

**Edelweiss Securities Limited**

July 5, 2019

**Ratings**

| Instrument       | Rated Amount<br>(Rs. crore)                | Rating <sup>1</sup>              | Rating Action |
|------------------|--------------------------------------------|----------------------------------|---------------|
| Commercial Paper | 1000                                       | <b>CARE A1+<br/>(A One Plus)</b> | Reaffirmed    |
| <b>Total</b>     | <b>1,000<br/>(One Thousand crore only)</b> |                                  |               |

*Details of instruments/facilities in Anneuxre-1*
**Detailed Rationale & Key Rating Drivers**

The rating revision takes into account increasing risk averseness in the market towards NBFC sector in general and wholesale lending focussed NBFCs in particular which pose challenges in resource mobilisation. CARE takes note of resource mobilisation of Rs.7800 crore from various sources done by Edelweiss Financial Services Limited (EFSL) during H2FY19. However, in line with trend observed for the NBFC/HFC sector, EFSL has also witnessed increased cost of borrowings which reflects the increased risk perception of the lenders towards entities operating in the NBFC/HFC segment. Therefore, continuous mobilisation of resources for EFSL and maintaining adequate liquidity during this tough operating environment is a key rating monitorable.

The revision also takes into account exposure of EFSL Group to real estate sector which is witnessing slowdown and experiencing heightened refinancing risk. The asset quality in this segment for EFSL needs to be monitored as it is yet to span out fully on account of larger part of the portfolio under moratorium even-though currently the asset quality is comfortable. Further the collateral cover taken on the real estate exposures also provide comfort to an extent but continuation of slowdown in the real estate market might put some pressure on the liquidity in the short to medium term.

The ratings also continues to factor in the diversified business profile of the group (on consolidated basis), experienced management team, adequate capitalization, good asset quality and comfortable liquidity profile. The ratings are, however, constrained by dependence on revenue from the capital market related activities which has inherent volatility and is declining due to diversification of revenue streams, client concentration and credit risk in its wholesale credit book, and risk associated with relatively new businesses. The performance of EFSL's new businesses, asset quality, profitability, are the key rating sensitivities.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
***Diversified business profile of the group***

EFSL is a diversified financial services company with presence in various business segments related to credit in retail credit including mortgage finance (housing loans, loans against property) and SME credit, corporate credit and distressed assets credit including asset reconstruction. Its Franchise & Advisory businesses include wealth management, asset management, and capital market businesses which include equity and commodities broking (both institutional and retail) and investment banking. Its insurance business includes both life and general insurance businesses. The share of the group's total interest income accounted for 60% of the total income in FY19 on consolidated basis. (FY18: 56.5%). The share of broking and fee based income has reduced to 22% of total income in FY19 from 27% of total income in FY18. This was mainly due to the slowdown in the advisory and broking business due to the volatility in the capital market in FY19. The share of the insurance premium increased marginally.

***Established institutional equity broking business and good retail distribution network***

EFSL on group basis has established institutional equity business comprising institutional equity sales and research. It provides services to a large and diversified base of Foreign Institutional Investors (FIIs) and domestic institutional investors. Its clients include large pension funds, long only funds, Exchange Traded Funds (ETFs) and hedge funds. It is one of the largest domestic institutional broking houses in India with around 300 foreign and domestic institutional investors. The institutional equity business is supported by a strong equity sales team and relevant and timely research. EFSL manages an AUM of Rs. 2,00,900 crore of customer assets which comprises of Assets under advice (Wealth Management), Distressed Credit (ARC Assets)(excluding Edelweiss contribution), Funds under Management (Asset Management) (excluding Edelweiss contribution) and Assets under custody and clearing.

***Experienced management team***

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

EFSL has a strong management team with a rich experience in the financial sector. The senior management team of Edelweiss has been quite stable over the last few years and most of the senior management has been with Edelweiss for a long period.

#### ***Adequate capitalization levels***

On a consolidated basis, the tangible net worth (excluding minority interest) stood at Rs. 6919 crore as on March 31, 2019 compared to Rs. 6027 crore as on March 31, 2018. In March 2019, the company has signed an agreement with CDPQ (Canadian Pension Fund) for investment in the NBFC arm ECL Finance Limited of ~Rs. 1800 crore in a span of 2 years. Out of the said investment, Rs. 1040 crore was received in May 2019 in the form of compulsorily convertible debenture. The company is also looking for a strategic investor in its Wealth & Asset Management business. The group maintained the Capital Adequacy levels (as per company) at 18.01% as on March 31, 2019. (17.4% as on March 31, 2018).

The groups' debt levels have decreased from Rs.48031 crore as on March 31, 2018 to Rs.45217 crore as on March 31, 2019. Subsequently, gearing levels (excluding minority interest) decreased from 7.97 times as on March 31, 2018 to 6.53 times as on March 31, 2019. The gearing (excluding MI) post the capital infusion in May 2019 stood at 5.60 times (based on March 2019 debt figures).

The Group has demonstrated a track record of raising funds at regular intervals to take care of the leverage at the group level. Further, the Group has a strong track record of raising and deploying managed funds, which supports its overall business capabilities.

#### ***Comfortable asset quality***

EFSL's has been able to maintain comfortable asset quality on the book including the wholesale book over the years. As on March 31, 2019, Gross NPA ratio was 1.87% (1.75% as on March 31, 2018). Net NPA ratio was 0.83% (0.70% as on March 31, 2018) while Net NPA to Net-worth ratio was 4.32% (3.43% as on March 31, 2018). Including the written off amounts, Adjusted GNPA ratios stood at 2.5% as on March 31, 2019 as compared to 2.91 % as on March 31, 2018. Edelweiss group has outstanding exposure to real estate with financing to developers accounting for 29% of the total credit book. The current environment prevailing in the real estate sector with funding constraints on account of crisis in the NBFC sector coupled with higher inventory is expected to put pressure on the asset quality of the NBFCs including Edelweiss which has relatively higher exposure to real estate developers in the NBFC segment. Thus, the ability of the group in maintaining the asset quality across the business cycles is a key rating sensitivity.

#### ***Comfortable liquidity profile and diversified resource profile***

EFSL on a consolidated basis maintained a cumulative positive asset-liability mismatch across the time buckets as on March 31, 2019. At the group level, the company maintained liquidity to the tune of Rs. 5300 crore as on March 31, 2019 which comprised of Rs. 900 crore of cash/bank balance & fixed deposit, Rs. 2100 crore of investment in mutual funds & government securities and Rs. 2300 crore of undrawn bank lines.

As on March 31, 2019, resource profile is well diversified with NCDs / Sub debt / MLD - 54% (FY18: 41%), Bank borrowings- 39% (FY18: 34%), CP – 2% (FY18: 14%), CBLO - 5% (FY17: 7%) and others – 0 (FY17: 1%) of total borrowings as respectively. EFSL has reduced its dependence on the commercial paper in FY19 and has mainly relied on the long term borrowings.

#### ***Key Rating Weakness***

##### ***Substantial proportion of revenue from the capital markets related activities***

A significant proportion of EFSL's revenue is related to the capital markets led activities, which include equity broking, investment banking, capital market related loan portfolio, asset management. However with increase in size of the credit business, dependency on capital markets has been declining over past few years.

##### ***Client concentration and credit risk in its wholesale credit book***

As on March 31, 2019, the total loan portfolio comprised of retail book of 42% (March 2018: 41%), wholesale book of 41% (March 2018: 45%) and distressed asset book of 17% (March 2018:14%). Wholesale credit book of EFSL comprises of the real estate financing and the structured collateralised credit book. The real estate financing accounted for 27% of the total credit book as on March 31, 2019 as compared to 24% of the total credit book as on March 31, 2018. Even though the company has demonstrated a reduction on the concentration in the wholesale book as compared to the last year, the real estate segment continues to dominate the credit book. As on March 31, 2019, top 50 exposures (of which 32 accounts were from real estate segment) shared by the company which gives information on loan outstanding, reported security cover, moratorium period, name of developer and project. As on March 31, 2019, top 50 exposures (of which 32 accounts were from real estate segment) shared by the company accounted for 1.37 times of Tangible Net-worth. The top 10 accounts accounted for 45% of the tangible net-worth. (March 2018: 46% of tangible net worth).

The real estate book which has high ticket concentration and higher proportion of the book (based on analysis of information provided for 32 top exposures in RE book) under principal moratorium is expected to impact the liquidity in

the short to medium term given the prolonged slowdown in the real estate sector. However, the company tries to mitigate the risk associated with the real estate exposures by the adequate collateral cover of 2-3x maintained on each exposure. The company undertakes regular monitoring of each projects by an in-house team of 70+ employees which is engaged in fortnightly physical verification of the projects, marketing and controlling the construction if required.

#### ***Risk associated with distressed assets and new businesses***

The Edelweiss group has recently forayed into new businesses, including expanding insurance (both life and general), distress assets. The insurance business is characterized by high competition and the group's ability to successfully establish a position in these segments is yet to be seen. Furthermore, the group has acquired a large portfolio of distressed assets in the past few years and the resolution in such cases needs to be seen.

As on March 31, 2019, the distressed assets (DA) accounted for 17% of credit book stood as on March 31, 2019 compared to 14% as on March 31, 2018. Till date the ARC has redeemed Rs.7553 crore of security receipts which account of approximately 13.99% of the issued security receipts. The ARC has made recoveries of Rs. 7019 crore during FY19. (FY18: Rs.2574 crore). Edelweiss ARC reported a Profit after tax (PAT) of Rs.435.02 crore in FY19 (Rs.180.02 crore in FY18). Even though the ARC business has demonstrated growth in the past year with steady recoveries and growth in profitability, the inherent high riskiness of business leads to uncertainty and credit risk. The company's ability to demonstrate adequate and timely resolution performance is a key rating sensitivity.

#### ***Moderation in profitability growth***

Moderation in the growth in profitability is on account of moderate growth in the advisory income due to capital market volatility in FY19 and increase in the loss in the life insurance business coupled with the rise in the cost of borrowings of the group post H2FY19 on account of liquidity crunch in the market and also the lower dependence on the commercial paper borrowings. The operating expense as a % of average assets increased from 5.73% in FY18 to 6.24% in FY19 on account of creation of capacity to build the retail book. Credit cost has declined from 1.17% in FY18 to 0.77% in FY19 on account of reduction in the provisions in FY19. As the result of the above, the Return on total assets remained maintained at 1.66% in FY19.

**Liquidity:** EFSL on a consolidated basis maintained a cumulative positive asset-liability mismatch across the time buckets as on March 31, 2019 considering cash and liquid investments of Rs.5000 crore. The company has a cumulative repayments of Rs. 17240 crore upto March 2020 and cumulative advances inflows of Rs. 16124 crore upto March 2020. At the group level, the company maintained liquidity to the tune of Rs. 5300 crore as on March 31, 2019 which comprised of Rs. 900 crore of cash/bank balance & fixed deposit, Rs. 2100 crore of investment in mutual funds & government securities and Rs. 2300 crore of undrawn bank lines to take care of the mismatches.

#### **Analytical approach:**

Edelweiss Financial Services Ltd (EFSL – rated 'CARE AA-; Stable and 'CARE A1+'), the flagship company of the Edelweiss group, owns 100% in most of its subsidiaries and the management/line functions for these businesses is common with significant operational and financial integration among them. Accordingly, CARE has considered a consolidated view of EFSL for arriving at the rating. The list of the subsidiaries considered for consolidation are as per Annexure 3.

#### **Applicable Criteria**

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial Ratios-Financial Sector](#)

[Factor Linkages in Ratings](#)

[Rating of Short term instruments](#)

#### **About EFSL**

Previously known as Edelweiss Capital Limited, Edelweiss Financial Services Limited (EFSL) was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy. EFSL is registered as a Category I Merchant Banker with SEBI and is the parent company of the Edelweiss Group. The company on a standalone basis is primarily engaged in investment banking services and provides development, managerial and financial support to the businesses of the Edelweiss group entities. The Edelweiss Group offers a range of products and services, spanning varied asset classes and diversified consumer segments. The businesses of Edelweiss are organized around three broad lines – credit including housing finance, SME loans, Loans against Property, Loans against Securities, Rural finance, Agri credit, Structured collateralised credit to corporates and real estate developer finance, Franchise & advisory businesses including wealth management, asset management and capital markets and insurance including life and general insurance. In addition, the Balance-sheet Management Unit (BMU) attends to the balance sheet and liquidity management. The group conducts its business from

476 offices (including 8 international offices in 6 locations) in around 200 cities as on March 31, 2019. EFSL now caters to the total client base of 12 Lakh served by 11,410 employees pan India.

| Brief Financials (Rs. crore) (IND AS)                 | FY18 (A) | FY19 (A) |
|-------------------------------------------------------|----------|----------|
| Total income                                          | 8,920    | 10,886   |
| PAT(after share of profit and minority interest)      | 863      | 995      |
| Overall Gearing (excluding minority interest) (times) | 7.97     | 6.53     |
| Total Assets                                          | 62,554   | 63,630   |
| Gross NPA (%)                                         | 1.75     | 1.87     |
| ROTA (%)                                              | 1.57     | 1.65     |

A: Audited

#### About Edelweiss Securities Limited

Incorporated in 1993, Edelweiss Securities Limited (ESL) is a **100% subsidiary of Edelweiss Financial Services Limited (EFSL rated CARE AA-; Stable; A1+)**. The Company is registered as a trading and clearing member with National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE). ESL provides broking and advisory services to its clients along with trading in securities and derivatives.

#### ESL – Standalone (IGAAP)

| Brief Financials (Rs. crore)    | FY17 (A) | FY18 (A) |
|---------------------------------|----------|----------|
| Total income                    | 383      | 321      |
| PAT                             | 22       | 37       |
| Overall gearing (times)         | 1.79     | 0.90     |
| Interest Coverage ratio (times) | 1.30     | 1.48     |
| Total Assets                    | 1,666    | 1,257    |
| ROTA (%)                        | 1.16     | 2.50     |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure I- Instrument Details

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date   | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|------------------------|------------------|-------------|-----------------|-------------------------------|-------------------------------------------|
| Commercial Paper       | -                | -           | 7 days – 1 year | 1000                          | <b>CARE A1+</b>                           |

#### Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |          | Rating history                            |                                           |                                           |                                           |
|---------|----------------------------------------|-----------------|--------------------------------|----------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
|         |                                        | Type            | Amount Outstanding (Rs. crore) | Rating   | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1.      | Commercial Paper                       | ST              | 1000.00                        | CARE A1+ | -                                         | 1)CARE A1+ (06-Jul-18)                    | 1)CARE A1+ (12-Sep-17)                    | 1)CARE A1+ (02-Nov-16)                    |

## Annexure-3: List of subsidiaries taken for consolidation

|    | Subsidiaries of Edelweiss Financial Services Limited                                                       | Shareholding by EFSL<br>(directly/indirectly) |
|----|------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| 1  | Edelweiss Securities Limited (ESL)                                                                         | 100%                                          |
| 2  | Edelweiss Comtrade Ltd.                                                                                    | 100%                                          |
| 3  | Edelweiss Securities (Hong Kong) Private Limited                                                           | 100%                                          |
| 4  | Edelweiss Financial Services Inc.                                                                          | 100%                                          |
| 5  | Edelweiss Custodial Services Limited                                                                       | 100%                                          |
| 6  | Edelweiss Asset Reconstruction Company Limited                                                             | 74.8%                                         |
| 7  | Edelweiss Financial Services (UK) Limited                                                                  | 100%                                          |
| 8  | Edelweiss Finance & Investments Limited                                                                    | 100%                                          |
| 9  | EC Global Limited, Mauritius                                                                               | 100%                                          |
| 10 | Edelweiss Rural & Corporate Services Limited (ERCSL) (Formerly Edelweiss Commodities Services Ltd. (ECSL)) | 100%                                          |
| 11 | Edelweiss Housing Finance Limited (EHFL)                                                                   | 100%                                          |
| 12 | Edelweiss Broking Limited (EBL)                                                                            | 100%                                          |
| 13 | Edel Finance Company Ltd.                                                                                  | 100%                                          |
| 14 | Edelweiss Capital (Singapore) Pte. Limited (ECSPL)                                                         | 100%                                          |
| 15 | Edelweiss Alternative Asset Advisors Pte. Limited                                                          | 100%                                          |
| 16 | Edelweiss International (Singapore) Pte. Limited                                                           | 100%                                          |
| 17 | Edelweiss Investment Advisors Private Limited, Singapore                                                   | 100%                                          |
| 18 | EC International Limited, Mauritius (ECIL)                                                                 | 100%                                          |
| 19 | Aster Commodities DMCC, Dubai                                                                              | 100%                                          |
| 20 | EAAA LLC, Mauritius                                                                                        | 100%                                          |
| 21 | EFSL International Limited                                                                                 | 100%                                          |
| 22 | EW Special Opportunities Advisors LLC, Mauritius                                                           | 67%                                           |
| 23 | EW India Special Assets Advisors LLC, Mauritius                                                            | 100%                                          |
| 24 | ECap Equities Limited                                                                                      | 100%                                          |
| 25 | Edelcap Securities Limited                                                                                 | 100%                                          |
| 26 | Edelweiss Finvest Private Limited (formerly Arum Investments Private Limited)                              | 100%                                          |
| 27 | Edelweiss Retail Finance Limited                                                                           | 100%                                          |
| 28 | ECL Finance Limited                                                                                        | 100%                                          |
| 29 | Edelweiss Alternative Asset Advisors Limited                                                               | 95%                                           |
| 30 | Edelweiss Global Wealth Management Limited                                                                 | 100%                                          |
| 31 | Edelweiss Insurance Brokers Limited                                                                        | 100%                                          |
| 32 | EC Commodity Limited                                                                                       | 100%                                          |
| 33 | Edelweiss Investment Adviser Limited                                                                       | 100%                                          |
| 34 | Edelweiss Tokio Life Insurance Company Limited                                                             | 51%                                           |
| 35 | Edelweiss Trustee Services Limited                                                                         | 100%                                          |
| 36 | Edel Investments Limited                                                                                   | 100%                                          |
| 37 | Edel Land Limited                                                                                          | 100%                                          |
| 38 | Edelweiss Trusteeship Company Limited                                                                      | 100%                                          |
| 39 | Edelgive Foundation                                                                                        | 100%                                          |
| 40 | Edelweiss Asset Management Limited                                                                         | 100%                                          |
| 41 | Edelweiss Holdings Limited                                                                                 | 100%                                          |
| 42 | Edelweiss General Insurance Company Limited                                                                | 100%                                          |
| 43 | Edelweiss Securities (IFSC) Limited                                                                        | 100%                                          |
| 44 | Alternative Investment Market Advisors Private Limited                                                     | 100%                                          |
| 45 | Allium Finance Private Limited                                                                             | 55.48%                                        |
| 46 | Lichen Metals Private Limited                                                                              | 50.32%                                        |



**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### Contact us

##### Media Contact

Name - Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

##### Analyst Contact

Name - Mr. Ravi Kumar  
Contact no.- +91-22-6754 3421  
Email ID- [ravi.kumar@careratings.com](mailto:ravi.kumar@careratings.com)

##### Business Development Contact

Name: Mr. Ankur Sachdeva  
Contact no. : +91-22-6754 3495  
Email ID : [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

##### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**