Press Release

ECL Finance Limited (ECLF)

April 28, 2017

Rating Assigned & Reaffirmed

Total Instruments Rated*	Rs. 450.00 Cr
Secured NCDs	SMERA AA+/Stable (Assigned)
Perpetual Debt Instruments	SMERA AA/Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned rating of **SMERA AA+ (read as SMERA double A plus)** on the Rs. 150.00 cr Proposed Secured Unsubordinated Redeemable Non-Convertible Debenture Issue by ECL Finance Limited (ECLF). SMERA has also reaffirmed the rating of **SMERA AA (read as SMERA double A)** assigned to the Rs. 300.00 crore Proposed Unsecured Subordinated Perpetual Non-Convertible Debenture Issue by ECL Finance Limited (ECLF). The outlook is **'Stable'.**

ECL Finance Limited (ECLF) is a Non-Banking Finance Company (NBFC-ND-SI) registered with 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 finances 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 has interests 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 per cent as on 31 March, 2016 against 11.68 per cent as on 31 March, 2015. The CAR moved to 16.11 per cent 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. Other than domestic markets, ECLF has been able to raise funds from 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 per cent as on 31 December, 2016 as against 1.88 per cent as on 31 March, 2016.

The company also maintains adequate provisions against its GNPAs. ECLF reported a provision coverage ratio of 69.10 percent as on 31 December, 2016 against 74.38 percent as on 31 March, 2016. Consequently, the Net Non-Performing Asset (NNPA) Ratio also remained comfortable at 0.57 per cent as on 31 December, 2016 as against 0.48 per cent 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 per cent in FY2016 as against 1.77 per cent in FY2015. ECLF's profitability metrics are also supported by healthy Net Interest Margin (NIM) of 5.14 per cent 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 per cent in FY2016 as against 29.02 percent 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 movements in 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 in order to arrive at the rating for the Proposed Secured Unsubordinated Redeemable Non-Convertible Debenture.

Subsequently, SMERA has notched down the rating since the Proposed Unsecured Subordinated Perpetual Non-Convertible Debenture is 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 cr on total income of Rs. 2046.35 cr against PAT of Rs. 182.94 cr on total income of Rs.1471.59 cr 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	FY2018 (Current)			FY2018		FY2017		FY2016	
	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 (Reaffirmed)	13 Apr, 2017	SMERA AA/Stable (Assigned)	-	-	-	-
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	LT	150.00	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 (Reaffirmed)
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	N.A	N.A	N.A	150.00	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, 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

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