

Press Release

Edelweiss Retail Finance Limited

September 08, 2020

Rating Reaffirmed



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 (Reaffirmed)

* 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 '**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**'.

The outbreak of COVID-19 in the last quarter of FY2020 and its collateral effect, in terms of a nationwide lockdown has led to a significant reduction in the level of economic activity with a contraction in GDP to 23.9% for Q1FY21. This contraction is expected to continue since the resumption in normal economic activity is expected to be gradual over the second half of FY21. In view of the persistent and intermittent lockdowns, the impact on both wholesale as well as retail portfolio of NBFCs is likely to remain high. With the expiry of the six month moratorium period, the uncertainty on asset quality will increase in the near term and there is a significant likelihood of a restructuring of a significant proportion of the NBFCs' portfolio over the next six months. While the regulatory environment has been positive due to the moratorium relief and liquidity provided through several regulatory measures, sustainability will depend largely on revival of economic activity and improvement in investor and consumer sentiments.

Acuité believes that while the Edelweiss group will continue to face asset quality and profitability pressures, the credit profile is significantly supported by the group's demonstrated ability to mobilise funds in the form of debt or equity from diverse sources. Besides its past investors like CDPQ, Sanaka and Kora, the group has recently announced its decision to disinvest 51% stake in its wealth management business to PAG. The transaction is valued at Rs. 2,200 Cr and is expected to strengthen the liquidity of the group in the near term.

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, 56 subsidiaries, 66 trusts and 5 associate companies (as on March 31, 2020). 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 (EFLS) along with its 56 subsidiaries (for list of subsidiaries refer Annexure 1) and 66 trusts (as on March 31, 2020), 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. Rakesh 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. 21,032, Cr. as on March 31, 2020 (Rs. 19,006 Cr. as on June-2020), of which Retail credit extended was Rs. 10,982 Cr. (Rs. 10,457 Cr. as on June-2020) and wholesale credit was Rs. 10,050 Cr (Rs. 8,549 Cr. as on June-2020). 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.

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 March 31, 2020, the group had customer assets AUM of Rs. 207,700 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. 7,188 Cr. as on March 31, 2020 (Rs. 7674 Cr. as on March 31, 2019). The decline in the networth was mainly on account of loss undertaken by the company in order to provide for impaired assets in Q4FY2020. 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. Recently the group announced sale of 51% stake in its wealth management division to PAG Asia. This

sale is valued at ~Rs. 2,200 Cr. Edelweiss Financial Services Limited, the flagship company of Edelweiss Group is listed on the stock exchanges (Market capitalisation of Rs. 4,343 Cr. on September 04, 2020) and its public shareholding includes institutional investors like Mutual funds, and Foreign Portfolio investors. The Group's Capital adequacy stood at 20.76 percent as on March 31, 2020 as against 18 percent as on March 31, 2019, (21.1% as on June-2020).

The Group has reduced its borrowings levels from Rs. 43,201 Cr. as on March 31, 2019 to Rs. 33,754 Cr. (Ex-CBLO) as on March 31, 2020. Of the total borrowings as on March 31, 2020, ~39 percent is being funded through banks, 28 percent through retail investors, 11 percent by mutual funds, and the balance 22 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. 9451 Cr. (28 percent) as on March 31, 2020 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 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:

- **Challenging operating environment to impact asset quality; higher focus on liquidity to impact profitability metrics:**

Edelweiss Group's key product offerings are spread across two segments i.e. retail segments and wholesale segments. The retail segment (52 percent of the loan book as on March 31, 2020) comprises housing finance, Loan against Property, Construction finance, SME loans, Loan against Shares while the wholesale segment (48 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. 21,032 Cr. as on March 31, 2020. 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. 860 Cr. (4.1% percent of loan assets) as on March 31, 2020. Of the overall NNPAAs as on March 31, 2020, 89 percent was contributed by wholesale segment. As on March 31, 2020, top 20 exposures accounted for 21 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 ~31 percent of the overall loan book as on March 31, 2020. 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 FY2020. The credit costs increased from Rs. 456 Cr. for FY2019 to Rs. 3562 Cr. for FY2020 (This includes additional impairment for assets to be sold). 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 FY2020. Since group has plans to divest its major stake in wealth management segment the revenues from the advisory activities are also expected to moderate thereby impacting future profitability.

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

- Higher than expected decline in AUM and credit costs, leading to sharp reduction in profitability for two consequent quarters.
- Significant spike in credit costs translating into material reduction in capital adequacy.
- Higher than expected asset quality pressures
- Changes in Regulatory environment
- 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. 5,900 Cr. (includes short term loan book of Rs. 1600 Cr.) as on August 28, 2020. ECLFL is supported by strong parentage of Edelweiss Group and can tap the excess liquidity available with the Group in case of future exigencies.

Outlook: Negative

Acuité believes that the Edelweiss Group's credit profile will continue to face pressures over the near to medium term on account of the deterioration in asset quality and profitability. The weakness in the operating environment and a slower than expected economic revival across the country can impinge on the near term performance. While Acuité has factored in a certain extent of stress in the group's asset quality and profitability, the actual deterioration has been sharper due to the severe economic disruption witnessed over the last six months. Acuité will be closely monitoring the performance of the Group and any further impairment in asset quality or reduction of profitability that leads to capital adequacy levels slipping below 20% will impart a strong negative bias to the rating.

The outlook may be revised to Stable in case Edelweiss Group is able to demonstrate lower than expected asset quality and profitability pressures.

EFSL- Key financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	53,324	64,053
Total Income*	Rs. Cr.	4,810	6,159
PAT	Rs. Cr.	(2,044)	1,044
Net Worth (Ex-Minority Interest)	Rs. Cr.	7,233	7,674
Return on Average Assets (RoAA)	(%)	(3.48)	1.65
Return on Average Net Worth(RoNW)	(%)	(27.54)	14.33
Total Debt/Tangible Net Worth (Gearing)	Times	4.91	6.06
Gross NPA	(%)	5.30	1.87
Net NPA	(%)	4.10	0.83

*Total income equals to Total Income net off interest expense

ERFL - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1978.28	2439.15
Total Income*	Rs. Cr.	82.97	33.86
PAT	Rs. Cr.	1.1	33.9
Net Worth	Rs. Cr.	463.04	463.2
Return on Average Assets (RoAA)	(%)	0.05	1.18
Return on Average Net Worth (RoNW)	(%)	0.23	7.58
Total Debt/Tangible Net Worth (Gearing)	Times	3.14	4.20
Gross NPA	(%)	2.40	3.14
Net NPA	(%)	1.90	2.7

*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
30-April-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	ACUITE AA-/Negative (Reaffirmed)
	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	25.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	55.00	ACUITE AA-/Negative (Reaffirmed)
	Proposed Secured Non-Convertible Debentures	Long Term	250.00	ACUITE AA/Negative (Assigned)
06-Feb-2020	Unsecured Subordinated Perpetual Non-Convertible Debentures	Long Term	20.00	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	55.00	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)
Rs. 250.00 Cr.						
-	Proposed Secured Non-Convertible Debentures	NA	NA	NA	250.00	ACUITE AA/Negative (Reaffirmed)

• **Annexure 1**

The following Subsidiaries and Associates of EFSL have been considered for consolidation: (As on March 31, 2020)

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 Gallagher 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	ESL Securities Limited	Subsidiary