

Press Release

ECL Finance Limited (ECL)

03 May, 2018

Rating Reaffirmed



Total Instruments Rated*	Rs.450.00 Cr
Secured NCD's	SMERA AA+/Stable (Reaffirmed)
Perpetual Debt Instruments	SMERA AA/Stable (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed rating of **SMERA AA+ (read as SMERA double A plus)** on the Rs. 150.00 Cr. 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 Cr. Unsecured Subordinated Perpetual Non-Convertible Debenture Issue by ECL Finance Limited (ECLF). The outlook is '**Stable**'.

ECLF is a Non-Banking Finance Company (NBFC-ND-SI) registered with the Reserve Bank of India. The company was incorporated in 2005 as a subsidiary of Edelweiss Financial Services Limited (EFSL), the listed entity in the Edelweiss Group. ECL Finance has become a wholly owned (100%) subsidiary of EFSL w.e.f. 19th September, 2017. Earlier, a stake of 7.80% in ECL was held by Waverly Pte Ltd, an affiliate of GIC, Singapore. The company is engaged in financing activities like structured and collateralized corporate loans, real estate financing, loans against shares and initial public offering (IPO) funding, ESOP Financing, sponsor finance, loans against property (LAP), SME Loans and Agri-Finance.

Key rating drivers

Strengths

Experienced Management, Strong Parentage and Diversified revenue stream

Edelweiss Group, promoted by Mr. Rakesh Shah and Mr. Venkat Ramaswamy, has been engaged in the financial services industry for over two decades. The group has a diverse business profile in financial services with presence in segments such as retail credit (including agri-finance), wholesale lending, asset reconstruction, wealth management, asset management, capital market including stock broking and insurance business. The gradual diversification into lending and fee based activities over the last two decades including specialized areas such as insurance and asset reconstruction has strengthened the business profile of the group significantly. Most of the businesses of the group present significant growth opportunities with lending to the small business owners being one of the strategic growth areas. Retail credit in India continues to be under-penetrated, be it in mortgages, SME, agri-credit or microfinance, thereby offering an increased scope for financing to individuals, entrepreneurs and business owners.

The Group reported a consolidated net profit of Rs. 642 Cr. for the nine month period April-December 2017 on a total income of Rs.5, 999 Cr. showing a year-on-year growth of 46% & 28% respectively. In 2016-17, the net profit stood at Rs.609.30 Cr. on an operating income of Rs. 6, 618.84 Cr. The return on equity (RoE) stood at 17.40% in April – Dec 2017 while the same stood at 15.22 % for FY17.

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

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Edelweiss group's wider presence across lending/credit operations, capital markets, asset reconstruction and insurance has enabled it to achieve a healthy mix of fund and fee based income. The group continues to benefit from its financial flexibility and ability to mobilize resources from the capital markets from time to time.

SMERA believes that ECLF is an integral part of the Edelweiss Group and would continue to receive strong support from the group. It is strategically important for its parent, EFSL particularly given its status as one of the largest lending arm and NBFCs in the group's ecosystem.

Healthy Capitalization Levels

ECLF reported Capital Adequacy Ratio (CAR) of 18.87 per cent on 31 December, 2017 as compared to 16.14% as on 31 March, 2017. The tier I Ratio of the company remained in line with the regulatory requirements and stood at 11.35% as on 31 March, 2017. The networth of ECL improved and stood at Rs. 2, 658 Cr. as on 31 December, 2017 as compared to Rs.2, 357 Cr. as on 31 March, 2017. SMERA believes ECL will maintain healthy capitalization levels given its plans to augment its capital structure by raising additional tier I capital over the medium term and supported by healthy internal accruals.

ECL's ability to maintain capitalisation will result in steady growth in loan book over the medium term and help sustain established market position in lending business. The loan book of ECL stood at Rs.18, 765 Cr. as on 31st December, 2017 vis-à-vis Rs.17, 082Cr. as on March, 2017.

Diversified Funding Profile and Significant Financial Flexibility

ECL has demonstrated the ability to raise funds from banks & financial institutions (including mutual funds) through working capital facilities, term loans and capital market instruments (including Commercial paper, Principal Protected Market Linked Debentures and Subordinated Debt instruments). ECL is also able to raise funds from the Collateralized Borrowing & Lending Obligation (CBLO) segment in order to reduce its overall cost of short term funds.

Healthy Asset Quality and Comfortable Profitability Indicators in Lending Business

ECL typically finances Real Estate Developers, undertakes sponsor finance, IPO & ESOP Financing, 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 around 50 per cent. As a result, ECL has been able to maintain a comfortable Gross Non-Performing Asset (GNPA) of 1.85% as on 31 December, 2017 as well as on 31 March, 2017. The company also maintains adequate provisions against its GNPA. Consequently, the Net Non-Performing Asset (NNPA) Ratio also remained comfortable at 0.70% as on 31 December, 2017 as against 0.63% as on 31 March, 2017. SMERA expects ECL's asset quality to remain healthy over the near to medium term on the back of its stringent underwriting norms and proactive recovery policy.

Return on Average Assets (RoAA) remained comfortable at 1.80% (annualized) in December 2017 as against 1.67% in FY2017. ECL's profitability metrics are also supported by the healthy Net Interest Margin (NIM) and low cost to income ratio of the company on account of its focus on wholesale lending business.

ECL's ability to manage profitability by maintaining NIMs and sustaining asset quality and thereby, lower provisioning costs will remain a key monitoring factor.

Weaknesses:**Susceptibility of Operating Performance to Macroeconomic & Business Cycles**

ECL primarily caters to borrowers in the Real Estate Sectors and to corporates for general business purposes and for corporate actions such as Mergers & Acquisitions (M&A) among several others. The credit off take by such players typically depends on the performance of the macroeconomic indicators, level of corporate activity and industry business outlook.

SMERA believes unfavorable movement in interest rates, GDP growth and other macroeconomic indicators can significantly impact loan book growth and asset quality for ECL's borrowers.

Risks inherent in the Wholesale lending business

ECL typically provides large ticket advances to various corporate borrowers. As on 31 March, 2017 the total exposure to top 20 borrowers stood at ~27.91% as compared to 34.06% as on March, 2016. While ECL has been following prudent risk management practices with respect to lending, events like deterioration in credit quality of borrowers and decline in collateral valuations can impact its performance with regard to its asset quality and earnings profile.

SMERA believes that ECL will continue to be influenced by the risks emanating from the higher degree of concentration in its portfolio. 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.

However, SMERA has notched down the rating on the Unsecured Subordinated Perpetual Non-Convertible Debenture as it 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.

About the Group

Edelweiss Financial Services Ltd (EFSL), the holding company of the Edelweiss group of companies, was incorporated in 1995 and has diversified its line of operations in various credit and non-credit businesses. Edelweiss offers a robust platform of financial services, to a diversified client base across domestic and global geographies. Its key lines of business includes; Credit (Retail, Corporate and Distressed), Franchise & Advisory (Wealth Management, Asset Management and Capital Markets) and Insurance (life and general).

EFSL (the Group) has reported a net profit of Rs.642 Cr. on total revenue of Rs.5, 999 for 9MFY18. The company had a networth of Rs. 7,595 Cr. as on December 31, 2017.

On a standalone basis, for 9MFY18, ECL Finance Limited has reported a net profit of Rs.301 Cr. on a total income of Rs.2, 087 Cr. The company had a networth of Rs. 2,658 Cr. as on December 31, 2017.

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

Key Financials Indicators: (Financials)

Parameters	Unit	FY17	FY16	FY15
Total Assets	Rs. Cr.	21,164	17,117.52	12,847.23
Total Income	Rs. Cr.	2,495.04	1,886.58	1,241.18
PAT	Rs. Cr.	390.32	250.06	182.94
Net Worth	Rs. Cr.	2,357.33	1,982.23	1,737.10
Return on Average Assets (RoAA)	(%)	2.04	1.67	1.77
Return on Average Net Worth(RoNW)	(%)	17.99	13.45	11.10
Total Debt/Tangible Net Worth (Gearing)	Times	7.86	7.41	6.19
Gross NPA	(%)	1.85	1.88	1.67
Net NPA	(%)	0.63	0.48	0.30

Any other information: N.A.

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>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs.Cr.)	Ratings/Outlook
28-April-17	Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	Long Term	150.00	SMERA AA+/ Stable (Assigned)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	300.00	SMERA AA/ Stable (Reaffirmed)
18-April-17	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	300.00	SMERA AA/ Stable (Assigned)

***Annexure - Details of instruments rated:**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amt Rate (Rs.in Cr.)	Current Rating and Outlook
INE804I08742	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series II	16-May-17	10.25%	14-May-27	75.00	Smera AA/Stable (Reaffirmed)
INE804I08742	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series II	16-May-17	10.25%	14-May-27	55.00	Smera AA/Stable (Reaffirmed)
INE804I08742	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series II	16-May-17	10.25%	14-May-27	20.00	Smera AA/Stable (Reaffirmed)
INE804I08734	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series I	08-May-17	10.25%	07-May-27	100.00	Smera AA/Stable (Reaffirmed)
INE804I08734	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series I	08-May-17	10.25%	07-May-27	25.00	Smera AA/Stable (Reaffirmed)
INE804I08734	Unsecured Non-Convertible Subordinated Perpetual Bonds In The Nature Of Debentures-Series I	08-May-17	10.25%	07-May-27	25.00	Smera AA/Stable (Reaffirmed)
N.A.	Proposed Secured Unsubordinated Redeemable Nonconvertible Debentures	N.A.	N.A.	N.A.	150.00	SMERA AA+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury, President – Ratings Operations Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in</p> <p>Aditi Shah Analyst - Rating Operations Tel: 022-67141371 aditi.shah@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, and Certificate of Deposits etc. For more details, please visit www.smera.in.

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