

Press Release

Edelweiss Retail Finance Limited (ERFL)

August 03, 2018

Rating Reaffirmed



Total Instruments Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE AA/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE AA**' (read as **Acuite double A**) on the Rs. 100.00 crore Unsecured Subordinated Perpetual Non-Convertible Debenture issue of Edelweiss Retail Finance Limited (ERFL). The outlook is 'Stable'.

Analytical Approach

Acuite has taken a consolidated view on the credit profile of Edelweiss group. This is because of the common promoters, shared brand name, and strong business, operational and financial synergies between the group companies.

Earlier, Acuite had taken a standalone view on the rated entity and had factored in support from the ultimate holding company, Edelweiss Financial Services Ltd (EFSL).

Acuite 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 Limited (EFSL), the holding company of the Edelweiss group, was incorporated in 1995 and has diversified its line of operations across 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 line of business includes; credit (retail, corporate and distressed), franchise & advisory (wealth management, asset management and capital markets) and insurance (life and general). The Edelweiss group comprises Edelweiss Financial Services Ltd, 59 subsidiaries and 5 associate companies. Edelweiss group has a pan India presence with a global footprint extending across geographies with offices in New York, Mauritius, Dubai, Singapore, Hong Kong and UK.

About the company

Edelweiss Retail Finance Limited (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 majorly focused on offering secured and unsecured loan products to suit the needs of the individuals and corporates. ERFL's products include SME Finance, loan against property, loan against shares, construction finance and rural finance. The median ticket size for secured SME lending is Rs.1.00 Cr & 13 lakhs for Unsecured SME lending. For retail mortgage, the average ticket size is between 12-20 lakhs.

Key Rating Drivers

Strengths

Experienced management, strong parentage and diversified revenue stream

Edelweiss group, promoted by Mr. Rashesh 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, warehousing services, 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. Also, the group has achieved significant size and scale across each of these segments and is a leading player in many of the business segments. Of the capital employed of Rs. 42,010 Cr as on 31 March 2018 (growth of 52% over Rs.27,608 Cr as on 31 March 2017), 39% is to retail segment which includes retail mortgage (14%), loan against shares (11%), agri & rural finance (3%) & SME lending (11%), 46% is to wholesale credit, which includes structured collateralized credit (22%) & wholesale credit (24%) & 15% to distressed credit.

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.

Acuité believes Edelweiss group's strong leadership position and diversified presence across business segments has enabled it to achieve a healthy mix of fund and fee based income.

Strong presence in the capital market businesses

Edelweiss group has an established franchise in the capital market related business across corporate finance and advisory domains including broking, investment banking, wealth management, and asset management. The group's assets under advice in the global wealth management business were Rs 90,100 crores (49% y-o-y growth) and the assets under management in the asset management business were Rs 28,300 (56% y-o-y growth) crores as on March 31, 2018. Acuité believes that the group is expected to benefit from the buoyancy in the capital markets over the medium term, given the group's established market position in related businesses.

Comfortable capitalisation

Edelweiss group has comfortable capitalisation as reflected in its large net worth of Rs.7,762 Cr as on 31 March 2018 (Rs.5,288 Cr a year ago). EFSL raised equity capital of Rs.1,528 Cr in November 2017 by way of a QIP to support the group's strong growth plans over the medium term. Hence, the gearing declined to 6.10 times as on March 31, 2018 vis-a-vis 6.32 times as on March 31, 2017, but remains higher than peers. Adjusted for the liquid assets in the balance sheet management unit of the group, the adjusted gearing was at 4.94 times as on March 31, 2018. The capital adequacy remains stable at 17.04% (Tier I at 14.19%) as on March 31, 2018. The group's capitalization provides cushion against the asset side risks as reflected in the net worth coverage for net NPAs of ~32 times as on March 31, 2018 as against ~39 times as on March 31, 2017.

Acuité believes that Edelweiss group will maintain comfortable capitalization supported by its large net worth, steady accruals to net worth, and demonstrated ability to raise capital and provide cushion against asset side risks. However, the group will need to regularly raise capital to support the group's strong growth plans over the medium term.

Diversified funding profile and significant financial flexibility

Edelweiss group has demonstrated 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). The total borrowings at a consolidated level increased to Rs. 47,323 crore as on March 31, 2018 from Rs. 33,379 crore as on March 31, 2017. The group's overall borrowing cost was around 8.75% in 2017-18 and declined from 9.19% in the previous year. The group has an active treasury function which enhances its liquidity position. The group maintained adequate liquidity cushion of Rs. 5,200 crore as on March 31, 2018 in the form of undrawn bank lines, fixed deposits, government securities and liquid mutual funds, which further enhances its financial flexibility.

Weaknesses

Vulnerability to risks inherent in the lending business

Edelweiss group has been able to maintain low gross non-performing asset (GNPA; 90+DPD) ratio of 1.75 per cent as on 31 March 2018 as against 1.59 per cent as on 31 March 2017. However, the group remains exposed to asset quality related challenges given its high concentration in wholesale lending (24%) and structured collateralized funding (22%) segments which are inherently risky in nature; especially as it primarily involves funding in the form of large ticket advances to corporate borrowers. As on 31 March 2018, the total exposure to top 20 borrowers stood at ~29% (33% as on 31 March 2017) of the wholesale lending book. Also, in wholesale lending, the group caters to borrowers in the real estate sector (28% of the overall portfolio) as well as promoter/corporate financing for corporate actions such as mergers & acquisitions (M&A), which are relatively riskier in nature. While the company has been following prudent risk management practices including adequate collateral cover of 2.1 times, events like deterioration in credit quality of borrowers and decline in collateral valuations can impact its asset quality and earnings profile. Additionally, the group's ability to manage the asset quality in its retail portfolio while steadily growing the book will remain a key monitorable.

Acuité believes that the group will remain susceptible to the risks emanating from the higher degree of concentration in its portfolio though the concentration is declining due to higher growth rate in the retail credit book. Its ability to diversify its exposure across borrowers while maintaining asset quality, amidst the competitive pressures, shall be a key rating sensitivity factor.

Average profitability

Edelweiss group has average profitability as reflected in return on assets (RoA) ratio of 1.58 percent in FY18 as against 1.34 percent in FY17 and remains lower than peers. The group reported a consolidated net profit of Rs.890.10 crore in FY2018 as against a consolidated net profit of Rs. 609.31 crore in the previous year.

The group has healthy net interest margin (NIM) of 9.04 per cent of average earning assets in FY2018 (8.76 per cent in FY2017), supported by the high yield in the wholesale lending segment. The group also has a sizeable proportion of fee income from the capital market related business and the lending business; fee income constituted around ~42% of the total income (net of interest expense) in FY2018. However, the overall profitability is constrained on account of the losses in the life insurance & general insurance businesses as it is in the investment phase currently. Also, the profitability is impacted on account of the low yield on the large treasury book maintained by the group. Excluding insurance, the group reported PAT of Rs.1,122 Cr in FY2018 resulting in RoA of 2.60% (Rs.779 Cr and 2.40%, respectively, in FY 2017).

Acuité believes that the ability of the group to become profitable in the insurance business and other new ventures like agri-value would be a key driver for the group's overall profitability and would remain a key monitorable.

Outlook: Stable

Acuite believes that Edelweiss group will maintain a 'Stable' outlook on account of the diversified business risk profile, healthy capitalisation, and benefits derived from the experience of the group management. The outlook may be revised to 'Positive' if there is significant increase in the scale of the business along with sustained improvement in profitability while maintaining asset quality. The outlook may be revised to 'Negative' in case of sustained pressure on profitability indicators or asset quality.

About Edelweiss group - Key Financials (Consolidated)

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	63,514	44,823	36,985
Total Income (Net of Interest Expense) *	Rs. Cr.	5,089	3,809	2,648
PAT	Rs. Cr.	858	548	336
Net Worth	Rs. Cr.	7762	5288	4372
Return on Average Assets (RoAA)	(%)	1.58	1.34	0.99
Total Debt/Tangible Net Worth (Gearing)	Times	6.1	6.3	6.4
Gross NPAs	(%)	1.8	1.6	1.4
Net NPAs	(%)	0.7	0.6	0.5

*Total Income = Net Interest Income + Other Income

About Edelweiss Retail Finance Limited - Key Financials (Standalone)

	Unit	FY18	FY17	FY16
Total Assets	Rs. Cr.	3401	1549	1453
Total Income (Net of Interest Expense) *	Rs. Cr.	208	137	82
PAT	Rs. Cr.	32	32	25
Net Worth	Rs. Cr.	435	313	261
Return on Average Assets (RoAA)	(%)	1.28	2.13	2.44
Total Debt/Tangible Net Worth (Gearing)	Times	6.4	3.6	4.3
Gross NPAs	(%)	1.1	0.4	0.3
Net NPAs	(%)	1.0	0.4	0.1
Tier I Capital Adequacy Ratio	(%)	11.89	17.90	17.68
Total Capital Adequacy Ratio	(%)	16.36	18.67	18.70

*Total Income = Net Interest Income + Other Income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Non - Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Hybrid Instruments- <https://www.acuite.in/view-rating-criteria-37.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02 Dec-2017	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	100.00	ACUITE AA/ Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/ Outlook
INE528S08050	UNSECURED REDEEMABLE SUBORDINATED NON CONVERTIBLE PERPETUAL DEBENTURES	26-Dec-2017	9.75%	Perpetual Debentures	20.00	ACUITE AA/ Stable
INE528S08068	UNSECURED REDEEMABLE SUBORDINATED NON CONVERTIBLE PERPETUAL DEBENTURES	07-Feb-2018	10.75%	Perpetual Debentures	25.00	ACUITE AA/ Stable
NA	PROPOSED UNSECURED REDEEMABLE SUBORDINATED NON CONVERTIBLE PERPETUAL DEBENTURES	NA	NA	NA	55.00	ACUITE AA/ Stable

Contacts

Analytical	Rating Desk
Manish Saraf Head – Financial Sector Ratings Tel: 022-67141111 manish.saraf@acuite.in Aditi Shah Analyst - Rating Operations Tel: 022-67141371 aditi.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.*