Edelweiss Securities Limited (Revised)

July 6, 2018

Ratings

Instrument	Rated Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	1000	CARE A1+ (A One Plus)	Reaffirmed
Total	**1,000 (One Thousand crore only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings of Edelweiss Securities Ltd (ESL) derives strength from ESL being a part of the Edelweiss group which has a diversified business profile (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 risk in its wholesale credit book, and risk associated with relatively new businesses. The performance of the group's new businesses, asset quality, profitability and gearing levels are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Diversified business profile of the group

Edelweiss Financial Services Ltd (EFSL) on a consolidated basis, 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 credit business in total income has increased over the past few years from 41% in FY15 to 45% in FY18. Investment banking / advisory, broking and trading accounted for 20%, 4%, and 7% respectively in FY18. The share of retail book has been steadily increasing from 28% as on March 2015 to 39% as on March 2018. The share of retail book is expected to further increase given the group's objective of diversifying the credit book.

Experienced management team

[1]*Complete definitions of the ratings assigned are available at 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

In FY18, EFSL raised Rs. 1,528 crore via Qualified Institutional Placement (QIP). As a result, the consolidated tangible net-worth including minority interest of the group increased to Rs. 7,409 crore (Rs.6,320 crore- excluding minority interest) as on March 31, 2018 as compared to Rs. 4,960 crore (Rs.4,002 crore- excluding minority interest) as on March 31, 2017.

However, gearing levels remain relatively high. The groups' debt levels have increased significantly from Rs.13,017 crore as on March 31, 2014 to Rs.47,323 crore as on March 31, 2018 on account of significant growth in its credit book. As a result, gearing levels (total borrowings / tangible net-worth including minority interest) rose from 4.11 times as on March 31, 2014 to 6.39 times as on March 31, 2018. As per EFSL's management, gearing (excluding liquid balance sheet management unit assets) was 4.94 times as on March 31, 2018 (3.06 times as on March 31, 2014).

Good asset quality

EFSL's asset quality remains comfortable. As on March 31, 2018, GNPA ratio was 1.75% (on 90+DPD)as compared to 1.59% as on March 31, 2017 (on 120+DPD). Net NPA ratio was 0.70% as on March 31, 2018 (FY17: 0.60%) while Net NPA to Net-worth ratio was 3.94% (FY17:3.43%).On a consolidated basis, the group had written off Rs.427 crore of loans in FY18 (Rs.245 crore in FY17).

Comfortable liquidity profile

EFSL maintains investments in government securities to provide overnight liquidity cushion. As on March 31, 2018, 5% of EFSL's total assets were in government securities (Balance sheet Management Unit [BMU] related assets) which ensures a matched ALM profile.

Key Rating Weakness

Substantial proportion of revenue from the capital markets related activities

A significant proportion of ESFL'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 risk in its wholesale credit book

Wholesale credit book (real estate lending and structured credit) comprised of 47% of total credit book as on March 31, 2018. The wholesale credit book is characterized by concentration risk given the high ticket size of loans. As on March 31, 2018, top 10 exposures accounted for 53% (77% as on March 31, 2017) of Tangible Net-worth. In FY18, top ten exposures account for 17% of wholesale credit book. The client concentration is expected to moderate with the group planning to lend more to real estate developers through its asset management fund. As per EFSL's management, loans in the wholesale credit book have an asset cover of over 2 times.

Risk associated with relatively 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. The introduction of Insolvency and Bankruptcy Code (IBC) is expected to expedite the resolution of distress assets in the economy.

Analytical approach: Consolidated

Edelweiss Financial Services Ltd (EFSL – rated 'CARE AA; Positive' 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.

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 The Edelweiss Group

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 448 offices (including 8 international offices in 6 locations) in around 200 cities as on March 31, 2018. EFSL now caters to the total client base of 12 Lakh served by 10,052 employees pan India.

EFSL-Consolidated

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	6,619	8,619
PAT(after share of profit and minority interest)	609	890
Overall Gearing (including minority interest) (times)	6.78	6.39
Total Assets	44,496	63,160
Gross NPA (%)	1.59	1.75
ROTA (%)	1.35	1.59

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; Positive; 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

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
Gross NPA (%)	-	-
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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Abhishek Gupta
Tel: 022-67543558
Email: abhishek.gupta@careratings.com

****For detailed Rationale Report and subscription information, please contact us at** www.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.

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	**CARE A1+**

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	1000.00	CARE A1+	-	1)CARE A1+ (12-Sep-17)	1)CARE A1+ (02-Nov-16)	1)CARE A1+ (16-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691