

Press Release

Edelweiss Housing Finance Limited (EHFL)



16 August, 2017

Rating Assigned

Total Instruments Rated*	Rs. 100.00 Cr
Long Term Rating	SMERA AA+/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned rating of '**SMERA AA+**' (read as **SMERA double A plus**) to the Rs.100.00 crore proposed secured unsubordinated Redeemable Non-Convertible Debenture Issue by Edelweiss Housing Finance Limited (EHFL). The outlook is '**Stable**'.

EHFL is a Housing Finance Company (HFC) registered with National Housing Bank (NHB). The company was incorporated in 2008 as a step-down subsidiary of Edelweiss Financial Services Limited (EFSL) – the flagship company of the 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 businesses.

EHFL is engaged in mortgage finance, home loans, Loans Against Property (LAP) and small ticket developer finance, with focus on Tier I and Tier II cities. Currently, EHFL has operations in 26 cities including National Capital Region (NCR), Mumbai, Bangalore and Pune.

List of key rating drivers and their detailed description

Strengths:

Experienced management, strong parentage and financial flexibility: The promoters of EHFL have been in the financial services industry for over two decades. EFSL is present in the capital market advisory, wealth management, asset management, stock broking, asset reconstruction, retail credit (including agri-finance), wholesale lending and insurance businesses 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, the ultimate holding company of the Edelweiss Group, reported a consolidated net profit of Rs.609.31 crore on a consolidated operating income of Rs.6,618.83 crore in FY2016-17. In the previous year, the company registered a consolidated net profit of Rs.414.38 crore on a consolidated operating income of Rs.5,268.09 crore.

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.

EHFL demonstrated the ability to raise funds from banks and financial institutions via working capital facilities and capital market instruments (including commercial paper and subordinated debt

instruments). As on March 31, 2017, approximately 76 per cent of its on-balance sheet debt was from banks.

The rating factors in the ongoing support from EFSL to EHFL on account of the common shareholding, strategic importance of EHFL (as the primary Housing Finance arm) to the group. EHFL's ability to augment its capital structure by leveraging on its strong parentage and well-established market position shall continue to support its overall credit risk profile.

Healthy profitability indicators and comfortable asset quality levels: EHFL extends mortgage finance and home loans to self employed individuals and professionals. The company has developed stringent underwriting practices to assess the credit profile of prospective borrowers from this category. EHFL has been able to maintain a comfortable Gross Non-Performing Asset (GNPA) ratio of 1.23 per cent as on 31 March, 2017 as against 0.88 per cent as on 31 March, 2016.

EHFL's profitability metrics are also supported by the healthy Net Interest Margin (NIM) of 7.33 per cent in FY2016-17 (5.88 per cent in FY2015-16). The healthy NIM's coupled with low provisioning requirements resulted in improvement in the RoAA (Return on Average Assets) at 2.32 per cent in FY2016-17 as against 1.89 per cent in FY2015-16.

EHFL is shifting its focus to Tier II and Tier III cities to finance lower ticket size loans and explore the high growth potential in these markets to support its organic growth strategy. The continued focus of the government on providing 'Housing for All by 2022' is expected to further augur well for HFC's like EHFL. Additionally, EHFL also plans to explore inorganic initiatives to scale up operations significantly in the current fiscal. EHFL's CAR moderated to 13.88 per cent as on 31 March, 2017 from 16.92 per cent on 31 March, 2016 on account of the sharp growth in the loan book during FY2016-17. While the loan book is expected to grow considerably in the current fiscal, the CAR is expected to be comfortable on the back of the company's ability to raise additional funds by way of Tier 1 & Tier 2 capital.

EHFL's financial risk profile is expected to remain healthy over the near to medium term on the back of its healthy margins and comfortable asset quality.

Weaknesses:

Limited track-record of operations: EHFL, a recent entrant in the housing finance market plans to gradually expand its footprint to Tier II and Tier III cities targeting the affordable housing segment. EHFL reported a loan portfolio of Rs.3,286 crore as on 31 March, 2017 vis-à-vis Rs.2,399.54 crore as on 31 March, 2016. The company started its housing finance operations in 2010 and extends advances for tenure of upto 20 years. The company faces competition from established players - banks and other financial institutions with larger scale of operations that can offer similar products at competitive rates. EHFL, being a relatively new player, is yet to exhibit its ability to maintain profit margins and asset quality while scaling up operations.

Susceptibility of operating performance to level of economic activity: EHFL has presence across products including Loan Against Property (LAP) and developer financing. However, housing finance contributes significantly to business. The demand for housing loan emanates primarily from the demand for residential real estate - which is in turn linked to the level of economic activity in the region. The demand for housing is also influenced by variables like interest rates and level of employment.

EHFL's ability to grow its loan portfolio is expected to be susceptible to the performance of the housing sector and the government's policies and implementation of various housing schemes such as the Pradhan Mantri Awas Yojna, Rajiv Awas Yojna among others. EHFL's operating performance and profitability is also expected to be affected by the regulatory environment surrounding the Housing Finance Companies (HFCs).

Analytical approach: SMERA has taken a standalone view of the rated entity and has factored in support from the ultimate holding company.

Outlook: Stable

SMERA believes that EHFL will maintain a stable outlook on the back of its strong parentage and healthy resource mobilisation ability. The outlook may be revised to 'Positive' in case of sustained and significant growth in earning assets while improving its RoAA. The outlook may be revised to 'Negative' in case of significantly lower than expected growth in loan book or decline in profit margins, asset quality and capital adequacy.

About the Rated Entity – Key Financials

In FY2017, EHFL reported PAT (profit after tax) of Rs. 67.94 crore on total income of Rs. 466.91 crore in FY2017 against PAT of Rs. 38.21 crore on total income of Rs. 273.34 crore in FY2016.

Applicable Criteria

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

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

Any other information: N.A.

Note on complexity levels of the rated instrument:

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

Rating History for the last three years: Not applicable

*Annexure – Details of instruments rated:

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Secured Unsubordinated Redeemable Non-Convertible Debentures	N.A	N.A	N.A	100.00	SMERA AA+/Stable (Assigned)

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ABOUT SMERA

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