

Press Release

EDELWEISS ASSET RECONSTRUCTION COMPANY LIMITED

December 26, 2024

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	S Rating
Non Convertible Debentures (NCD)	300.00	ACUITE A Reaffirmed Rating Watch with Negative Implications	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of 'ACUITE A' (read as ACUITE A) on the Rs.300.00 Cr. Secured Guaranteed Non Convertible Debentures of Edelweiss Asset Reconstruction Company Limited (EARCL). The rating continues to be under watch with Negative Implications.

Rationale for the rating

Acuite team takes a note of Reserve Bank of India's (RBI) decision to revoke the business restrictions previously imposed on ECL Finance Limited and Edelweiss Asset Reconstruction Company Limited. Acuite team has taken cognizance of this development and are still in the process of assessing the business and financial impact on the ARC business. Acuite will keep on monitoring the same for its implications on the operational and financial performance of the company along with impact on financial flexibility.

About the company

EARCL is sponsored by Edelweiss group, one of India's leading & diversified financial services conglomerate. The company is based in Mumbai and was incorporated in 2007 and is registered with Reserve Bank of India as an Asset Reconstruction Company in 2009. EARCL is in the business of acquiring non-performing assets (NPAs) from banks and financial institutions and resolving them through appropriate resolution strategies. EARCL has acquired financial assets from more than 70 Banks & Financial Institutions till date. EFSL holds 60% stake in EARCL (as on March 31, 2023) with the balance held by high networth individuals (HNIs) and institutional investors. CDPQ (Caisse de Depot et Placement du Quebec), one of North America's largest pension fund managers, has ~20% stake in the company.

Unsupported Rating

Not Applicable

Analytical Approach

To arrive at its rating, Acuite has considered the standalone business and financial risk profiles of EARCL.

Key Rating Drivers

Strength

Strong parentage

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, asset management and insurance business. The various verticals of the group as mentioned above are now under the following broad categories i.e. Credit (retail and corporate), Asset Management, Asset Reconstruction and Insurance (life and general). The Group had consolidated loan book of Rs.6,907 Cr. (Rs.6864 Cr. excluding inter group loans) as on March 31, 2023 as against Rs.10,371 Cr. as on March 31, 2022, of which retail credit is Rs.3,795 Cr. (Rs. 4,673 Cr. as on March 31, 2022) and

wholesale credit at Rs.3,112 Cr. as on March 31,2023(Rs. 5,698 Cr. as on March 31,2022). The wholesale segment comprised loans to realtors and structured Credit. The Group has been attempting to gradually increase its exposure to retail segment and has entered in to deals with multiple banks for lending under co-origination model. It has taken several steps to reduce its exposure to the wholesale segment and reorient the portfolio toward small and mid-corporate lending segments. Besides the fund-based activities, Edelweiss Group also has an established franchise in asset management. The group had completed sale of its majority stake in wealth management business to PAG. As on March 31, 2023, the group had customer assets of about Rs.4,13,800 Cr. (about Rs. 3,57,700 Cr. as on March 31,2022). 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 utilized 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.

Established track record of EARC

EARC is a leader in the asset reconstruction Industry. Cumulatively, the company has managed to redeem ~Rs 31,600 crore SR against ~Rs 68,500 crore of gross SRs issued. In FY2023, the company redeemed SR worth ~Rs. 5,008 Cr. The company issued SR of Rs. 2,669 Cr. and acquired debts of Rs. 6,429 Cr. in FY2023. The AUM stands at ~Rs. 36,858 Cr. at the end of FY2023. The profitability remained healthy with Rs. 355.20 Cr. of PAT generated in FY24 against Rs. 318.39 Cr. In FY23. Average return on capital employed stood at 6.93% during FY24. As of March 31, 2024, the company's net worth stood at Rs. 3,149.85 Cr with a gearing of 0.63 times. The company has started acquiring retail assets also along with the wholesale assets. The experienced management in EARC is expected to be a key factor in the resolutions and recovery of these assets.

Weakness

Volatility in the earning profile and uncertainty in recoveries

The asset reconstruction industry is subject to the cyclicity and inherent volatility in the earning profile. The ability of the ARC to procure assets at competitive pricing and the resolution time over those plays a major factor in the strength of the earning profile, owing to the nature of the industry. Given the nature of the assets, the recovery and the time frames for recoveries tend to be uncertain. Acuite notes that the proportion of the low rated SR (RR3 and below) and unrated SR have increased in the portfolio while decrease in the high rated SR proportion was seen because of the lesser time required for resolution. the recoveries against the lower rated assets will remain a key monitorable.

ESG Factors Relevant for Rating

Edelweiss Group offers a bouquet of financial services to a diversified client base across domestic and global geographies. The Group has presence in segments such as retail credit (including agri-finance), wholesale lending, warehousing services, asset reconstruction, asset management and insurance business. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behaviour. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry.

Edelweiss Group's board comprises of eight directors with two women directors. Of the total eight directors, four are independent directors. The Group maintains adequate disclosures for business ethics which can be inferred from its policies relating to code of conduct, whistle blower protection and related party transactions. The Group has formed a Risk Committee with four out of five members being independent directors for among other things, identifying and evaluating risks and development, implementing and tracking risk management efforts. All the members of Audit Committee are independent directors. For redressal of grievances of the security holders, it has constituted a Stakeholders' Relationship Committee. The Group also has a committee for appointment, remuneration and performance evaluation of the Board. On the social aspect, the Group has taken development and training initiatives towards career development of its employees. The Group has put in place data privacy policy to ensure adequate safeguards for collection, storage and processing of personal and sensitive information and data of customers and third parties. Further, the Group has set up EdelGive foundation, a grant-making foundation which is funding and supporting the growth of small to mid-sized grassroots NGOs committed to empowering vulnerable children, women, and communities. Over the last 13 years, EdelGive has supported over 150 organizations across 111 districts in 14 states of India.

Rating Sensitivity

- Movement in earning profile
- Changes in the rating of the Group
- Changes in the regulatory environment

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.

Outlook:Not Applicable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24	FY23
		(Actual)	(Actual)
Total Assets	Rs. Cr.	5301.82	5946.9
Total Income*	Rs. Cr.	622.93	553.15
PAT	Rs. Cr.	355.2	318.39
Net Worth	Rs. Cr.	3149.85	2794.13
Return on Average Assets (RoAA)	(%)	6.32	5.3
Return on Average Net Worth (RoNW)	(%)	11.95	12.08
Total Debt/Tangible Net Worth (Gearing)	Times	0.63	1.04

*Total income equals to Total Income net off interest expense
Ratios as per Acuite calculations

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

Not Applicable

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Asset Reconstruction Companies: <https://www.acuite.in/view-rating-criteria-85.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of

risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jun 2024	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE A (CE) (Downgraded (Rating Watch with Negative Implications) from ACUITE A+ (CE) Stable)
03 Aug 2023	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE A+ (CE) Stable (Downgraded from ACUITE AA- (CE) Negative)
05 Aug 2022	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA- (CE) Negative (Downgraded from ACUITE AA (CE) Negative)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed	Long		

04 Feb 2022	Redeemable NCD	Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
04 Jan 2022	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
24 Sep 2021	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
31 Aug 2021	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable	Long	203.00	ACUITE AA (CE) Negative (Reaffirmed)

23 Jul 2021	NCD	Term		
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
19 Jul 2021	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
05 Feb 2021	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	26.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	36.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	10.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	6.00	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	3.50	ACUITE AA (CE) Negative (Reaffirmed)
	Secured Guaranteed Redeemable NCD	Long Term	5.00	ACUITE AA (CE) Negative (Reaffirmed)
	Proposed Secured Guaranteed Redeemable NCD	Long Term	203.00	ACUITE AA (CE) Negative (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	Not avl. / Not appl.	Proposed Secured Guaranteed Redeemable NCD	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	203.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	26 Jun 2019	9.90	08 Dec 2028	3.50	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	24 Jan 2020	9.90	08 Dec 2028	5.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	13 Dec 2018	9.90	08 Dec 2028	10.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	21 Dec 2018	9.90	08 Dec 2028	26.50	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	04 Jan 2019	9.90	08 Dec 2028	36.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	27 Mar 2019	9.90	08 Dec 2028	10.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications
Not Applicable	INE015L07618	Secured Guaranteed Redeemable NCD	15 Apr 2019	9.90	08 Dec 2028	6.00	Complex	ACUITE A Reaffirmed Rating Watch with Negative Implications

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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