

Press Release

ECL Finance Limited (ECLF)

April 18, 2017

Rating Assigned

Total Instruments Rated*	Rs. 300.00 Cr
Long Term Rating	SMERA AA/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned a rating of **SMERA AA (read as SMERA double A)** to the Rs. 300.00 crore Proposed Unsecured Subordinated Perpetual Non-Convertible Debenture Issue by ECL Finance Limited (ECL). The outlook is **'Stable'**.

ECL Finance Limited (ECLF) is a Non-Banking Finance Company (NBFC-ND-SI) registered with the RBI. The company was incorporated in 2005 as a subsidiary of Edelweiss Financial Services Limited (EFSL) – the flagship company of Edelweiss Group, which has interests in capital market advisory, wealth management, asset management, stock broking, asset reconstruction, retail credit (including agri-finance), wholesale lending and insurance business.

ECLF is engaged in financing of real estate developers, undertakes structured collateralised finance for corporates including promoter finance, IPO (Initial Public Offering) & ESOP (Employee Stock Option Plan) Finance. ECLF also extends Loans Against Property (LAP), SME Loans and Agri-Finance.

List of key rating drivers and their detailed description

Strengths:

Experienced management, strong parentage: ECLF, a Non-Banking Finance Company promoted by Mr. Rashesh Shah and other promoters of the Edelweiss group, is a subsidiary of Edelweiss Financial Services Limited (EFSL). The key promoters have been in the financial services industry for over two decades. EFSL is present in capital market advisory, wealth management, asset management, stock broking, asset reconstruction, retail credit (including agri-finance), wholesale lending and insurance business via several subsidiaries.

EFSL, the flagship company of the group, was incorporated in 1995. EFSL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). EFSL is present in a wide gamut of financial services from stock broking to insurance.

EFSL is the ultimate holding company of the Edelweiss Group and reported a consolidated net profit of Rs. 414.38 cr on a consolidated operating income of Rs. 5,268.08 cr in FY2016 as against a consolidated net profit of Rs. 328.71 cr on consolidated operating income of Rs. 3,894.05 cr in FY2015. At a consolidated level, EFSL reported Earning Assets of Rs. 32,922 cr as on 31 March, 2016 against Rs. 27,337.21 cr on 31 March, 2015.

EFSL's credit risk profile is supported by its well diversified business interests across lending/credit operations, capital markets, fee based businesses and insurance. EFSL benefits from its centralised treasury operations and ability to mobilise resources from various financial institutions and capital markets.

The rating centrally factors in the ongoing support from EFSL to ECLF on account of the common shareholding, strategic importance of ECLF to the group and the presence of significant financial linkages.

Healthy capitalisation levels and significant financial flexibility: ECLF reported Capital Adequacy Ratio (CAR) of 16.56 per cent on 31 March, 2016 as compared to 17.72 per cent as on 31 March, 2015. The decline in CAR was mainly on account of increase in loans and advances to Rs. 11,983.54 cr as on 31 March, 2016 from Rs. 9,237.24 cr as on 31 March, 2015. The tier I ratio of the company remained in line with regulatory requirements and stood at 11.34% as on 31 March, 2016 against 11.68% as on 31 March, 2015. The CAR moved to 16.11% as on 31 December, 2016 on account of significant growth in the loans and advances of ECLF.

ECLF has demonstrated the ability to raise funds from banks and financial institutions (including mutual funds) via working capital facilities and capital market instruments (including Commercial paper, Principal Protected Market Linked Debentures and Subordinated Debt instruments). ECLF is also able to raise funds from the Collateralised Borrowing and Lending Obligation (CBLO) segment thereby reducing its overall cost of funds. Besides the domestic markets, ECLF has been able to raise funds from the overseas markets via instruments like Masala Bonds.

SMERA expects ECLF's capitalisation levels to improve over the medium term on account of plans by the company to augment its capital structure by raising additional tier I capital and healthy internal accruals. ECLF's ability to sustain its capitalisation levels while maintaining growth in its loan book shall be critical in maintaining a stable credit risk profile.

Healthy asset quality and comfortable profitability indicators: ECLF typically finances real estate developers, undertakes structured collateralised finance to corporates including promoter finance, IPO & ESOP Finance, extends Loans Against Property (LAP), SME Loans and Agri-Finance. The company has developed stringent underwriting practices and maintains an average Loan to Value Ratio (LTV) of less than 50 per cent. As a result, ECLF has been able to maintain a comfortable Gross Non-Performing Asset (GNPA) ratio of 1.83% as on 31 December, 2016 as against 1.88% as on 31 March, 2016.

The company also maintains adequate provisions against its GNPA's. ECLF reported a provision coverage ratio of 69.10% as on 31 December, 2016 against 74.38% as on 31 March, 2016. Consequently, the Net Non-Performing Asset (NNPA) Ratio also remained comfortable at 0.57% as on 31 December, 2016 as against 0.48% as on 31 March, 2016.

The healthy asset quality resulted in low provisioning requirements for the company. Consequently, the Return on Average Assets (RoAA) remained comfortable at 1.67% in FY2016 as against 1.77% in FY2015. ECLF's profitability metrics are also supported by the healthy Net Interest Margin (NIM) of 5.14% in FY2016 (4.62% in FY2015) and low cost to income ratio of the company. ECLF reported a cost to Income Ratio of 29.85 % in FY2016 as against 29.02% in FY2015.

ECLF's asset quality is expected to remain healthy over the near to medium term on the back of its stringent underwriting norms and proactive recovery policy. ECLF's ability to maintain healthy profitability margins by cost optimisation and exhibiting healthy spreads will be a key credit monitorable.

Weaknesses:

Susceptibility of operating performance to the level of economic activity: ECLF primarily caters to borrowers in the real estate sector, to corporates for general business purposes, for corporate actions such as Mergers & Acquisitions (M&A) among several others. It also has presence in event based lending such as IPO funding, bridge finance during events like M&A. Considering its presence in these segments, its performance is dependent on movement in the macroeconomic indicators, level of corporate investment activity and performance of the real estate industry.

SMERA believes that events such as significant hardening of interest rates, high inflationary pressures or sharp slowdown in GDP growth rate can significantly impact demand for credit and cash flows of the existing borrowers. This in turn is likely to translate into slower loan book growth and asset quality pressures for players like ECLF.

Risks inherent in wholesale lending business: ECLF typically provides large ticket advances to corporate borrowers. While ECLF has been following prudent risk management practices with respect to lending such as maintaining Low LTV ratios, stringent appraisal processes etc., events such as delinquency in a few accounts can impact the performance and profitability of the business.

ECLF will continue to be exposed to risks emanating from the wholesale lending nature of its business. Its ability to diversify its exposure across borrowers while maintaining asset quality shall be a key rating sensitivity factor.

Analytical approach: SMERA has taken a standalone view of the rated entity and notched up the rating by factoring in group support. Subsequently, SMERA has notched down the rating since the instrument is a perpetual instrument eligible for inclusion as Tier I Capital and has loss absorption characteristics. The issuer may be required to skip/defer the coupon/interest payment in case of certain events such as decline in CAR below regulatory thresholds.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Group & Parent Support: <https://www.smera.in/criteria-group.htm>
- Hybrid Instruments: <https://www.smera.in/hybrid-instruments.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Rated Entity

ECLF is a Non-Banking Finance Company (NBFC-ND-SI) registered with the RBI. The company was incorporated in 2005 as a subsidiary of Edelweiss Financial Services Limited (EFSL). ECLF is engaged in wholesale financing for real estate developers, undertakes structured collateralised financing to corporates including promoter finance, IPO & ESOP Finance, extends Loans Against Property (LAP), SME Loans and Agri-Finance.

In FY2016, ECLF reported PAT (profit after tax) of Rs. 250.06 crore on total income of Rs. 2046.35 crore against PAT of Rs. 182.94 crore on total income of Rs.1471.59 crore in FY2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instruments	FY2017 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	LT	300.00	SMERA AA/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	N.A	N.A	N.A	300.00	SMERA AA/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Arindam Som, Rating Analyst, Tel: 011-49731321 Email: arindam.som@smera.in	Varsha Bist Manager Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*