

Press Release

Edelweiss Retail Finance Limited (ERFL)

02 December, 2017



Rating Assigned

Total Instruments Rated*	Rs. 100.00 Cr.
Perpetual Debt Instruments	SMERA AA/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned rating of '**SMERA AA' (read as SMERA double A)** on the Rs. 100.00 crore Proposed Unsecured Subordinated Perpetual Non-Convertible Debenture Issue of Edelweiss Retail Finance Limited (ERFL). The outlook is '**Stable**'.

Edelweiss Retail Finance Limited (the erstwhile Affluent Dealcom Private Limited) was incorporated in 1997 as a private limited company.

The company was acquired by Edelcap Securities Limited (ESL), (step-down subsidiary of Edelweiss Financial Services Limited) and converted to a public limited company. Subsequently, the name was changed to Edelweiss Retail Finance Limited in 2014.

ERFL is a non-deposit taking Non-Banking Financial Company (NBFC-ND) that provides retail finance - home loans, loan against property, loan against shares and SME loans. It was set up as part of a business strategy to serve retail loans of the Edelweiss group which was already offering LAP and business loans through its other subsidiaries, ECL Finance Limited and Edelweiss Housing Finance Limited.

Analytical Approach: SMERA has taken a standalone view of the rated entity and has factored in support from the ultimate holding company, Edelweiss Financial Services Ltd (EFSL).

Key rating drivers

Strengths

Experienced management, strong parentage and financial flexibility:

The promoters of the group have been in the financial services industry for over two decades. The Edelweiss group has a diversified presence across capital market advisory, wealth management, asset management, stock broking, asset reconstruction, retail credit (including agri-finance), wholesale lending and insurance businesses through group companies.

Edelweiss Financial Services Limited (EFSL) is the flagship company of the group. EFSL reported a consolidated net profit of Rs.609.31 crore (PY: net profit of Rs.414.38 crore on operating income of Rs.5,268.09) on a consolidated operating income of Rs.6,618.83 crore in FY2016-17. Its loan book as on March 31, 2017 stood at Rs.27607.73 crore.

Apart from a strong lending portfolio, the Edelweiss group also benefits from its centralised treasury operations and ability to mobilise resources from various financial institutions and the capital market.

ERFL benefits from its integration with the Edelweiss group and support to raise funds from banks and financial institutions via working capital facilities and capital market instruments. As on March 31, 2017, approximately 63 per cent of its on-balance sheet debt was from banks.

The rating factors in the ongoing support from EFSL to ERFL on account of the common shareholding and strategic importance of ERFL to the group. ERFL'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:

ERFL has been able to maintain a comfortable Gross Non-Performing Asset (GNPA) ratio of 0.42 per cent as on 31 March, 2017 as against 0.28 per cent as on 31 March, 2016. Further, as on 30 September, 2017, the same increased to 0.84 per cent. ERFL's profitability metrics are also supported by the healthy Net Interest Margin (NIM) of 8.20 per cent in FY2016-17 (7.60 per cent in FY2015-16). ROAA stood at 2.13 per cent for FY2017.

ERFL's CRAR stood at 18.67 per cent as on 31 March, 2017 compared to 18.70 per cent on 31 March, 2016. The CRAR moderated to 15.59 per cent as on 30 September, 2017 on account of the sharp growth in the loan book in H1 FY2018 (to Rs.2306.43 crore as on September 30, 2017 from Rs.1473.66 crore as on March 31, 2017). In this regard, SMERA derives comfort from the strong financial flexibility of the Edelweiss group and its ability to infuse additional capital in ERFL to support its business growth.

SMERA believes that ERFL's financial risk profile will remain healthy over the near to medium term on the back of its healthy margins and comfortable asset quality. The ability to scale up its operations while maintaining asset quality and profitability indicators at healthy levels will be key rating sensitivities.

Weaknesses

Susceptibility of operating performance to risks inherent in small ticket lending: ERFL primarily caters to borrowers in the retail segment for loan against property, SME loans, loan against shares etc. The company faces intense competition from other established banks and NBFCs in retail financing. With high level of delinquencies in corporate lending, a large number of players are focusing on the retail segment as a means to de-risk their loan book. This in turn is expected to intensify the competitive landscape for retail loans.

The average ticket size in retail lending is modest and hence the risks of large scale delinquencies are low as the portfolio is diversified across a large number of borrowers and also segments. Since, there is limited scope for product differentiation in the retail segment, the profitability performance depends to a large extent on the ability to attain higher volumes while keeping costs under control.

Considering its presence in retail lending, ERFL's performance is influenced by factors such as level of economic activity, retail spending, level of employment and other related macroeconomic variables.

SMERA believes that ERFL will continue to face competition from existing banks and NBFCs that have an established presence in the retail lending space. While ERFL will benefit from the strong franchise of the Edelweiss group, its performance in the retail segment will depend on its ability to build a scalable business model and create a niche position across various product segments in the retail lending spectrum.

About Edelweiss Financial Services Limited:

Edelweiss Financial Services Limited (EFSL) was incorporated in 1995 to provide investment banking services to IT companies. Currently, its main business lines are credit (comprising retail, corporate and distressed), franchise and advisory businesses (comprising wealth management, asset management and capital markets) and insurance (comprising life insurance).

The Edelweiss group comprises Edelweiss Financial Services Ltd, 63 subsidiaries and six associate companies.

On a consolidated basis, for FY2016-17, EFSL reported net profit after tax (PAT) of Rs.609.31 crore on operating income of Rs.6618.83 crore as against net profit after tax (PAT) Rs.414.38 crore on operating income of Rs.5,268.09 crore in the previous year. The loan book stood at Rs.27607.73 crore as on 31 March, 2017.

For H1FY2018 (unaudited consolidated figures), EFSL reported PAT of Rs. 405.52 crore on operating income of Rs. 3902.82 crore.

About the Rated Entity – Key Financials

On a standalone basis, for FY2016-17, ERFL reported PAT of Rs.31.95 crore on operating income of Rs.253.54 crore. The tangible net worth stood at Rs.313.49 crore as on 31 March, 2017.

For H1FY2018 (unaudited), ERFL reported PAT of Rs.14.23 crore on operating income of Rs. 147.01 crore.

Any other information: Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Group & Parent Support – <https://www.smera.in/criteria-group.htm>
- Non Banking Finance Company - <https://www.smera.in/criteria-nbfc.htm>
- Hybrid Instruments issued by NBFCs and HFCs - <https://www.smera.in/hybrid-instruments.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): None

Rating History (Upto last three years) – Not applicable

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	NA	NA	NA	100.00	SMERA AA (Assigned)

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ABOUT SMERA

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