

August 02, 2019

Electronica Finance Limited: Ratings upgraded for PTCs issued under three machinery loan pools

Summary of rating action

Issue name	Instrument*	Initial amount (Rs. crore)	Amount after previous surveillance exercise (Rs. crore)	Amount after Jun-19 payout (Rs. crore)	Rating action
Egret SBL IFMR Capital 2016	PTC Series A1	30.66	7.92	0.88	Rating upgraded to [ICRA]AAA(SO) from [ICRA]A+(SO)
	PTC Series A2	1.38	1.38	1.38	Rating upgraded to [ICRA]AA-(SO) from [ICRA]BBB+(SO)
MSE Loan Pool Trust – X	PTC Series A1	32.85	10.52	1.39	Rating upgraded to [ICRA]AAA(SO) from [ICRA]AA-(SO)
MSE Loan Pool Trust – XI	PTC Series A1	10.85	3.68	0.77	Rating upgraded to [ICRA]AAA(SO) from [ICRA]A+(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the ratings for the pass-through certificates (PTCs) issued under three loan securitisation transactions originated by Electronica Finance Limited (EFL), as tabulated above. The PTCs in these transactions are backed by machinery loan and industrial property loan receivables originated by EFL. The receivables have been assigned to the respective trusts at par and each trust has issued the PTCs backed by the same.

The upgrade in the ratings is on account of the high amortisation of the PTC payouts under the transactions. The amortisation has led to a high build-up of the credit enhancement cover for future PTC payouts. Also, the break-even collection efficiencies are very low compared to the actual collection levels observed in the pools.

A summary of the performance of the pools till the June 2019 payout month has been tabulated below.

Pool performance summary

Parameter	Egret SBL IFMR Capital 2016	MSE Loan Pool Trust – X	MSE Loan Pool Trust – XI
Months Post Securitisation	32	30	30
Pool Amortisation	82.42%	78.35%	83.63%
PTC Amortisation			
PTC A1	97.13%	95.76%	92.92%
PTC A2	0.00%	-	-
Monthly Collection Efficiency ¹ for Mar-19	104.74%	103.82%	100.70%
Monthly Collection Efficiency for Apr-19	96.32%	95.45%	98.40%
Monthly Collection Efficiency for May-19	96.75%	97.28%	98.27%
Cumulative Collection Efficiency ²	99.19%	99.46%	98.34%
Loss-cum-30+ dpd ³ (% of initial Pool)	2.02%	2.54%	1.44%
Loss-cum-90+ dpd ⁴ (% of initial Pool)	0.55%	0.51%	1.44%
90+ dpd ⁵ (% of Balance Pool)	4.02%	1.32%	0.00%
Cumulative Cash Collateral Utilisation	0.00%	0.00%	0.00%
Breakeven Collection Efficiency ⁶ for PTC A1	>100%	>100%	>100%
Credit Collateral (% of Balance Pool)	22.05%	23.09%	61.07%
Principal Subordination (% of Balance Pool) for PTC A1	81.24%	82.37%	61.07%
Excess Interest Spread (% of Balance Pool) for PTC A1 ⁷	6.99%	9.91%	5.98%

¹ (Total Current and Overdue collections for the month as a percentage of Total Billing for the month)

² (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

³ Inclusive of Unbilled and Overdue Principal portion of delinquent contracts for more than 30 days, as a percentage of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a percentage of Initial Pool Principal

⁵ Inclusive of Unbilled Principal portion of contracts delinquent (Future POS) for more than 90 days, as a percentage of Balance Principal

⁶ (Balance Cashflows payable to investor – Cash Collateral available)/Balance Pool Cashflows

⁷ (Pool Cashflows – Cashflows to PTC A1 – PTC A2 principal – Originator's residual share)/Pool Principal outstanding

Key rating drivers

Credit strengths

- High amortisation of senior PTCs resulting in the availability of high Cash Collateral (CC), principal subordination and excess interest spread (EIS) cover for the balance PTC payouts
- Good collection efficiency levels in the pools

Credit challenges

- High obligor concentration in underlying pools, especially in MSE Loan Pool Trust - X and MSE Loan Pool Trust - XI transactions
- Moderate credit profile of borrower segment with susceptibility to the operating environment and relative difficulty in security enforcement

Description of key rating drivers highlighted above

The performance of all three pools has been good with a cumulative collection efficiency in the range of 98-99% post May 2019 collections. The monthly collection efficiency levels in the pools have not fallen below 90% in most of the months till May 2019 (collection month) post securitisation.

Also, with stable collections in recent months, the PTCs have amortised significantly, resulting in a build-up in credit enhancement for the balance tenure of the PTC payouts.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to upgrade the ratings of these transactions. ICRA will continue to monitor closely the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset backed securities (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. Taking into account the high obligor concentration and the profile of the borrowers in the MSE Loan Pool Trust – X and MSE Loan Pool Trust – XI transactions, ICRA has modelled each borrower as a collateralized debt obligation (CDO) (i.e at a contract level for all obligors) with an implied probability of default (PD) and loss given default (LGD). The PD is commensurate with the non-investment grade rating view on the obligors and the tenure of the loan extended. The LGD has been assumed to be 75% after taking into account the recoveries from the Security Deposit available individually for the underlying loans. Moreover, a minimum level of base correlation has been assumed among the borrowers, with a further add-on correlation for borrowers belonging to the same geography and with the same underlying asset.

Factoring in the low obligor concentration in the Egret SBL IFMR Capital 2016 transaction, ICRA has modelled all the contracts in the pool using the regular lognormal distribution approach. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and the rated pools, as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions have been adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes

could impact the performance of the underlying pool contracts. After making these adjustments, the expected loss and prepayments during the balance tenure of the pool are provided below.

Sr. No	Transaction Name	Expected Loss (% of balance pool principal)	Prepayment
1	Egret SBL IFMR Capital 2016	8-9%	6-9% p.a.

Liquidity position

A credit collateral is available in the transactions in the range of 22-23% of the balance pool principal amount for the Egret SBL IFMR Capital 2016 and MSE Loan Pool Trust – X pools, while it is around 61% for the MSE Loan Pool Trust – XI pool. Also, for Egret SBL IFMR Capital 2016, only the interest amount is promised on the PTCs on a monthly basis while the principal amount is promised on the scheduled maturity date. This structural feature imparts significant liquidity to the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the scheduled PTC payouts.

The credit collateral fully covers the PTC payouts for the MSE Loan Pool Trust – X and MSE Loan Pool Trust – XI transactions and fully covers the senior investor payouts for the Egret SBL IFMR Capital 2016 transaction.

Analytical approach

The rating actions are based on the performance of the pools till May 2019 (collection month), the present delinquency levels and the credit enhancement available in the pools, as well as the performance expected over the balance tenure of these pools.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Electronica Finance Limited (EFL), formerly known as Electronica Leasing and Finance Limited, is a non-banking finance company (NBFC) incorporated in 1990 with a mandate to provide finance to the customers of Group companies. In FY1993, the company started financing products of other manufacturers in the MSME sector. At present, EFL provides financial assistance to small and medium industrial units (mostly tier II, tier III and tier IV ancillary units) engaged mainly in the engineering, auto ancillary and plastic industries. EFL had assets under management of Rs. 1,264 crore catering to more than 5,000 customers through 45 branches spread across 14 states as on March 31, 2019.

Key financial indicators (audited)

	FY2018 IGAAP	FY2019 IGAAP
Net interest income	83.93	75.14
Total income	159.86	143.05
Profit after tax	16.77	20.30
Managed portfolio	1,101.26	1,264.37
Net worth (adj. for revaluation reserve)	123.10	142.04
% CRAR	19.94%	18.71%
Gearing (including security deposits)	6.50	6.45
Gearing (including security deposits & off-book portfolio)	8.04	8.11
% Return on average managed assets	1.45%	1.60%
% Return on average net worth	14.78%	15.31%
% Gross NPAs	1.23%	1.73%
% Net NPAs	1.00%	1.41%
Net NPA/net worth	7.16%	10.13%

Amount in Rs. crore; All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
			Aug-19	Sep-18	Nov-17	Dec-16	Oct-16*		
1	Egret SBL IFMR Capital 2016	PTC Series A1	30.66	0.88	[ICRA]AAA (SO)	[ICRA]A+ (SO)	[ICRA]A (SO)	[ICRA]A- (SO)	Provisional [ICRA]A- (SO)
	PTC Series A2	1.38	1.38	[ICRA]AA- (SO)	[ICRA]BBB+ (SO)	[ICRA]BBB- (SO)	[ICRA]BB+ (SO)	Provisional [ICRA]BB+ (SO)	

*Initial ratings assigned

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			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
			Aug-19	Sep-18	Nov-17	Feb-17	Dec-16*		
2	MSE Loan Pool Trust – X	PTC Series A1	32.85	1.39	[ICRA]AAA (SO)	[ICRA]AA- (SO)	[ICRA]A+ (SO)	[ICRA]A (SO)	Provisional [ICRA]A (SO)

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			Aug-19	Sep-18	Nov-17	Feb-17	Dec-16*		
3	MSE Loan Pool Trust – XI	PTC Series A1	10.85	0.77	[ICRA]AAA (SO)	[ICRA]A+ (SO)	[ICRA]A (SO)	[ICRA]A (SO)	Provisional [ICRA]A (SO)

*Initial ratings assigned

Complexity level of the rated instrument: Highly Complex

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

Annexure-1: Instrument details

Issue Name	Instrument	Month of Issuance	Coupon Rate	Scheduled Maturity Date [#]	Rated Amount (Rs. crore ⁸)	Current Rating
Egret SBL IFMR Capital 2016	PTC Series A1	Oct-16	9.60%	Mar 2021	0.88	[ICRA]AAA(SO)
	PTC Series A2		13.00%	Mar 2021	1.38	[ICRA]AA-(SO)
MSE Loan Pool Trust – X	PTC Series A1	Dec-16	10.00%	Jun 2021	1.39	[ICRA]AAA(SO)
MSE Loan Pool Trust – XI	PTC Series A1	Dec-16	9.20%	Dec 2020	0.77	[ICRA]AAA(SO)

[#] The actual tenure is likely to be shorter owing to prepayments

⁸ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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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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