EdelARC/1877/2020-2021 November 11, 2020

Compliance Officer,
SBICAP Trustee Company Limited
Apeejay House, 6th Floor, West Wing,
Dinshaw Wachha Road, Churchgate,
Mumbai - 400 020.

Dear Madam,

Sub: Disclosure under Regulation 56(1)(c)(i) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

This is to inform you that Brickwork Ratings has revised the credit rating of long-term Non-Convertible Debentures from BWR AA (CE) to BWR AA- (CE), with the outlook being revised from Negative to Stable.

BWR AA rating indicates high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

The modifiers "+" (plus) or "-"(minus) reflect the comparative standing within the category.

You are requested to kindly take the same on record.

Thanking you,

Yours faithfully,
For Edelweiss Asset Reconstruction Company Limited

Deepak Nautiyal
Company Secretary

Edelweiss Asset Reconstruction Company Limited
Corporate Identity Number: U67100MH2007PLC174759
Registered Office: Edelweiss House, Off CST Road, Kalina, Mumbai – 400 098 Tel: +91 22 4088 6090/6620 3149
New Delhi Office: 603-606, 6th Floor, Mercantile House, 15, Kasturba Gandhi Marg, New Delhi – 110001
www.edelweissarc.in

RATING RATIONALE

10 November 2020

Edelweiss Asset Reconstruction Company Limited

Brickwork Ratings assigns 'BWR PP-MLD A+/Stable' to the Principal Protected Market-Linked Debentures and revises the rating on the existing NCDs to 'BWR AA- (CE)/ Stable' from 'BWR AA (CE)/Negative' for Edelweiss Asset Reconstruction Company Limited.

Particulars

Instrument **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (21 Sep 2020)	Present
Principal Protected Market Linked Debentures (PP- MLDs)	--	250.00	Long Term	--	BWR PP-MLD A+/ Stable (Assigned)
Non-Convertible Debentures (NCDs)	300.00	300.00	Long Term	BWR AA (CE)/ Negative	BWR AA- (CE)/ Stable (Downgraded & outlook changed to Stable)
Total	**300.00**	**550.00**	**Rupees Five Hundred Fifty Crores Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of NCDs and PP-MLDs are provided in Annexure I.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) assigns 'BWR PP-MLD A+/Stable' to the principal protected market-linked debentures (PP-MLDs) and downgrades the rating of the existing non-convertible debentures (NCDs) to 'BWR AA- (CE)/ Stable' from 'BWR AA (CE)/ Negative' for Edelweiss Asset Reconstruction Company Limited (EARC or the company), as tabulated above. The CE rating is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee by Edelweiss Financial Services Limited (EFSL), the ultimate parent company and also the holding company of the Edelweiss group. The CE rating is specific to the rated issue, its terms and the structure of the NCDs. The standalone rating (without explicit credit enhancement) is BWR A+.

The rating revision takes into account the moderation in the group's financial risk profile with a shrinkage in the loan book, both retail as well as corporate, resulting in lower income and weak asset quality, mainly in the wholesale mortgage and structured collateralised credit segments, which has resulted in a high impairment cost and has hence, impacted Edelweiss Group's overall profitability. The rating, however, continues to factor in the group's diversified business profile, experienced management team, adequate capitalisation and liquidity cushion to meet its debt repayments. This, coupled with the group's demonstrated ability to raise capital in the past couple of years, is expected to provide balance sheet strength to the group businesses, and thereby, BWR has also revised the rating outlook to Stable.

The ratings on EARC's debt instruments continue to factor in strong support from the parent company, EFSL (rated BWR AA-/ Stable), which holds 74.81% stake in EARC through its various subsidiaries, financial, operational and managerial linkages with Edelweiss group and established market position, being the largest ARC in India and comfortable capitalisation. The rating of EARC is however, constrained by the susceptibility of profitability to recoveries and valuations of investments, because of unpredictable recoveries from acquired assets and inherent risks associated with asset reconstruction business, given that exposures are only to stressed assets.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has evaluated the risk profile of EARC on a standalone basis and factored in the support that EARC is likely to receive from its ultimate parent company, EFSL, given the operational and business linkages and shared brand name. The CE rating is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee by EFSL. BWR has taken a consolidated view on EFSL and its subsidiaries (collectively referred to as the Edelweiss group), having common promoters, shared brand name and strong operational, financial and managerial linkages. BWR has applied its rating methodology as detailed in the rating criteria (hyperlinks provided at the end of this rationale).

KEY RATING DRIVERS

Credit Strengths

Strong parentage: EARC has strong parentage, being part of Edelweiss group. EFSL, the ultimate holding company of the group holds 74.81% stake in EARC through its various subsidiaries. Edelweiss group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, wealth management, asset management, broking, capital markets and insurance. The asset reconstruction business is strategically important to the group, as seen by the increase in the group's stake in EARC to 74.81% as on March 31, 2020 from 47.41% as of March 31, 2016. EFSL has also extended an unconditional and irrevocable guarantee for the rated NCDs. EARC and EFSL also have some common directors on its boards. Mr. Venkatchalam Ramaswamy, the co-founder of the Edelweiss group, who is currently the vice chairman and executive director of EFSL is also on EARC's board of directors. BWR believes Edelweiss group will continue to support EARC due to its majority shareholding in the company and shared brand.

Comfortable capitalisation: The overall capital adequacy ratio of Edelweiss Asset Reconstruction Company Ltd was comfortable at 34% as on 30 September 2020 (32.50% as on 31 March 2020). The gearing has reduced to 1.97 times as on 30 September 2020 from 2.15 times as on 31 March 2020 and 2.58 times as on 31 March 2019. The company has been able to raise equity in the last 4 years, both from the promoter group as well as from external investors. EFSL through its various subsidiaries had infused equity of ~ Rs 221 Crs in EARC during FY17. CDPQ Private Equity Asia Pte Ltd (Canada based pension fund) has invested approximately Rs 306 Crs during FY17, Rs 64 Crs during FY18 and Rs 141 Crs during FY19 in EARC in the form of compulsorily convertible preference shares (CCPs). Total net worth has increased to Rs 2122.55 Crs as on 30 September 2020.

Established market position: EARC has emerged as the largest player in the asset reconstruction business in India with assets under management (AUM) of Rs 42400 Crs as on 30 September 2020. (Rs 42976 Crs as on 31 March 2020). Around 56% of the AUM was pertaining to the 15:85 scheme and around 38% was pertaining to the 5:95 scheme. The focus is on recoveries mainly through restructuring of portfolio companies acquired. The total recoveries has been strong and stood at Rs 11257 Crs in FY20, compared with Rs 7019 Crs in FY19 and Rs 2574 Crs in FY18. During the current year the recoveries stood at Rs 470 Crs for Q1 FY21 and Rs 965 Crs for Q2 FY21. The total accounts recovered stood at 192 during FY20 (FY19: 232).

Credit Risks

Profitability susceptible to recoveries & valuation of investments: The company's income depends on recoveries from acquired distressed assets and given the unpredictable nature of recoveries, the company's income is susceptible to volatility. Management fees reduced to Rs 804 Crs for FY20, compared with Rs 867 Crs for FY19. The performance fees increased significantly to Rs 324 Crs for FY20, compared with Rs 134 Crs for FY19. Further the valuation of EARC's investments in security receipts (SRs) is governed by the recovery ratings of the SRs which are based on the recovery prospects from the underlying assets. EARC may have to write down the value of its investments in case the recovery ratings are downgraded and in case the ultimate recovery from the underlying stressed asset is below the acquisition value, the loss might adversely impact its net worth. The net loss on fair value changes stood at Rs 37 Crs for FY20, compared with a gain of Rs 311 Crs for FY19. Overall profitability for FY20 was lower with net profit of Rs 301 Crs, compared with net profit of Rs 435 Crs for FY19. During H1 FY21, the company has reported a total income of Rs 428 Crs and net profit of Rs 86 Crs. The inability to achieve resolution as per expectations, in terms of the amount recovered as well as timelines, can impact EARC's cash flow and profitability.

Inherent risks associated with asset reconstruction business: EARC faces asset quality-related challenges given that the exposure is to only stressed assets. Further, there are overall challenges faced by the asset reconstruction companies in acquiring assets at reasonable prices. While the company initially acquired only corporate assets, it has also started acquiring retail and SME assets. EARC focuses on recoveries mainly through turnaround strategies/ revival of operations and restructuring of assets and prefers the 15:85 scheme rather than cash based schemes of acquiring assets. While the developments such as IBC (Insolvency and Bankruptcy Court) and NCLT (National Company Law Tribunal) have supported the recoveries in the last two years, BWR believes, given the current slowdown in the domestic economy, the recoveries could be lower in the near term.

RATING SENSITIVITIES

Going forward, the company's ability to improve recoveries and profitability and maintain comfortable capitalisation will be key rating sensitivity factors.

Positive: Company's ability to improve recoveries, increase its AUM and profitability and maintain comfortable capitalisation are key rating positives.

Negative: Lower than expected recoveries resulting in lower profitability and/or a deterioration in capital structure are key rating negatives. Reduction in expected support from EFSL or a significant deterioration in credit risk profile of EFSL are also key rating negatives.

LIQUIDITY POSITION: ADEQUATE

EARC has adequate liquidity to meet its debt repayment obligations. Also around 35% of the borrowing repayments is linked to recoveries. The Edelweiss group also maintains adequate liquidity. The group had cash/ bank balance and fixed deposits of Rs 4250 Crs, unutilised bank lines of Rs 250 Crs, liquid investments (consisting of mutual fund investments, Gsecs and treasury assets) of Rs 750 Crs and other liquidable assets (securities based lending book) of Rs 1350 Crs as on 30 September 2020. The group has debt repayments of Rs 5900 Crs between November 2020 to June 2021.

ADEQUACY OF CREDIT ENHANCEMENT

The credit enhancement reflects the strength of an unconditional and irrevocable guarantee extended by EFSL, and the payment mechanism for the issue. BWR believes EFSL's guarantee and the structured payment mechanism will ensure that the debt repayment obligations are met on time.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending directly or indirectly, to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on the interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and publish the same.

COMPANY PROFILE

Edelweiss Asset Reconstruction Company Limited (EARC) is registered with the Reserve Bank of India as a securitisation and asset reconstruction company under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. The company is engaged in the business of acquiring loan accounts and non-performing assets from the banks and financial institutions and resolving them through appropriate resolution strategies.

ABOUT THE GROUP

Edelweiss Financial Services Limited (EFSL), previously known as Edelweiss Capital Limited, was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy. It is the group's holding company. The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, wealth management including broking and capital markets, asset management, life insurance and general insurance. The company is listed on the BSE and NSE. The promoter group held a 32.91% stake, and the management and employees held a 12.4% stake in EFSL as on 30 September 2020. The group had 47 subsidiaries as on 30 September 2020.

KEY FINANCIAL INDICATORS (EARC Standalone)

Key Parameters	**Units**	**FY19**	**FY20**
Result Type		**Audited**	**Audited**
Total Income	(in ₹ Cr)	1366.88	1166.05
Net Profit	(in ₹ Cr)	435.02	301.55
Net Worth	(in ₹ Cr)	1734.93	2036.41
Gearing	(in times)	2.58	2.15
Total CRAR	(%)	25.58%	32.49%
Assets under management	(in ₹ Cr)	46386	42976
Total assets	(in ₹ Cr)	6840.37	6546.47

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY19	FY20
Result Type		**Audited**	**Audited**
Total Income	(in ₹ Cr)	11161.22	9602.63
Net Profit / (Loss) (after minority interest)	(in ₹ Cr)	995.17	(2045.24)
Net Worth	(in ₹ Cr)	8714.99	7207.08
Gearing	(in times)	5.28	5.06
Total loan portfolio ^	(in ₹ Cr)	36130	21032
Gross NPA ^	(%)	1.87	5.30
Net NPA ^	(%)	0.83	4.10
Total assets	(in ₹ Cr)	64153.54	54280.33

^ excluding distressed credit

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Instrument	Current Rating						Rating History for the past 3 years								
		Type	Amount (Rs. Crs)	Rating	2020			2019			2018			2017		
1	NCDs	Long Term	300.00	BWR AA- (CE)/ Stable	21.09.2020			21.09.2019			15.11.2018			11.08.2017		
					Long Term	300	BWR AA (CE)/ Negative *	Long Term	300	BWR AA (CE)/ Negative *	Long Term	300	BWR AA+ (SO)/ Stable	Long Term	500	Rating Withdrawn
					NA			5.07.2019			NA			NA		
								Long Term	300	BWR AA+ (SO)/ Negative						
					NA			30.03.2019			NA			NA		
								Long Term	300	BWR AA+ (SO)/ Stable						
2	PP-MLDs	--	--	--	NA			NA			NA			11.08.2017		
														Long Term	500	Rating Withdrawn
3	PP-MLDs	Long Term	250.00	BWR PP-MLD A+/ Stable	NA			NA			NA			NA		
	Total		**550.00**		**Rupees Five Hundred Fifty Crores Only**											

* BWR has replaced suffix "SO" (Structured Obligation) with suffix "CE" (Credit Enhancement), in compliance with the revised instructions received from the Securities Exchange Board of India [SEBI] vide their circular No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/70 dated 13.06.2019.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- **General Criteria**
- **Banks & Financial Institutions**
- **Consolidation of companies**
- **Credit Enhancement based on Corporate Guarantee**
- **Ratings based on Parent Support**
- **Market/ Equity Linked Debentures**

Analytical Contacts	
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ANNEXURE I - INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount (Rs in Crs)	Coupon Rate	Maturity Date	ISIN Particulars
NCDs	26-Jun-19	3.50	9.90%	08-Dec-28	INE015L07618
NCDs	08-May-19	20.00	9.90%	08-Dec-28	INE015L07618
NCDs	13-Dec-18	10.00	9.90%	08-Dec-28	INE015L07618
NCDs	27-Mar-19	10.00	9.90%	08-Dec-28	INE015L07618
NCDs	15-Apr-19	6.00	9.90%	08-Dec-28	INE015L07618
NCDs	04-Jan-19	36.00	9.90%	08-Dec-28	INE015L07618
NCDs	21-Dec-18	26.50	9.90%	08-Dec-28	INE015L07618
NCDs	24-Jan-20	5.00	9.90%	08-Dec-28	INE015L07618
NCDs #	--	183.00	--	--	--
PP-MLDs #	--	250.00	--	--	--

Not yet raised

Edelweiss Asset Reconstruction Company Limited

ANNEXURE II

List of entities consolidated

Name of Entity	**% Ownership**	**Extent of consolidation**	**Rationale for consolidation**
Edelweiss Securities Limited	100.00	Full	Subsidiary
Edelweiss Finance & Investments Limited	100.00	Full	Subsidiary
ECL Finance Limited	100.00	Full	Subsidiary
Edelweiss Global Wealth Management Limited	100.00	Full	Subsidiary
Edelweiss Gallagher Insurance Brokers Limited	74.00	Full	Subsidiary
Edelcap Securities Limited	100.00	Full	Subsidiary
Edelweiss Asset Management Limited	100.00	Full	Subsidiary
ECap Equities Limited	100.00	Full	Subsidiary
Edelweiss Broking Limited	100.00	Full	Subsidiary
Edelweiss Trusteeship Company Limited	100.00	Full	Subsidiary
Edelweiss Housing Finance Limited	100.00	Full	Subsidiary
Edelweiss Investment Adviser Limited	100.00	Full	Subsidiary
EC Commodity Limited	100.00	Full	Subsidiary
Edel Land Limited	100.00	Full	Subsidiary
Edelweiss Custodial Services Limited	100.00	Full	Subsidiary
Edel Investments Limited	100.00	Full	Subsidiary
Edelweiss Rural & Corporate Services Limited	100.00	Full	Subsidiary
Edelweiss Comtrade Limited	100.00	Full	Subsidiary
Edel Finance Company Limited	100.00	Full	Subsidiary
Edelweiss Retail Finance Limited	100.00	Full	Subsidiary
Edelweiss Multi Strategy Fund Advisors LLP	100.00	Full	Subsidiary
Edelweiss Resolution Advisors LLP	100.00	Full	Subsidiary
Edelweiss General Insurance Company Limited	100.00	Full	Subsidiary
Edelweiss Finvest Private Limited	100.00	Full	Subsidiary
Edelweiss Securities (IFSC) Limited	100.00	Full	Subsidiary
Edelweiss Securities and Investment Private Limited	100.00	Full	Subsidiary
Edelweiss Securities (Hong Kong) Private Limited	100.00	Full	Subsidiary
EC Global Limited	100.00	Full	Subsidiary

EC International Limited	100.00	Full	Subsidiary
EAAA LLC	100.00	Full	Subsidiary
Edelweiss Capital (Singapore) Pte. Limited	100.00	Full	Subsidiary
Edelweiss Alternative Asset Advisors Pte. Limited	100.00	Full	Subsidiary
Edelweiss International (Singapore) Pte. Limited	100.00	Full	Subsidiary
Edelweiss Investment Advisors Private Limited	100.00	Full	Subsidiary
Aster Commodities DMCC	100.00	Full	Subsidiary
Edelweiss Financial Services (UK) Limited	100.00	Full	Subsidiary
Edelweiss Financial Services Inc.	100.00	Full	Subsidiary
Edelweiss Alternative Asset Advisors Limited	95.00	Full	Subsidiary
Edelgive Foundation	100.00	Full	Subsidiary
Lichen Metals Private Limited	100.00	Full	Subsidiary
Edelweiss Private Equity Tech Fund	88.90	Full	Subsidiary
Edelweiss Value and Growth Fund	88.90	Full	Subsidiary
Edelweiss Asset Reconstruction Company Limited	74.80	Full	Subsidiary
EW Special Opportunities Advisors LLC	67.00	Full	Subsidiary
Edelweiss Tokio Life Insurance Company Limited	51.00	Full	Subsidiary
Allium Finance Private Limited	70.00	Full	Subsidiary
ESL Securities Limited	100.00	Full	Subsidiary

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.