

Press Release

Edelweiss Retail Finance Limited

April 30, 2020

Rating Reaffirmed & Assigned



Total Facilities Rated*	Rs. 350.00 Cr.
Unsecured Perpetual Non-Convertible Debentures	Rs. 100.00 Cr.
Long Term Rating	ACUITE AA-/ Negative (Reaffirmed)
Secured Redeemable Non-Convertible Debentures	Rs. 250.00 Cr.
Long Term Rating	ACUITE AA/ Negative (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE AA-' (read as ACUITE double A minus)**' on the Rs. 100.00 Cr. Unsecured Subordinated Perpetual Non-Convertible Debenture and assigned the long term rating of '**ACUITE AA' (read as ACUITE double A)**' on the Rs. 250.00 Cr Secured Non-Convertible Debenture of Edelweiss Retail Finance Limited (ERFL). The outlook continues to be '**Negative**'.

Acuité had, vide its press release dated February 06, 2020 revised the ratings on instrument of Edelweiss group entities i.e. ECL Finance Limited and Edelweiss Retail Finance Limited. The ratings were revised to '**ACUITE AA-' (read as ACUITE double A minus)**', in anticipation of significant increase in credit costs due to asset quality pressures, attributable to the overall tepid operating environment, and the moderation in the profitability metrics of the Edelweiss Group, especially during FY2020.

The outbreak of COVID-19 in the last quarter of FY2020 and its collateral effect, in terms of a nation-wide lockdown has led to a significant reduction in the level of economic activity which is expected to continue over the next two quarters. The resumption in normal economic activity is expected to be gradual, even after the initial two quarters of FY21. The restriction on movement of men and goods and the logistical challenges faced by many manufacturing units is expected to add to the corporate stress. The intense corporate stress is also likely to translate into job losses which in turn may mean stress on the retail portfolio of banks and NBFCs. The regulatory response to these events has been positive in terms of allowing moratorium framework for borrowers and facilitating liquidity access through tools such as TLTRO.

Acuité believes that, while it is difficult to ascertain at the current juncture the impact on asset quality and profitability of NBFCs like Edelweiss group, the credit profile will be increasingly driven by liquidity considerations.

Acuité also believes that while the group will continue to face asset quality and profitability pressures, the credit profile is significantly supported by the group's demonstrated ability to attract funds in the form of debt or equity from diverse sources. The Group has completed four rounds of equity raising from global institutions indicating acceptability amongst domestic and overseas investors.

About the Group:

Edelweiss Financial Services Limited (EFSL), the holding company of Edelweiss Group, was incorporated in 1995 and has diversified its line of operations across various fund based and non-fund based businesses. Edelweiss offers a bouquet of financial services, to a diversified client base across domestic and global geographies. Its key line of business includes; credit (retail, corporate and distressed), advisory (wealth management, asset management and capital markets) and insurance (life and general).

The Edelweiss Group comprises Edelweiss Financial Services Limited, 59 subsidiaries and 2 associate companies (as on March 31, 2019). 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;

stepdown 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's key product offerings include SME Finance, loan against property, loan against shares, construction finance and rural finance.

Analytical approach:

Acuité has adopted a consolidated approach on Edelweiss Financial Services Limited (EFSL) along with its 59 subsidiaries and 2 associates (as on March 31, 2019), collectively referred to as 'Edelweiss group'. The approach is driven by common promoters, shared brand name, significant operational and financial synergies between the companies.

Acuité has rated regular NCDs as well as perpetual NCDs issued by Edelweiss group companies. It is pertinent to note that, Unsecured Subordinated Non-Convertible Debentures (i.e. Perpetual NCDs) are rated at a lower level vis-à-vis the regular debt instruments. This is in view of the significant loss absorption characteristics associated with these perpetual instruments. 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.

Extent of consolidation: Full.

Key Rating Drivers:

Strengths:

• Strong parentage and diversified product offerings:

Edelweiss Group is promoted by Mr. Rashesh Shah and Mr. Venkat Ramaswamy, who are seasoned professionals in the financial services industry with over two decades of experience. The promoters are supported by experienced professionals who are into financing, wealth, and asset management businesses. 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 various verticals of the group as mentioned above are now proposed to be organized under three broad categories i.e. Credit (Wholesale and retail lending), Insurance and Advisory (Wealth management, Capital market, Asset management and Asset reconstruction).

The Group had loan book of Rs. 28,183 Cr. as on December 31, 2019, of which Retail credit extended was Rs. 14,256 Cr. and wholesale credit was Rs. 13,927 Cr. The wholesale segment comprised loans to realtors and structured credit. The Group has been attempting to gradually increase its exposure to retail segment and low to mid ticket lending. It proposes to reduce its exposure to the wholesale segment and reorient the portfolio towards small and mid-corporate lending segments. To increase the penetration under smaller ticket lending to mid corporates, Edelweiss Group has started co-origination of loans along with banks as per recent RBI guidelines. This would result into a co lending structure where Company would hold only a part of the loan on its books and the rest by the banks. So far it has signed Co-lending agreement with 4 Public Sector Banks.

Besides the fund based activities, Edelweiss Group also 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. As on December 31, 2019, the group had customer assets AUM of Rs. 217,900 Cr. under the advisory vertical. Most of the businesses of the group present significant synergies amongst themselves and growth potential both on the assets and liabilities side. The access to a pool of HNIs can be leveraged to create fund based structures which can be utilised to support the AUM growth of the group.

Acuité believes Edelweiss group's established position in financial services and diversified range of fee and fund based product offerings will continue to support its business risk profile.

• Diversified funding profile:

Edelweiss group has always demonstrated healthy resource raising ability from diverse lenders and investors. The Group's Net worth (including compulsorily convertible debentures) stood at Rs. 9080 Cr. as on December 31, 2019 (Rs. 7674 Cr. as on March 31, 2019). The Group has demonstrated its ability

to attract investments from reputed international investors such as CDPQ (Caisse de dépôt et placement du Québec), KORA Management and Sanaka Capital. CDPQ has committed US\$ 250 Million (~Rs. 1800 Cr.) to the group, of which Rs. 1039.5 Cr. has already been received by ECL Finance Limited in May 2019, the balance tranches are expected to be received in FY2020 and FY2021. Similarly, Kora Management and Sanaka Capital have committed US\$75 mln (Rs 525 Crs) and US\$ 44 mln (Rs 308 Cr.) respectively to the group. Edelweiss Financial Services Limited, the flagship company of Edelweiss Group is listed on the stock exchanges (Market capitalisation of Rs. 3453 Cr. on April 27, 2020) and its public shareholding includes institutional investors like Mutual funds, and Foreign Portfolio investors. The Group's Capital adequacy stood at 21.4 percent as on December 31, 2019 as against 18 percent as on March 31, 2019, of which Tier I capital adequacy stood at 16.2 percent and 15.1 percent respectively.

The Group has reduced its borrowings levels from Rs. 43,201 Cr. as on March 31, 2019 to Rs. 36,848 Cr. as on December 31, 2019. Of the total borrowings as on December 31, 2019, ~43 percent is being funded through banks, 27 percent through retail investors, 10 percent by mutual funds, and the balance 20 percent mainly through corporates, PFs, and insurance. The Group's NCD issuances targeted at the retail investor have been well accepted in the markets, which has helped the Group in increasing its retail funding to Rs. 9949 Cr. (27 percent) as on December 31, 2019 as against Rs. 5371 Cr. as on March 31, 2018. The strong patronage of the Group amongst retail investors augurs well from a future funding standpoint, since retail investors are expected to be more stable than wholesale investors.

Most of the bank borrowings and NCDs are long tenured with tenures beyond 3 years. The Group has significantly reduced its dependence on short term borrowings like Commercial Paper. In view of the tight liquidity situation caused by these events, the Group focused on conserving its liquidity rather than going in for asset growth. The Group is also exploring options like securitization and Partial Guarantee based structures to support its financing requirements.

The group's financial flexibility is supported by their demonstrated ability to mobilise resources from diversified set of investors across domestic banks, Institutional investors and lenders, foreign investors and domestic retail investors amongst others. The Group also has large institutional client base in its various funds such as distressed credit fund, Real estate Credit Fund, Structured debt fund and Infrastructure Fund. The aggregate size of all these funds is Rs. 19,700 Cr. of which Rs. 10,000 Cr. is already deployed as on September 30, 2019. The group has also demonstrated its ability to support chunky real estate projects with a need for completion funding by setting up an AIF with South Korea based Meritz Group with a corpus of USD 425 million.

Acuité expects the Group to continue to benefit from diversified funding mix across domestic banks, Institutional investors and lenders, foreign investors and domestic retail investors amongst others.

Weaknesses:

- **Increased pressures on asset quality and profitability metrics:**

Edelweiss Group's key product offerings are spread across two segments i.e. retail segments and wholesale segments. The retail segment (51 percent of the loan book as on Dec 31, 2019) comprises housing finance, Loan against Property, Construction finance, SME loans, Loan against Shares while the wholesale segment (49 percent) comprises structured Credit and wholesale mortgage. The group's loan book has declined from Rs. 36,129 Cr. as on March 31, 2019 to Rs. 28,183 Cr. as on December 31, 2019. The decline in the loan book is primarily driven by the management's strategic decision to consciously scale down the exposure to the wholesale segment, coupled with subdued disbursements in the retail segment. While the loan book has witnessed a decline, The Group's Net NPA assets over the said period have spiked from Rs. 300 Cr. (0.8% of loan assets) as on March 31, 2019 to Rs. 529 Cr. (1.97 percent of loan assets) as on December 31, 2019. Of the overall NNPA as on December 31, 2019, 56 percent was contributed by wholesale segment. As on December 31, 2019, top 20 exposures accounted for 39 percent of the overall loan book. The group's wholesale segment mostly comprises exposures to real estate developers for their projects. The cash flows of these realtors and the quality of these exposures is linked to the revival in the real estate cycle.

The group has already initiated steps to prune its exposure to the wholesale segment through various initiatives such as slowing down fresh sanctions and sell down of existing assets to dedicated funds. In Q3 FY20 the group launched a USD 425 mn corpus last mile Real Estate Financing AIF in partnership with South Korean financial conglomerate Meritz Financial Group. The first tranche of the USD 240

million corpus is completed. Edelweiss holds 30 percent stake in this fund and the remaining is held by Meritz Financial Group, a Seoul headquartered conglomerate.

Since the group has decided to curtail its exposure to wholesale segment, the retail products like retail mortgage, SME lending, LAS along with smaller ticket lending to mid corporates under the co-origination model with banks are expected to be the drivers of future growth. In the retail segment, SME loans and retail mortgage comprise the key products contributing to ~40 percent of the overall loan book as on December 31, 2019. The retail portfolio is relatively more granular with a median ticket size of ~1 Cr. for secured SME loan, Rs. 15 lakhs for housing loan and 19 lakhs for LAP.

The sharp spike in NPAs has resulted in an increase in provisions during 9MFY2020. The credit costs increased from Rs. 456 Cr. for FY2019 to Rs. 360.89 Cr. for 9MFY2020. As per the discussions with Edelweiss group's management, they intend to maintain high liquidity buffers to support the business requirements. Higher credit costs, borrowing costs and costs of managing higher liquidity cushion leading to lower Net Interest Income (NII) is likely to have a major bearing on the profitability of the group for FY2021. The future trend in credit costs will be linked to the fresh slippages in both the segments i.e. retail as well as wholesale segments. With the increasing focus on relatively less risky retail segment, the portfolio is expected to be more granular going forward. However the group may face further profitability pressures in view of the relatively moderate margins in the 'commoditised' retail segment. The cost to income ratios (ex-insurance) has spiked from 50 percent for FY2019 and at 56 percent for Q2 and Q3FY2020.

Acuité believes that Edelweiss Group's ability to attain any significant improvement in asset quality and profitability parameters over the near term will be impeded by the tepid economic environment coupled with the intense competition especially in the retail segment.

Rating Sensitivities

- Significantly higher than expected decline in AUM
- Significant spike in credit costs translating into material reduction in capital adequacy.
- Higher than expected asset quality pressures
- Significant capital infusion

Material Covenants

Edelweiss Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others. As per confirmation from Edelweiss, they are compliant with covenants stipulated by lenders/investors.

Liquidity Position: Adequate

EFSL's liquidity profile is supported by the group's centralised treasury operations and adequate liquidity position. The group has demonstrated the ability to raise medium to long term funding from banks/capital markets which should support the Group's ability to plug any possible mismatches. The Group's liquidity profile is supported by funding from diversified base i.e. banks and financial institutions along with capital market instruments like CBLO borrowings, Commercial Papers and NCDs. The Group on a consolidated basis had maintained liquidity buffers of Rs. 10,300 Cr. (includes short term loan book of Rs. 4150 Cr.) as on December 31, 2019. ERFL is supported by strong parentage of Edelweiss Group and can tap the excess liquidity available with the Group in case of future exigencies. Further, the group has received fresh sanction for securitization of Rs. 2930 Cr. during the period April to December 2019.

Outlook: Negative

Acuité believes that the Group's credit profile is likely to face pressures over the near to medium term on account of increasing asset quality and profitability pressures. The tepid operating environment and uncertainty regarding restoration of normal operations across the country will impinge on the near term performance. The outlook may be revised to Stable in case Edelweiss Group is able to demonstrate lower than expected asset quality and profitability pressures. Conversely, the rating will be downgraded in case of higher than expected impact on profitability either due to elevated credit costs translating into significant reduction in capital adequacy buffers.

EFSL- Key financials (Consolidated)

	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	64052.9	62892.2
Total Income*	Rs. Cr.	6159.2	5044.5
PAT	Rs. Cr.	995.17	863.18
Net Worth	Rs. Cr.	7674.5	6906.0
Return on Average Assets (RoAA)	(%)	1.65	1.55
Return on Average Net Worth (RoNW)	(%)	14.34	14.70
Total Debt/Tangible Net Worth (Gearing)	Times	6.06	7.09
Gross NPA	(%)	1.87	1.75
Net NPA	(%)	0.83	0.70

*Total income equals to Total Income net off interest expense

ERFL - Key Financials (Standalone)

	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	2439.1	3323.1
Total Income*	Rs. Cr.	185.2	168.4
PAT	Rs. Cr.	33.9	27.7
Net Worth	Rs. Cr.	463.2	430.1
Return on Average Assets (RoAA)	(%)	1.2	1.1
Return on Average Net Worth (RoNW)	(%)	7.6	7.5
Total Debt/Tangible Net Worth (Gearing)	Times	4.2	6.6
Gross NPA	(%)	3.14	1.15
Net NPA	(%)	2.7	0.8

*Total income equals to Total Income net off interest expense

Applicable Criteria

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Feb-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	100.00	ACUITE AA-/Negative (Rating Downgraded from ACUITE AA/Negative)
1-August-2019	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)

	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA/Negative (Reaffirmed; Outlook revised to Negative from Stable)
03-August - 2018	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA/ Stable (Reaffirmed)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA/ Stable (Reaffirmed)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA/ Stable (Reaffirmed)
02-December-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.)	Ratings/Outlook
Rs. 100.00 Cr.						
INE528S08050	Unsecured Subordinated Perpetual Non-Convertible Debentures	26-Dec-17	9.75%	NA	20.00	ACUITE AA-/Negative (Reaffirmed)
INE528S08068	Unsecured Subordinated Perpetual Non-Convertible Debentures	07-Feb-18	10.00%	NA	25.00	ACUITE AA-/Negative (REaffirmed)
-	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	NA	NA	NA	55.00	ACUITE AA-/Negative (Reaffirmed)
-	Proposed Secured Non-Convertible Debentures	NA	NA	NA	250.00	ACUITE AA/Negative (Assigned)

- The following Subsidiaries and Associates of EFSL have been considered for consolidation: (As on March 31, 2019)

Sr.No.	Name of Entity	Relationship with EFSL
1	Edelweiss Securities Limited	Subsidiary
2	Edelweiss Finance & Investments Limited	Subsidiary
3	ECL Finance Limited	Subsidiary
4	Edelweiss Global Wealth Management Limited	Subsidiary
5	Edelweiss Insurance Brokers Limited	Subsidiary
6	Edelweiss Trustee Services Limited	Subsidiary
7	Edelcap Securities Limited	Subsidiary
8	Edelweiss Asset Management Limited	Subsidiary
9	Ecap Equities Limited	Subsidiary
10	Edelweiss Broking Limited	Subsidiary
11	Edelweiss Trusteeship Company Limited	Subsidiary
12	Edelweiss Housing Finance Limited	Subsidiary
13	Edelweiss Investment Adviser Limited	Subsidiary
14	EC Commodity Limited	Subsidiary
15	Edel Land Limited	Subsidiary

16	Edelweiss Custodial Services Limited	Subsidiary
17	Edel Investments Limited	Subsidiary
18	Edelweiss Rural & Corporate Services Limited	Subsidiary
19	Edelweiss Comtrade Limited	Subsidiary
20	Edel Finance Company Limited	Subsidiary
21	Edelweiss Retail Finance Limited	Subsidiary
22	Edelweiss Multi Strategy Fund Advisors LLP	Subsidiary
23	Edelweiss Resolution Advisors LLP	Subsidiary
24	Edelweiss Holdings Limited	Subsidiary
25	Edelweiss General Insurance Company	Subsidiary
26	Edelweiss Finvest Private Limited	Subsidiary
27	Edelweiss Securities (IFSC) Limited	Subsidiary
28	Alternative Investment Market Advisors Private Limited	Subsidiary
29	Edelweiss Securities Trading and Management Private Limited	Subsidiary
30	Edelweiss Securities and Investment Private Limited	Subsidiary
31	Edelweiss Securities (Hong Kong) Private Limited	Subsidiary
32	EC Global Limited	Subsidiary
33	EC International Limited	Subsidiary
34	EAAA LLC	Subsidiary
35	EFSL International Limited	Subsidiary
36	Edelweiss Capital (Singapore) Pte. Limited	Subsidiary
37	Edelweiss Alternative Asset Advisors Pte. Limited	Subsidiary
38	Edelweiss International (Singapore) Pte. Limited	Subsidiary
39	Edelweiss Investment Advisors Private Limited	Subsidiary
40	Aster Commodities DMCC	Subsidiary
41	Edelweiss Financial Services (UK) Limited	Subsidiary
42	Edelweiss Financial Services Inc.	Subsidiary
43	Edelweiss Alternative Asset Advisors Limited	Subsidiary
44	EW Clover Scheme - 1	Subsidiary
45	Edelvalue Partners	Subsidiary
46	Edelgive Foundation	Subsidiary
47	Lichen Metals Private Limited	Subsidiary
48	EW India Special Assets Advisors LLC	Subsidiary
49	Edelweiss Private Equity Tech Fund	Subsidiary
50	Edelweiss Value and Growth Fund	Subsidiary
51	Edelweiss Asset Reconstruction Company Limited	Subsidiary
52	EW Special Opportunities Advisors LLC	Subsidiary
53	Edelweiss Tokio Life Insurance Company Limited	Subsidiary
54	Allium Finance Private Limited	Subsidiary
55	Retra Ventures Private Limited	Subsidiary
56	Edelweiss India Capital Management	Subsidiary
57	Cross Border Synergy Pte. Limited	Subsidiary
58	Edelweiss Tarim Urunleri Anonim Sirketi	Subsidiary
59	EW SBI Crossover Advisor LLC	Subsidiary
1	Allium Finance Private Limited	Associates
2	Aeon Credit Services India Private Limited	Associates

Contact

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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.

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