provisional [ICRA]A(SO) rating to PTC Series A, under a securitisation transaction originated by Electronica Finance Limited (EFL). The PTCs are backed by receivables from a Rs. 14.65 crore pool of machinery and industrial property loans (underlying pool principal of Rs. 12.05 crore).

### Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts, EFL's track record in the machinery loan business, the available credit enhancement in the form of principal subordination, credit collateral, subordination of Excess Interest Spread (EIS), and the integrity of the legal structure. The ratings are subject to fulfillment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit Strengths

- Availability of credit enhancement in the form of Subordination, EIS and Credit Collateral;
- Moderate seasoning profile of the pool contracts with average seasoning of ~11.9 months compared to the door to door tenure of 48 months for the pool;
- Pool is devoid of any overdue contracts as on the pool cut-off date

#### Credit Weakness

- High obligor concentration with the top 10 obligors together accounting for ~40.8% of the overall pool principal amount;
- Moderate geographical concentration with top 3 cities accounting for ~54.0% of the overall pool

### Description of key rating drivers highlighted above:

According to the transaction structure, the loan pool receivables will be transferred "at par" to a Special Purpose Vehicle (SPV) and the Trust will issue a single series of PTCs (amounting to 90% of the pool principal) backed by the assigned loan receivables. The promised cashflow schedule for the PTCs will comprise of principal amortisation and interest (at the pre-determined rate on the principal outstanding). The pool collections in excess of the scheduled PTC payouts will be first utilized to make expected PTC payments and then will flow back to the Originator on a monthly basis.

The first line of support for meeting any shortfall in meeting the scheduled Investor Payouts is in the form of subordination of 10.00% of the pool principal (Originator's residual share). Additional support is in the form of EIS in the structure (amounting to around 6.87% of the initial pool principal to begin with). Cash collateral of 10.00% of the initial pool principal provided by EFL acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall.

<sup>1</sup> 100 lakh = 1 crore = 10 million

The pool is characterised by moderate seasoning (average seasoning of around 11.9 months) and LTV (average LTV of around 69%) profile. The pool does not have any overdue contracts as on the pool cut-off date. The pool entirely consists of receivables from loans given by EFL to its customers for the purchase of machinery and other business equipment or for purchase of industrial property.

**Analytical approach:**

The rating action is based on the analysis of the past performance of EFL's portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

**Links to applicable Criteria**

ICRA's Rating Methodology for Securitisation Transactions

<http://www.icra.in/Files/Articles/Securitisation%20Tran%20%20Methodology%20Dec%202016.pdf>

**About the Company:**

Electronica Finance Limited (EFL), formerly known as Electronica Leasing and Finance limited, is a closely held Non Banking Finance Company (NBFC) incorporated in the year 1990. It belongs to Pune-based Electronica Group, which has been in existence for last 25 years. The Group also has global presence marketing associations with some global leaders for import of their manufactured machines. EFL was set up in 1990 with a mandate to provide finance to customers of Electronica Machine Tools Limited (EMTL) especially the Tier II, Tier III and Tier IV ancillary units. Subsequently EFL started financing the products of other manufacturers in the machine tool industry and it is now functions as a full-fledged asset financing company with a total Assets Under Management (AUM) of Rs. 972 crore as on November 2016 and is operational over a network of around 36 branches across India. In FY2016, EFL reported a PAT of Rs. 13.60 crore on a total income of Rs. 102.41 crore as against a PAT of Rs. 12.66 crore on a total income of Rs. 93.99 crore in FY2015. EFL reported a PAT of Rs. 4.64 crore on a total income base of Rs. 59.24 crore in H1 FY2017. The regulatory capital adequacy of the company stood at 22.67% as on September 2016. ICRA has a rating outstanding of [ICRA]BBB+ / [ICRA]A2+ on the bank lines of EFL with a positive outlook.

In the past, ICRA has assigned ratings to PTCs under eleven transactions backed by machinery loan and industrial property loan pools originated by EFL. The performance of all the live pools has been good with cumulative collection efficiency of more than 96.8% post the December-2016 payouts.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Month-year & Rating January 2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
1	MSE Loan Pool Trust XI	PTC Series A	10.85	Provisional [ICRA]A(SO)	N. A.	N. A.	N. A.

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure I**  
**Details of Instruments**

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate	Scheduled Maturity Date	Initial Amount (Rs. crore <sup>2</sup> )	Current Rating
1	MSE Loan Pool Trust XI	PTC Series A	December 2016	9.20%	Dec 2020	10.85	Provisional [ICRA]A(SO)

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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. For more information, visit [www.icra.in](http://www.icra.in)

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<sup>2</sup> 100 lakh = 1 crore = 10 million



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