India Ratings Rates Electronica Finance’s Additional Bank Facilities and Affirms Existing Bank Loans and NCDs at ‘IND A’/Stable

Mar 27, 2025 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following ratings actions on Electronica Finance Limited’s (EFL) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Bank facilities	-	-	-	INR2,750	IND A/Stable	Assigned
Non-convertible debentures*	-	-	-	INR3,400	IND A/Stable	Affirmed
Bank facilities	-	-	-	INR20,250	IND A/Stable	Affirmed

*Details in Annexure

Analytical Approach

Ind-Ra continues to take a standalone view of EFL to arrive at the ratings.

Detailed Rationale of the Rating Action

The ratings action reflects EFL’s 30-year operating history in machine financing (MF), which accounted for 65% of its assets under management (AUM) as of 9MFY25, alongside a growing portion of its non-MF assets. The ratings are bolstered by a lower leverage ratio of 2.8x and adequate capitalisation with a capital adequacy ratio of 24.8% in 9MYF25, following the recent equity investments. The micro loan against property (micro LAP) segment, a high-yielding product, maintained a 18.8% share of AUM in 9MFY25. However, this also contributes to overall delinquencies, making its performance a crucial aspect to monitor. Additionally, the ratings highlight EFL’s diversified funding profile, which includes a mix of long-term liabilities that align with the duration of its asset book, and the ability to generate liquidity through loan securitisation or co-lending. The company's ability to expand the franchisee while maintaining its asset quality in the current macro-economic environment will be a key monitorable.

List of Key Rating Drivers

Strengths

- Substantial equity infusion enables franchisee growth
- Expertise in MF; business diversification on hold
- Established underwriting systems and processes
- Diversified funding profile

Weaknesses

- Performance of micro lap book monitorable

Detailed Description of Key Rating Drivers

Substantial Equity Infusion Enables Franchisee Growth: EFL's capitalisation levels remain robust, with a tier-1 capital ratio of 22.3% and a capital to risk (weighted) assets ratio (CRAR) of 24.8% in 9MFY25, following a Series B equity raise of INR4,000 million. This substantial capital injection has significantly strengthened the company's financial foundation, enabling it to pursue growth opportunities more aggressively. Resultantly, the company's leverage ratio markedly improved to 2.8x in 9MFY25 from 4.6x (debt/tangible equity) at end-FY24 (FY23: 4.4x, FY22: 3.1x). Encourage Capital now holds around 16.82% on a fully diluted basis in EFL, reflecting strong investor confidence.

The tangible net worth of the company surged to INR8,125 million in 9MFY25 from INR4,256 million in FY24, primarily driven by significant investments from key stakeholders. Leapfrog Investments has injected INR2,800 million, securing a 20.78% stake on a fully diluted basis. Similarly, Aavishkaar Capital has invested INR930 million for a 6.31% stake on a fully diluted basis, bolstering the company's capital base. This recent equity infusion will play a pivotal role in expanding the franchisee network. With enhanced capital resources, EFL can invest in new franchise locations, upgrade existing infrastructure, and implement advanced technologies to improve operational efficiency. Additionally, the increased capital buffer will help absorb potential asset quality issues, providing a cushion against any adverse economic conditions.

Ind-Ra expects the operating leverage to improve over the long term, benefiting from the economies of scale. As the company expands its franchise network, fixed costs will be spread over a larger revenue base, leading to improved profitability. This scale effect will also enable EFL to negotiate better terms with suppliers and partners, enhancing its competitive position.

Expertise in MF; Business Diversification on Hold: EFL has a rich operating history of around three decades in MF. This positions the company with a competitive edge in terms of crucial expertise, encompassing machine's functionality and resale value. The firm's strong relationships with suppliers and borrowers are evident in the significant portion of repeat business from existing customers, accounting for 35%-37% of its incremental business. EFL had been expanding its branch network until FY24 (FY24: 217; FY23: 165; FY22: 110; FY21: 65). It has halted its rapid branch expansion and has been banking on the operating leverage of existing branches to scale up their franchise. It operated through 216 branches across 15 states, with nearly 50% of its portfolio concentrated in Maharashtra, Gujarat, and Rajasthan. The geographic concentration has been reducing year on year with expansion in new territories.

Due to the macroeconomic stress encountered especially in the micro LAP sector, primarily driven by customer overleveraging, EFL's management has decided to maintain the share of micro LAP and focus on improving asset quality in this segment rather than pursuing aggressive growth in the short term. This strategic decision is also influenced by increased competition in the MF segment, which has caused a slight decline in yields since March 2024. Previously, yields had been rising mainly due to growth in the Micro-LAP sector. In light of these challenges, the management has prioritized cost optimization and control over asset quality during these stressful times, rather than focusing on rapid expansion. The core and flagship product, MF, remains the focal point for the medium term. MF continues to be a significant part of EFL's portfolio, accounting for around 65% of its AUM of INR29.31 billion as of December 2024 (FY24: 65%, FY23: 67%, FY22: 74%). Ind-Ra believes that the spreads earned from its core product will drive its profitability.

Over the years, EFL has gradually diversified its product mix to cater to additional funding requirements of its borrowers and expand its exposure to the non-manufacturing borrower base. Its array of offerings includes MF, micro LAP, LAP, institutional lending, solar financing, and other services. Ind-Ra opines the gradual expansion into products such as micro LAP can result in enhancing yields in the long term, and enhancing the granularity of its loan portfolio, which constituted 18.81% of the total portfolio as of 31 December 2024 (FY20: 3%). Furthermore, the company plans to further diversify its offerings by venturing into residential solar rooftop financing. The company has started a pilot project of residential solar rooftop financing in Gujarat. The company has witnessed some stress in its the solar financing product which is under control. The asset quality in this segment will remain a key monitorable.

Established Underwriting Systems and Processes: EFL's established presence in MF has bolstered its sourcing, underwriting, monitoring and recovery strategies. The company's lending practices are rooted in the evaluation of cash flow of MSME. Additionally, EFL has developed strategies to safeguard itself against losses resulting from borrower defaults, such as financing standardised machines and maintaining exclusive charge over them. To further mitigate risks, EFL's MFs are predominantly supported by approximately 20% cash collateral or borrower's equity contribution in machinery purchases.

EFL has established partnerships with equipment suppliers, enabling it to conduct business with no reliance on any direct-selling agents and identify potential buyers in the event of equipment liquidation.The management has made changes in its underwriting policies and collection strategies to strengthen the process.

The management expects the non-MF book to account for 35%-40% of the AUM (FY24: 35.1%; FY23: 33%; FY22: 26%) over the long term, led by micro LAP and solar financing. Both these products have a limited track record, unlike MF, and are still evolving with scale. The underwriting quality for these segments will be a key rating monitorable.

Diversified Funding Profile: EFL's vintage has enabled it to raise funds from diversified sources, i.e. public sector banks, private sector banks, foreign portfolio investors, development financial institutions, along with large non-banking financial companies (NBFCs). EFL raises funds from these sources through term loans (9MFY25: 58%, FY24: 58%; FY23: 70%); working capital loans (2.1%, FY24: 1.5%), direct assignments, pass-through certificates and co-lending (25.4%, 26%) and NCDs (14.3%; 15.3%). Its funding from banks and NBFCs accounted for 87% of the outstanding borrowing at end-9MFY25 (FY24: 85%: FY22: 87%; FY21: 84%), with a well-diversified base of about 39 lenders, including 11 public sector banks, 12 private banks and eight NBFCs.

Around 40% of the machines funded by EFL are green machines. The company has also ventured into solar rooftop financing. Both these factors can enable the company to access a wider universe of lenders such as development finance institutions and impact funds. The anticipated foray of the company in these green products can enhance its environmental, social, and governance (ESG) credentials, thereby can lead to broadening its investor base.

Performance of Micro LAP Book Monitorable: EFL has managed its asset quality, with a collection efficiency ranging between 87% and 92% during FY24. However, this efficiency slightly declined to 88% in 9MFY25. The gross NPA had improved to 1.45% by March 2024. However, the gross non-performing assets rose to 2.62% in 9MFY25, largely due to the stress in the micro-LAP sector especially in Madhya Pradesh, Gujarat and Rajasthan. The portfolio at risk (PAR) for 30+ days past due (PAR30+) in this segment surged to 11.49% in 9MFY25 from 5.55% in FY24. Similarly, the PAR for 90+ days past due (PAR90+) increased to 7.02% in 9MFY25 (FY24: 3.96%). MF segment's asset quality has also seen a marginal rise with PAR30+ rising to 1.12% in 9MFY25 (FY24: 0.57%).

With the expected increase in the micro LAP book in the long term, the ability of the company to maintain its provision coverage ratio (9MFY25: 49.0%, FY24: 44.3%, FY23: 45.9%, FY22: 49.6%) and asset quality will be a key monitorable. Furthermore, inflationary pressures could increase the working capital requirements for EFL's borrowers, putting additional strain on their cash flows. The company is concentrating on expanding its micro LAP book in the long run, which targets a moderately weak customer profile. While the collection efficiency remained in line with the collection efficiency of the total AUM, the performance of micro LAP book would determine EFL's asset quality trajectory with the seasoning of asset loans and is a key rating monitorable.

Liquidity

Adequate: As per the asset and liability management (ALM) statement of 28 February 2025, EFL had a cumulative liquidity surplus in all its buckets. The company had undrawn sanction limits of around INR2,550 million as of February 2025. It also has unutilised cash credit limits of INR1,077.5 million as emergency lines. Furthermore, as of February 2025, the company's liquidity levels stood at INR2,736.8 million.

The company keeps liquidity in form of fixed deposits and liquid investments, which is sufficient to cover three months of debt repayments without considering inflow from advances.

Rating Sensitivities

Positive: The company's ability to scale-up the franchise while managing its asset quality and profitability, diversification of funding by raising money through capital market instruments and prudent management of liquidity will result in a positive rating action.

Negative: Sustained deterioration in the liquidity buffers, higher-than-expected credit costs, leverage exceeding 4.5x on a sustained basis and a weakening of its operating profit buffers beyond Ind-Ra's expectations will result in a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on EFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Pune-based EFL is a non-deposit taking NBFC engaged in asset financing since 1990. The company extends loans to MSME for various needs such as working capital, MF and property backed financing and solar financing. EFL also finances NBFCs/microfinance institutions and micro LAP loans. The company had a presence in industrial clusters for MSME customers and in tier 2 and tier 3 cities for micro-LAP segment across 15 states through 216 branches at end-December 2024.

Key Financial Indicators

Particulars	9MFY25	FY24	FY23
Total assets (INR billion)	35.21	27.33	21.90

AUM (INR billion)	44.81	37.77	29.05
Total equity* (INR billion)	8.13	4.25	3.51
Profit after tax (INR billion)	0.26	0.63	0.40
Return on average assets (%)	1.13	2.60	2.19
Source: Company *including CCPS *Ratios calculated as per Ind-Ra's calculations			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook									
	Rating Type	Rated Limits (million)	Rating	23 Dec, 2024	12 July, 2024	12 March 2024	22 November 2023	21 September 2023	28 June 2023	23 December 2022	11 November 2022	2 August 2022	10 June 2021
Bank facilities	Long-term	INR23,000	IND A/Stable	ND A/Stable	IND A/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable
Non-convertible debentures	Long-term	INR3,400	IND A/Stable	ND A/Stable	IND A/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank facilities	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE612U08025	14 June 2021	11.25	13 June 2027	INR594	IND A/Stable
INE612U07084	21 July 2023	9	21 July 2026	INR450	IND A/Stable
INE612U08033	30 December 2022	12.55	29 June 2028	INR300	IND A/Stable
INE612U07100	31 August 2023	10.67	31 August 2026	INR250	IND A/Stable
INE612U07092	5 September 2023	10.48	5 September 2026	INR250	IND A/Stable
INE612U07118	27 September 2023	10.45	27 October 2026	INR240	IND A/Stable
INE612U08041	28 December 2023	13	28 June 2029	INR350	IND A/Stable
INE612U08041	24 January 2024	13	28 June 2029	INR150	IND A/Stable
INE612U08058	26 March 2024	12.90	26 September 2029	INR200	IND A/Stable
INE612U07126	29 August 2024	10.48	15 May 2031	INR 600	IND A/Stable
Limit utilised				INR3,384	

Limit unutilised				INR16	
Total				**INR3,400**	
Source: EFL, NSDL					

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APPLICABLE CRITERIA AND POLICIES

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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