



Press Release
EDEL FINANCE COMPANY LIMITED
December 12, 2023
Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|------------------------------------|--------------------------|
| Non Convertible Debentures (NCD) | 200.00 | ACUITE A+ Stable Reaffirmed | - |
| Commercial Paper (CP) | 650.00 | - | ACUITE A1+ Assigned |
| Total Outstanding Quantum (Rs. Cr) | 850.00 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A+**' (read as **ACUITE A Plus**) on the Rs.200.00 Cr. non convertible debentures of EDEL FINANCE COMPANY LIMITED. The outlook is '**Stable**'.

Acuite has assigned its short-term rating of '**ACUITE A1+**' (read as **ACUITE A One Plus**) on the Rs.650.00 Cr. commercial paper of EDEL FINANCE COMPANY LIMITED.

Rationale for the rating

The rating reaffirmation takes in to account the increase in earnings from operating activities which stood at Rs. 405 Cr. in FY23 (Rs.341 Cr. excluding one off items) from Rs. 212 Cr. in FY22. The earning profile for FY23 is largely supported by fair value gains from asset revaluation. Further, for H1FY24, the group posted a consolidated PAT of Rs. 173 Cr. The management continues to focus primarily on fee-based businesses, accordingly, there has been a consistent decline in the group loan book along with ongoing concerns on the asset quality of the existing lending portfolio, particularly its wholesale book which is concentrated towards real estate assets. Acuite believes that the group's earnings quality remains largely dependent on the ARC businesses, which contribute ~Rs. 429 Cr. Of PBT as against group's PBT of ~Rs.384 Cr. in FY2023, which offset the losses generated in capital and insurance businesses. Nevertheless, the ARC business is also subject to cyclicity and inherent volatility in its earnings given the unpredictable recoveries from the acquired assets.

The asset quality of the lending portfolio is still under pressure. The stage 3 assets in the lending portfolio stood at Rs. 794 Cr (10.52%) as on March 31, 2023 from Rs. 930 Cr. (8.86%) as on March 31, 2022 (As per the revised data provided by the group). The stage 3 assets further moderated to 12.12% as on Sep-23. Given that ~31% of the lending portfolio is still in the stage 2 bucket and the vulnerability in the wholesale lending book due to the exposure to real estate sector, the pressure on asset quality is likely to remain. Acuite also notes that repayments commence for a significant proportion in the top 20 borrowers from FY2024 onwards and the performance of these accounts will be a key monitorable. The loan book (excluding the LAS of Edelweiss Wealth Management Limited (EWML)) declined to Rs.6,907 Cr. (Rs.6864 Cr. excluding inter group loans) as on March 31, 2023 from Rs. 10,317 Cr. on March 31, 2022 and Rs. 13,507 Cr. as on March 31, 2021. The reduction in loan book is not only because of downsizing of wholesale books but is also on the account of the decline in the retail assets. The retail mortgage has reduced from Rs.4,834 Cr. As on March 31,2021 to Rs.3,670 Cr. as on March 31, 2022 and further to Rs. 3,102 Cr as on March 31, 2023.

The Group reported profit after tax of Rs. 405.55 Cr (inclusive of net gains in fair value of assets of Rs.158 Cr and one time expense of Rs.92 Cr.) for FY2023 against Rs.212.1 Cr. In FY2022. The

group has reported a modest ROA, which has continuously remained less than 1.00%, albeit improvement in FY 2023. The ROA for FY2023 stood at 0.95% as against 0.49 % for the FY2022

against 0.52% for the FY2021.

Nevertheless, the rating continues to factor Edelweiss Group's established track record in financial services, adequate capitalization levels and comfortable liquidity profile. The rating takes cognizance of the Group's strategic intent on re-building its retail loan franchise with focus on the co-origination model, which will keep it asset light and provides granularity to loan portfolio. The rating factors in the growth in the Mutual Fund AUM, Alternative assets and the growth in number of policies issued in the insurance business. Acuité also notes that the insurance business has reached an Embedded Value breakeven, but it is expected to take a few more years and infusions from the parent before turning profitable. The rating also takes into consideration the group's reducing debt and demonstrated resource raising ability. Acuité believes demonstrating sustainable improvement in profitability from the regular course of business operations and revenue streams in the evolving operating environment along with improvement in the asset quality would remain key rating monitorable.

About the Company

Edel Finance Company Limited ('the Company') a public limited company domiciled and incorporated under the provisions applicable in India under the Companies Act, 1956. The Company was incorporated on October 16, 1989 and is wholly owned subsidiary of Edelweiss Financial Services Limited. The Company was primarily engaged in the business of lending and investment and is registered with the Reserve Bank of India ('RBI') as a Systematically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI). Company got converted to Core Investment Company as NBFC-CIC-ND-SI on 09th October 2018.

About the Group

Headquartered in Mumbai, 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 Group is promoted by Mr. Rashesh Shah and Mr. Venkat Ramaswamy and offers a bouquet of financial services to a diversified client base across domestic and global geographies. Its key line of business includes Credit (retail and corporate), Asset Management, Asset Reconstruction, Insurance (life and general) and Wealth management including Capital Markets. The Edelweiss Group comprises Edelweiss Financial Services Limited, 30 subsidiaries and associates as on March 31, 2023. Post divestment of significant stake in wealth management business, the number of subsidiaries and associate companies have changed. 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.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has adopted a consolidated approach on Edelweiss Financial Services Limited (EFSL) along with its 30 subsidiaries and associates as on March 31, 2023, 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 secured 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 secured 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.

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. 6,864 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.

Diversified funding profile

The group's financial flexibility is supported by its 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 has attracted investments from reputed international investors such as CDPQ (Caisse de dépôt et placement du Québec), and PAG Asia. In the past, the Group also raised capital from KORA Management and Sanaka Capital. In July 2021, the Group announced stake sale of 70%, subject to regulatory approvals, in its insurance broking business to existing investor, Gallagher Insurance for consideration of ~Rs.308 Cr. As on March 31, 2023, borrowings stood at Rs.21,736 Cr. (borrowings adjusted for CBLOs and compulsorily convertible debentures stood at Rs.19,263 Cr). The group has raised ~Rs. 7909 Cr. in FY23 through public and private NCDs, Structured NCDs, CPs and bank borrowings. 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.

Adequate gearing levels and liquidity buffer

The Group's networth stood at Rs. 6,744 Cr. as on March 31, 2023 (Rs. 6,537 Cr. as on March 31,2022). Concomitantly, capital adequacy of the NBFC business stood at 34.3 percent and HFC stood at 32 percent as on March 31, 2023. The group further reduced its borrowings to Rs. 21,736 Cr. as on March 31,2023 as against Rs. 22,711 Cr. as on March 31,2022 translating into improved gearing ratio (reported borrowings/networth) of 3.42 times as on March 31, 2023 from 3.47 times as on March 31, 2022. The borrowings adjusted for CBLOs and compulsorily convertible debentures stood at Rs.19,263 Cr. The adjusted networth with CCDs stood at~Rs. 7846 Cr. and the adjusted gearing at 2.77 times as per the audited balance sheet. Further, the Group continued to maintain adequate liquidity buffer over this period and reported liquidity of Rs. 2,878 Cr. as on March 31, 2023 comprising Rs. 2,747 Cr. of overnight liquid and treasury assets and Rs.131 Cr. in bank lines.

Weakness

Moderate earning profile

The Group reported profit after tax of Rs. 405.55 Cr for FY2023 which improved against Rs. 212.1 Cr. in FY2022 and Rs. 254 Cr. in FY2021. For H1FY24, the consolidated PAT stood at Rs. 173 Cr. The earning profile continued its dependency on fair value gains from asset revaluation and sale of businesses. The group have been reporting modest ROA, which has continuously been less than 1.00%. Acuité also takes notes of several measures taken by the Group to rationalize cost and improve profitability including co-origination model for building retail portfolio and focus on non-fund business streams. Acuité believes that Group's ability to sustain improvement in earnings profile from regular course of business in the current operating environment coupled with the intense competition in the retail segment will be key rating monitorable.

Constant pressure on asset quality

While the decline in loan book continued, the asset quality indicators worsened due to a lower base. As per the revised data, the Group's Gross stage 3 assets (GNPAs) at Rs. 794 Cr (10.52% of lending book) on March 31, 2023 as against Rs. 930 Cr. (8.86 % of lending book) as on March 31, 2022. The NNPA stood at Rs. 156 Cr. (2.06 % of lending book) and the provisioning stood at Rs. 638 Cr as on March 31, 2023. As on September 30, 2023, the Gross Stage 3 further moderated to 12.12 percent on account of degrowth in the book. Given that ~31% of the lending portfolio is still in the stage 2 bucket and the vulnerability in the wholesale lending book due to the exposure to real estate sector, the pressure on asset quality is likely to remain. The top 20 exposures accounted for ~30% 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 and ARCs. Acuité believes that the Group's ability to attain any significant improvement in asset quality amidst current economic environment will remain a key rating sensitivity.

Reduced diversity of the group business

There is a shift from the fund-based business model to non-fund based business by the group. This has impacted the revenue streams of the group. Owing to the stake sale, the share wealth business (EWM)a has been diluted to ~44 percent and after the issuance of share to Edelweiss shareholders it will be further diluted to ~14 percent by the end of August, 2023. The insurance business has a long gestation period. The income streams from the capital based business of the group has been generating losses continuously. This provides less stability to the income profile of the group where the ARC business, which is the key driver, is susceptible to the cyclicity and volatility of the industry and regulatory environment.

Continuous decline in AUM

Edelweiss Group's credit lending offerings are spread across two segments i.e. retail segments and wholesale segments. The retail segment (55% of the loan book as on March 31, 2023) comprises housing finance, Loan against Property, Construction finance, SME loans, Loan against Securities while the wholesale segment (45% of the loan book as on March 31, 2023) comprises Structured Collateralized Credit and Real Estate financing. The Group's loan book (Excluding LAs of EWML) decline~44.5% to Rs.6,907 Cr. (Rs.6864 Cr. excluding inter group loans) as on March 31, 2022 against Rs. 10,371 Cr. as on March 31, 2022. The book has declined at a CAGR of ~23% from 2019. The retail mortgage has reduced from Rs. 3,670 Cr. As on March 31, 2022 to Rs.3,102 Cr. As on March 31, 2023. 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 and cautious sanctions in the retail sector.

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 indicated through RoAA
- Growth in AUM for retail lending
- Movement in the asset quality and collection efficiency
- Movement in cost of borrowings and liquidity buffers
- Changes in Regulatory environment

All Covenants

Edelweiss Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

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.3,300 Cr. as on September 30, 2023.

Outlook: Stable

Acuité believes that the Edelweiss Group will maintain a stable outlook for the medium term. Acuité will be closely monitoring the performance of the Group and any further impairment in asset quality or reduction of profitability will impart a strong negative bias to the outlook. The outlook may be revised to Positive in case Edelweiss Group is able to demonstrate significant and sustained improvement in asset quality and profitability.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

| Particulars | Unit | FY23 (Actual) | FY22 (Actual) |
|------------------------------------|---------|------------------|------------------|
| Total Assets | Rs. Cr. | 4179.23 | 2980.34 |
| Total Income* | Rs. Cr. | 92.10 | 12.01 |
| PAT | Rs. Cr. | 65.40 | 22.18 |
| Net Worth | Rs. Cr. | 1523.51 | 1093.10 |
| Return on Average Assets (RoAA) | (%) | 1.83 | 0.74 |
| Return on Average Net Worth (RoNW) | (%) | 5.00 | 2.05 |
| Debt/Equity | Times | 1.76 | 1.76 |
| Gross NPA | (%) | - | - |
| Net NPA | (%) | - | - |

*Total income equals to Net Interest Income plus other income
Ratios as per Acuité calculations

Key Financials (Consolidated)

| Particulars | Unit | FY23 (Actual) | FY22 (Actual) |
|------------------------------------|---------|------------------|------------------|
| Total Assets | Rs. Cr. | 42852.71 | 42123.22 |
| Total Income* | Rs. Cr. | 6058.02 | 4320.49 |
| PAT | Rs. Cr. | 405.55 | 212.08 |
| Net Worth | Rs. Cr. | 6744.11 | 6537.42 |
| Return on Average Assets (RoAA) | (%) | 0.95 | 0.49 |
| Return on Average Net Worth (RoNW) | (%) | 6.11 | 3.23 |
| Debt/Equity** | Times | 3.22 | 3.47 |
| Gross NPA | (%) | 10.52 | 8.86 |
| Net NPA | (%) | 2.06 | 2.02 |

*Total income equals to Net Interest Income plus other income
Ratios as per Acuité calculations

**The borrowings adjusted for CBLOs and compulsorily convertible debentures stood at Rs.19,263 Cr. The adjusted networth with CCDs stood at ~Rs. 7846 Cr. and the adjusted gearing at 2.77 times as per the auditor report submitted

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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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, Acuité 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 |
|-------------|-------------------------------------|-----------|-----------------|--|
| 20 Jul 2023 | Non Convertible Debentures | Long Term | 200.00 | ACUITE A+ Stable (Reaffirmed) |
| 04 Jul 2023 | Non Convertible Debentures | Long Term | 200.00 | ACUITE A+ Stable (Downgraded from ACUITE AA- Negative) |
| 05 Aug 2022 | Proposed Non Convertible Debentures | Long Term | 200.00 | ACUITE AA- Negative (Downgraded from ACUITE AA Negative) |
| 25 May 2022 | Proposed Non Convertible Debentures | Long Term | 200.00 | ACUITE AA Negative (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-----------------------------------|-------------------------|--------------------|----------------------|-------------------------|--------------------------|---------------------------------|
| Not Applicable | INE836K07015 | Non-Convertible Debentures (NCD) | 27 Jun 2022 | 10.18 | 27 Apr 2027 | Simple | 200.00 | ACUITE A+ Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Commercial Paper Program | Not Applicable | Not Applicable | Not Applicable | Simple | 650.00 | ACUITE A1+ Assigned |

Contacts

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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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