RATING RATIONALE

Edelweiss Finance and Investments Limited

21 Sept 2019

Brickwork Ratings revises ratings and continues with the negative outlook for the Non-Convertible Debentures ₹. 50.00 Crores of Edelweiss Finance and Investments Limited. Brickwork also assigns ratings for proposed NCD of ₹. 450.00 Crores and PPMLD of ₹. 500.00 Crores of Edelweiss Finance and Investments Limited (EFIL).

Particulars:

Instrument	Amount (₹ Cr)			Ratings	
	Previous	Present	Tenure	Previous (July 2019)	Present
Secured NCD	50	50	**Long Term**	**BWR AA+ (Negative)**	**BWR AA (Negative)**
Secured NCD	-	450	**Long Term**	**-**	**BWR AA (Negative)**
PPMLD	-	500	**Long Term**		**BWR PP-MLD AA (Negative)**
Total	**50**	**1000**		**INR One Thousand Crores Only/-**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION/OUTLOOK

Brickwork ratings has revised EFIL's rating due to group's increasing risk in corporate lending book given the weak external environment in the sector and an increase in NPAs seen in Q1FY20. The Edelweiss Group has exposure to some borrowing entities having weak credit profile and any delays in recoveries or defaults in these accounts may impact the financial profile of the Group. Although the Group has demonstrated its ability to maintain adequate asset quality, a prolonged slowdown in the real estate industry coupled with the liquidity crunch in the overall market could have an adverse impact on the same, going forward. These risks are, however, partly mitigated by the adequate collateral cover maintained for such exposures.

The Group has wholesale exposure of 27% and structured loans exposure of 13% of total loan portfolio, segments that are considered riskier, especially in the current external environment. However, the Group's planned shift towards a more granular retail portfolio would help de-risk the portfolio and provide comfort. The stated intent of the group is to increase lending to the retail segment. The group also plans to grow through an asset light co-lending model with banks and has already entered into such agreements with a few banks.

The rating revision also factors an increase in the cost of borrowing and credit costs and the resultant decline in profit after tax during Q1FY20 as against FY19. The rating continues to factor the adequate liquidity maintained by Edelweiss, coupled with the equity infusion done over the last few months to reduce the overall leverage.

BWR continues with the negative outlook given the increased risk in the corporate lending portfolio of the group with high exposure to real estate and structured credit assets, which are considered riskier in the weak external environment especially pertaining to the real estate sector.

BWR has assigned ratings for its proposed NCD of Rs 450 Crs. Based on indicative term sheet provided by company, the proposed NCD will be secured instrument and will be issued on private placement basis. BWR has also assigned ratings for its Principal Protected Market Linked Debentures (PPMLD): The rating of the instrument will be for various issues over a period and can have a Tenor upto 10 years. The yield of the instrument can be linked to any of the current or future indices of NSE/BSE. It will be secured instrument proposed to issue on private placement basis. The Debentures shall be secured by way of a pari passu mortgage and charge over the Mortgage Premises as defined in the Debenture Trust Deed; a charge on the receivables, stock in trade, loans and investments (as may be mutually agreed with trustee from time to time) to the extent equal to the principal and interest amounts of the Debentures outstanding at any point of time.

KEY RATING DRIVERS

Credit Strength

Reputation of Edelweiss Group: Edelweiss Group is a diversified financial services player engaged in credit, capital markets and other advisory businesses. The diversification in revenue streams has reduced the Group’s exposure to cyclical movements in domestic capital markets. On a consolidated basis during FY19, EFSL’s total income from operations increased to Rs. 10886 Crs from Rs. 8920 Crs in FY2018, registering a 22% growth supported by a healthy growth in investment banking and asset reconstruction Fees and commission income. With the scaling up of the credit business, net interest income continues to be the key revenue driver contributing 30% of the operating income in FY2019.

Experienced and qualified management: The entire group is being managed by experienced and qualified professionals. Mr. Rashesh Shah is the Chairman and CEO of EFSL. Mr. Venkat Ramaswamy is the Executive Director. Besides the, Board of Directors of EFSL consists of two other Executive Directors, two Non-Executive Director and Seven Independent Directors. The Company also has a well qualified and experienced team of professionals looking after credit, risk, marketing, audit and other support functions.

Comfortable Capitalisation: As on 30th June 2019, EFSL had a total CRAR of 19.40% and Tier I CRAR of 14.90% against total CRAR of 18% and Tier I CRAR of 14.50% as on 31st March 2019 on consolidated basis. Gearing is comfortable at 4.50 times gross level and 3.70 times net level, excluding treasury assets as on 30 June 2019. The CRAR and gearing has improved as on 30th June 2019 further with the infusion of Rs.1,039.50 crore equity by CDPQ Private Equity Asia Pte Limited (as the "Investor"), a wholly owned subsidiary of Caisse de dépôt et placement du Québec (CDPQ), in ECLF on May 07, 2019. Gearing will further improve with commitments from KORA management, a financial firm, to invest ~ Rs 875 Crs.

Asset Quality: Edelweiss Group portfolio has satisfactory asset quality with increase in GNPA of 2.33% and NNPA of 1.24% as on 30th June 2019 against GNPA of 1.87% and Net NPA of 0.83% as on 31st March 2019. However, the company is exposed to the external risks in the current environment with 41% of its portfolio being corporate loans, out of which 26% is real estate exposure and 15% is in structured credit. The stated intention of the company to shift its focus to building a more granular retail portfolio will be a monitorable.

Credit Risk

Decline in profitability: During Q1FY20, company has reported a 50% decline in profitability as compared to Q1FY19. The decline was on account of higher provisions and increase in cost of borrowings. As on 30th June 2019, company has reported a profit after tax of Rs.132 Crs as against Rs. 264 Crs during Q1FY19. Consolidated cost of borrowing has increased to 10.34 % during Q1FY20 as against 10.1% during Q4FY19. Return on assets ex insurance has declined to 1.7% during Q1FY20 as against 2.4% during Q4FY19.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has consolidated the financial profile of Edelweiss group entities because of their strong operational and financial integration (complete list of entities provided in annexure) and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the audited financials up to FY19, Q1FY20 result, publicly available information and information / clarification provided by the company.

RATING SENSITIVITIES

Going forward, growth in retail loan book, improving profitability and maintaining assets quality will be key rating sensitivities.

Positive: The rating outlook may be revised to 'Stable' in case the asset quality of Group's corporate loan book does not weaken further and if profitability levels are maintained at par with the performance during previous years.

Negative: The rating may be downgraded if the assets quality worsens further and no improvement is seen in profitability as compared to previous years. The rating may be downgraded if ROA ex insurance falls below 1%, NPA worsen beyond 3.5% and the profitability worsens further.

LIQUIDITY POSITION: ADEQUATE

The Group has liquidity of Rs 9400 Crs as on 31st August 2019. This liquidity includes Rs 4800 Crs of liquid assets, Rs. 4600 Crs of overnight liquidity cushion. The liquidity cushion of Rs 4600 Crs includes investments in mutual fund, unutilized bank OD lines, Bank fixed deposits and CBLO lending.

COMPANY PROFILE

Edelweiss Finance and Investments Limited (EFIL) is a Systemically Important Non – Deposit taking Non - Banking Financial Company (NBFC - NDSI) registered with the Reserve Bank of India (RBI). The company is currently primarily engaged in fixed income trading. It had a modest wholesale credit book in the past which has been run down fully. However, in the future, the Group proposes to use EFIL for booking of ESOP and Margin Funding loans to its HNI and retail broking clients.

KEY FINANCIAL INDICATORS

As per FY19 audited financials, EFIL reported net loss of Rs 0.36 Crs (P.Y Rs. 12.69 Crs) and total revenue of Rs. 142 Crs (P.Y. Rs. 159 Crs).

Rs. Cr	Type	FY18	FY19
Total Revenue	Rs in Crs	159	142
PAT	Rs in Crs	13	(0.36)
TNW	Rs in Crs	189	185
Total Debt	Rs in Crs	1757	2311
GNPA (%)	%	Nil	Nil
NNPA (%)	%	Nil	Nil

Edelweiss Financial Services Limited (ESFL), previously known as Edelweiss Capital Limited, was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy, focusing on financial services in India, is the parent company of Edelweiss Group. EFSL is registered as a Category I Merchant Banker with SEBI. The company on a standalone basis is primarily engaged in investment banking services and provides development, managerial and financial support to the Edelweiss group entities. EFSL is listed on NSE and BSE. Promoters hold around 33% in the company as on March 31, 2019. In addition, management and employees trust hold another 13.7% of the shares of EFSL.

KEY FINANCIAL INDICATORS EDELWEISS FINANCIAL SERVICES LIMITED

During FY19, on a consolidated basis, EFSL has earned a net profit of Rs. 995 Crs (P.Y Rs. 863 Crs) in FY18 on total income from operations of Rs. 10886 Crs (P.Y Rs. 8920 Crs). During Q1FY20, EFSL has reported net profit of Rs. 132 Crs against Rs 264 Crs in Q1FY19.

	Type	Consolidated			Standalone	
Particulars		**FY18 Ind AS**	**FY19 Ind AS**	**Q1FY20 (BSE Published)**	**FY18 Ind AS**	**FY19 Ind AS**
Total Operating Income	Rs in Crs	8920	10886	2546	440	320
PAT	Rs in Crs	863	995	132	138	103
TNW	Rs in Crs	7826	8715	-	3354	3351
Total Debt	Rs in Crs	48031	46394	-	135	437
GNPA (%)	%	1.75	1.87	2.33	-	-
NNPA (%)	%	0.70	0.83	1.24	-	-
Total CRAR (%)	%	17.04	18.00	19.40	-	-

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

Sn	Instrument	Current Rating (2019)			Rating History				
		Type	Amount (₹ Crs)	Ratings	July 2019	March 2019	2018	2017	2016
1.	Secured NCD	Long Term	50	BWR AA (Negative)	BWR AA+ (Negative)	BWR AA+ (Stable)	BWR AA+ (Stable)	BWR AA+ (Stable)	BWR AA+ (Stable)
2	Secured NCD	Long Term	450	BWR AA (Negative)	-	-	-	-	-
3	PP-MLD	Long Term	500	BWR AA (Negative)	-	-	-	-	-
	Total		**1000**			**INR One Thousand Crore Only**			

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**
- **Group Support**

Analytical Contacts	Investor and Media Relations
Praful Kumar Dave **Primary Analyst** +91 22 6745 6638 prafulkumar.d@brickworkratings.com **Rajat Bahl** **Chief Analytical Officer & Head - Financial Institutions** +91 22 6745 6634 rajat.b@brickworkratings.com	M : +91 7738875550 B : +91 22 6745 6666 investordesk@brickworkratings.com

ANNEXURE I

INSTRUMENT (NCD) DETAILS: No NCD raised till date

ANNEXURE II

List of entities consolidated (As of 30 June 2019)

Sn	Company Name	% of Ownership	Extent of Consolidated	Rationale of Consolidation
1	Edelweiss Securities Limited	100.00%	Full	Subsidiary
2	Edelweiss Finance & Investments Limited	100.00%	Full	Subsidiary
3	ECL Finance Limited	100.00%	Full	Subsidiary
4	Edelweiss Global Wealth Management Limited	100.00%	Full	Subsidiary
5	Edelweiss Insurance Brokers Limited	100.00%	Full	Subsidiary
6	Edelweiss Trustee Services Limited	100.00%	Full	Subsidiary
7	Edelcap Securities Limited	100.00%	Full	Subsidiary
8	Edelweiss Asset Management Limited	100.00%	Full	Subsidiary
9	ECap Equities Limited	100.00%	Full	Subsidiary
10	Edelweiss Broking Limited	100.00%	Full	Subsidiary
11	Edelweiss Trusteeship Company Limited	100.00%	Full	Subsidiary
12	Edelweiss Housing Finance Limited	100.00%	Full	Subsidiary
13	Edelweiss Investment Adviser Limited	100.00%	Full	Subsidiary
14	EC Commodity Limited	100.00%	Full	Subsidiary
15	Edel Land Limited	100.00%	Full	Subsidiary
16	Edelweiss Custodial Services Limited	100.00%	Full	Subsidiary
17	Edel Investments Limited	100.00%	Full	Subsidiary

18	Edelweiss Rural & Corporate Services Limited (Formerly known as Edelweiss Commodities Services Limited)	100.00%	Full	Subsidiary
19	Edelweiss Comtrade Limited	100.00%	Full	Subsidiary
20	Edel Finance Company Limited	100.00%	Full	Subsidiary
21	Edelweiss Retail Finance Limited	100.00%	Full	Subsidiary
22	Edelweiss Multi Strategy Fund Advisors LLP	100.00%	Full	Subsidiary
23	Edelweiss Resolution Advisors LLP (formerly known as Edelweiss Wealth Advisor LLP)	100.00%	Full	Subsidiary
24	Edelweiss Holdings Limited	100.00%	Full	Subsidiary
25	Edelweiss General Insurance Company Limited	100.00%	Full	Subsidiary
26	Edelweiss Finvest Private Limited	100.00%	Full	Subsidiary
27	Edelweiss Securities (IFSC) Limited	100.00%	Full	Subsidiary
28	Alternative Investments Market Advisors Private Limited	100.00%	Full	Subsidiary
29	Edelweiss Securities Trading Management Private Limited (formerly known as Dahlia Commodities Services Private Limited)	100.00%	Full	Subsidiary
30	Edelweiss Securities and Investment Private Limited (formerly known as Magnolia Commodities Services Private Limited)	100.00%	Full	Subsidiary
31	Edelweiss Securities (Hong Kong) Private Limited	100.00%	Full	Subsidiary
32	EC Global Limited	100.00%	Full	Subsidiary
33	EC International Limited	100.00%	Full	Subsidiary
34	EAAA LLC	100.00%	Full	Subsidiary
35	EFSL International Limited	100.00%	Full	Subsidiary
36	Edelweiss Capital (Singapore) Ptc. Limited	100.00%	Full	Subsidiary
37	Edelweiss Alternative Asset Advisors Pte. Limited	100.00%	Full	Subsidiary
38	Edelweiss International (Singapore) Pte. Limited	100.00%	Full	Subsidiary
39	Edelweiss Investment Advisors Private Limited	100.00%	Full	Subsidiary
40	Aster Commodities DMCC	100.00%	Full	Subsidiary
41	Edelweiss Financial Services (UK) Limited	100.00%	Full	Subsidiary
42	Edelweiss Financial Services Inc.	100.00%	Full	Subsidiary
43	Edelweiss Alternative Asset Advisors Limited	95.00%	95.00%	Subsidiary
44	EW Clover Scheme – 1	100.00%	Full	Subsidiary
45	Edelvalue Partners	100.00%	Full	Subsidiary
46	Edelgive Foundation	100.00%	Full	Subsidiary
47	Lichen Metals Private Limited	100.00%	Full	Subsidiary
48	EW India Special Asset Advisors LLC	90.00%	90.00%	Subsidiary
49	Edelweiss Private Equity Tech Fund	88.90%	88.90%	Subsidiary

50	Edelweiss Value and Growth Fund	88.90%	88.90%	Subsidiary
51	Edelweiss Asset Reconstruction Company Limited	74.80%	74.80%	Subsidiary
52	EW Special Opportunities Advisor LLC	67.00%	67.00%	Subsidiary
53	Edelweiss Tokio Life Insurance Company Limited	51.00%	51.00%	Subsidiary
54	Allium Finance Private Limited	70.00%	70.00%	Subsidiary
55	Retra Ventures Private Limited	70.00%	70.00%	Subsidiary
56	Allium Finance Private Limited	-	-	Associate

For print and digital media

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