Edelweiss Securities Limited

July 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating Issuer Rating	0.00	CARE AA- (Is); Stable [Double A Minus (Issuer Rating); Outlook: Stable]	Assigned
Total Instrument	**0.00 (₹ Only)**		
Market Linked Debentures	100.00	CARE PP-MLD AA-; Stable (Principal Protected-Market Linked Debentures Double A Minus; Outlook: Stable)	Revised from CARE PP-MLD A+; Stable (Principal Protected-Market Linked Debentures Single A Plus; Outlook: Stable)
Total Long-Term Instruments	**100.00 (₹ One Hundred Crore Only)**		
Commercial Paper	1,000.00	CARE A1+ (A One Plus)	Reaffirmed
Market Linked Debentures	100.00	CARE PP-MLD A1+ (Principal Protected-Market Linked Debentures A One Plus)	Reaffirmed
Total Short-Term Instruments	**1,100.00 (₹ One Thousand One Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

In March 2021, PAGAC Ecstasy Pte Ltd (PAG) a global alternative investment firm and its affiliates, bought direct and indirect stake (61.47%) in the wealth management business of Edelweiss Financial Services Ltd (Edelweiss group) housed under Edelweiss Securities Limited (ESL). Following this, Edelweiss group initiated the demerger of its wealth management business in phases, phase II of which was approved by National Company Law Tribunal (NCLT) and filed with Registrar of Companies (ROC) in April, 2022, and accordingly, as on June 30, 2022, PAG and its affiliates holds 56.24% direct stake in ESL. The proposed phase III demerger is expected to conclude post receipt of necessary regulatory and statutory approvals and the equity shares of the Company shall be listed on BSE Limited and the National Stock Exchange of India Limited.

Following the scheme of demerger (effective April 2022), there has been a restructuring, with the wealth management business now being under ESL and thereby the business and operations of the wealth management company has been assessed separately. The management informed that the re-branding exercise including change in name, brand logo and brand positioning is in the process.

The revision in the rating assigned to the market instruments of ESL factor in the established presence in wealth management business, strong and resourceful promoters, experienced management team and strong liquidity profile enhanced by the liquidity support from the promoters as and when required. The rating is however constrained by concentrated resource profile with relatively high cost of borrowings and volatility in capital markets along with regulatory risk and attrition risk inherent in wealth management business.

Rating sensitivities

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

- Improvement in the profitability on sustained basis with RoNW of >20% and growing AUM.
- Growth in proportion of recurring income on a sustained basis

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern, resulting in reduced support from investors on ongoing basis.
- Material and prolonged erosion in the AUM with high client attrition.
- Regulatory action in wealth management segments resulting in change in the business profile.
- Overall Gearing exceeding 3.5x times on a consolidated basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers
Key rating strengths
Established market position in wealth management business:
ESL offers advisory, asset management, broking and distribution services to affluent segment and high net worth individuals (HNIs) and ultra HNIs. It is second largest independent wealth management player as reflected in the client assets which stood at Rs. 2,06,594 crores as on March 31, 2022, recording a CAGR growth of 18% over the last 5 years. It has a subsidiary, Edelweiss Finance & Investment Limited (EFIL), which is an NBFC that provides loans against securities, ESOP funding, IPO financing, Margin trade funding to the clients of the wealth management business with a loan book of Rs. 1,965 crores as on March 31, 2022. The company has a presence in wealth management across 65 locations and 1274 relationship managers and team leaders as on March 31, 2022.

Strong and resourceful promoter:
PAG is a global alternative investment firm that manages multiple asset classes, including private equity, real estate and hedge funds. It is considered as one of the largest private investment firms in Asia with over US $50 billion of assets under management in private equity, real estate, and absolute returns. It has 10 offices in Asia with additional offices in London, New York, and Geneva. PAG is focussed primarily in three sectors in India viz financial sector, health sector and pharma sector. Thus ESL (wealth management business) has been identified as a key focus area for the group's overall investment plan. PAG had invested Rs 2,366 cores for majority stake in ESL, including primary and secondary investment. They have also given a liquidity support arrangement of Rs 3000 crore which can be used in case of exigencies.

Experienced Management Team:
ESL's senior management team has significant experience and expertise in the wealth management business, which has helped them grow into second largest independent player in the wealth management industry. Mr Ashish Kehair, Managing Director and CEO, has more than two decades of experience in areas of Private Banking, Wealth Management. Further, Mr Rahul Jain, President and Head Personal Wealth has over a decade experience in wealth management, advisory and retail broking and is instrumental in building personal wealth business to present day scale. Mr Alok Saigal, President and Head of private wealth has more than two decades of experience in in wealth management, investment management and corporate banking. Apart from these senior management, the team leaders and relationship managers have average experience of over five years with an attrition rate of 4% in fiscal 2022.

Comfortable Asset quality
Edelweiss Finance & Investments limited (EFIL), the lending arm of ESL and 100% subsidiary, operates as a lender for the wealth clients of the business. With key products such as loans against securities, ESOP financing, Margin trade funding, IPO financing, it has a loan book of Rs. 1,965 crores as on March 31, 2022 (Rs. 1,410 crores as on March 31, 2021), which contributes ~13% to the overall consolidated ESL revenue. These loans are extended to the existing clients of the wealth management business. The reported asset quality indicators remain comfortable with gross and net NPA of 0%, collateral cover of ~3 times and zero credit losses since inception. Since the loan book is backed by financial assets, the books is susceptible to volatility in capital markets.

Key rating weaknesses
Concentrated resource profile; with relatively higher cost of borrowings:
The resource profile remains concentrated with the company's borrowings largely being from its own client base through PP-MLDs (~56% of the overall borrowings as on March 31, 2022), followed by significant reliance on commercial papers (CPs) (30%). During FY22, cost of borrowings has come down significantly as compared to earlier fiscals. Further, the company was able to raise borrowings at competitive rates during the last quarter of FY22 and the ability of the company to reduce its cost of funds will be a key monitorable.

Exposure to volatile capital markets, regulatory risk, and attrition risk:
ESL's earnings are exposed to volatility in the capital markets, however the current higher AUA is expected to support revenues, lower net inflows could impact revenue growth. The revenues are further susceptible to regulatory changes.
Further, the ability to retain key personnel is important in the wealth management business as change in relationship personnel may bring a change in relationship with the client as well. The company had a total of 260 team leaders and 1014 relationship managers as on FY22 and overall, the team leads have more than 5 years vintage.

Liquidity: Strong
The company has strong liquidity with no negative cumulative mismatch as per the asset liability maturity profile of the company as on March 31, 2022. Edelweiss Securities Limited (ESL), on a consolidated basis, has strong liquidity cushion of Rs 2044 crore as of March 2022. Additionally, the company has unutilized lines of Rs 256 crore along with the liquidity support arrangement of Rs 3000 crore from PAG in case of exigencies.

Analytical approach
Consolidated; Edelweiss Securities Limited own 100% in most of its subsidiaries, including Edelweiss Finance and Investment Limited (EFIL) and the management or line functions for these businesses is common with significant operational and financial integration among them. As on March 31, 2022, the group had 9 subsidiaries and 1 associate, that are enlisted below:

Indian Subsidiaries
Edelweiss Broking Limited (EBL)
Edelweiss Finance & Investments Limited (EFIL)
Edelweiss Custodial Services Limited (ECDSL)
ESL Securities Limited (ESLSL)
Edelweiss Securities (IFSC) Limited (ESLIFSC)

Foreign Subsidiaries
Edelweiss Financial Services Inc.
Edelweiss Securities (Hong Kong) Pvt Ltd
Edelweiss Financial Services (UK) Ltd
Edelweiss Investment Advisors Private Ltd.

Associate
Edelweiss Capital Services Ltd (ECSL)

Applicable criteria
Issuer Rating
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Consolidation and Factoring Linkages
Policy on default recognition
Market Linked Debentures

About the company
Incorporated in 1993, Edelweiss Securities Limited (ESL) is a public limited company incorporated under the provisions of the Companies Act. PAGAC Ecstasy Pte Limited is the Ultimate Holding Company. The Company is registered as a trading and clearing member with National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE) and Metropolitan Stock Exchange of India Ltd. ESL provides broking and advisory services to its clients along with trading in securities and derivatives

ESL- Consolidated

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total income	774	1298	1620
PAT (Including one-off adjustments)	286	(475)	857
Overall gearing*	0.64	0.95	1.91
Total Assets	5211	7385	10597
ROTA (% excluding one-off adjustments)	5.60	2.57	2.51
RONw (% excluding one-off adjustments)	24.44	10.63	13.47

A: Audited
* Borrowings excludes Compulsorily convertible Preference Shares; Tangible Net worth includes Compulsorily convertible Preference Shares

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AA- (Is); Stable
Debentures-Market Linked Debentures	-	-	-	-	100.00	CARE PP-MLD AA-; Stable
Debentures-Market Linked Debentures	-	-	-	-	100.00	CARE PP-MLD A1+
Commercial Paper	-	-	-	-	1000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper	ST	1000.00	CARE A1+	-	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (08-Oct-20) 2)CARE A1+ (02-Jun-20) 3)CARE A1+ (07-May-20)	1)CARE A1+ (05-Jul-19)
2	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA-; Stable	-	1)CARE PP-MLD A+; Stable (07-Oct-21)	1)CARE PP-MLD A+; Stable (09-Nov-20)	-
3	Debentures-Market Linked Debentures	ST	100.00	CARE PP-MLD A1+	-	1)CARE PP-MLD A1+ (07-Oct-21)	1)CARE PP-MLD A1+ (09-Nov-20)	-
4	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA- (Is); Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper	Simple
2	Debentures-Market Linked Debentures	Highly Complex

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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