Edelweiss Securities Limited

September 12, 2017

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

Rating Rationale

EFSL's rating factors in the diversified business profile of the group (consolidated basis), good asset quality and comfortable liquidity profile. The rating also takes into account the well-qualified and experienced management team, established institutional equity broking business and good retail distribution network. The rating is, however, constrained by dependence on revenue from the capital markets related activities which has an inherent volatility, client concentration risk in its wholesale loan portfolio, increasing gearing levels, risk associated with relatively new businesses and competitive scenario in the capital markets. The performance of EFSL's new businesses, competitive position in the capital market businesses, asset quality, concentration levels in its wholesale lending portfolio and gearing levels 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 lending to corporate, retail clients, capital market businesses including equity and commodities broking (both institutional and retail), investment banking, mortgage finance (housing loans, loans against property), life insurance, wealth management, asset management and asset reconstruction.

Good asset quality: EFSL's asset quality remains comfortable. As on March 31, 2017, GNPA ratio was 1.59% (1.40% as on March 31, 2016) and Net NPA ratio was 0.60% (FY16: 0.47%) while Net NPA to Net-worth ratio was 3.43% (FY16:2.71%). As on June 30, 2017, GNPA ratio was 1.71% and Net NPA ratio was 0.61% while Net NPA to Net-worth ratio was 1.09%.

Comfortable liquidity profile: EFSL maintains investments in government securities to provide overnight liquidity cushion. As on March 31, 2017, 5% of EFSL's total assets were in government securities (Balance sheet Management Unit [BMU] related assets) which ensures a matched ALM profile.

Experienced management team: 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.

Established institutional equity broking business: EFSL on group basis has established institutional equity business comprising institutional equity sales and research. Clients include large pension funds, long only funds, Exchange Traded Funds (ETFs) and hedge funds. EFSL now caters to the total retail client base of 464,000 from 277 offices in 127 cities as on March 31, 2017.

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 and some treasury operations. However with increase in size of the credit business, dependency on capital markets is declining.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Gearing levels: The groups' debt levels have increased significantly from Rs.13,017 crore as on March 31, 2014 to Rs.33,640 crore as on March 31, 2017. As a result, gearing levels (total borrowings / tangible net-worth including minority interest) rose from 4.11 times as on March 31, 2014 to 6.78 times as on March 31, 2017. Gearing (excluding CBLO borrowings) was 6.42 times as on March 31, 2017 (3.51 times as on March 31, 2014). As on June 30, 2017, overall gearing was 7.20 times and gearing (excluding CBLO borrowings) was 6.25 times.

Client concentration risk in its wholesale loan portfolio: Wholesale credit book (real estate lending and structured credit) comprised of 49% of total credit book as on June 30, 2017. The wholesale credit book is characterized by concentration risk given the high ticket size of loans. As on March 31, 2017, top 10 exposures accounted for 77% (63% as on March 31, 2016) of Tangible Net-worth. As per EFSL's management, loans in the wholesale portfolio 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 retail broking, life insurance and retail finance including housing loans and loans against property etc. These businesses have 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, where resolution remains low.

Industry Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run. Due to subdued economic environment, last three years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

Analytical approach - Consolidated

Edelweiss Financial Services Ltd (EFSL – rated 'CARE AA; Stable'), 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
Rating of Short term instruments
Factor Linkages in Ratings

About The Company

EFSL

Previously known as Edelweiss Capital Ltd, 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 stand-alone 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, **Franchise businesses** including, wealth management, asset management and capital marketsand **life insurance**. In addition, the Balance-sheet

Management Unit (BMU) attends to the balance sheet and liquidity management. The Edelweiss group consists of 59 subsidiaries and 5 associate companies and employs 6,900 professionals across 277 offices and branches spread across 127 major cities of India as on March 31, 2017.

ESL

Incorporated in 1993, Edelweiss Securities Limited (ESL) is a **100% subsidiary of Edelweiss Financial Services Limited (EFSL rated CARE AA; Stable)**. 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.

EFSL-Consolidated

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	5,268	6,619
PAT(after share of profit and minority interest)	414	609
Interest coverage (times)	1.22	1.64
Total Assets	36,762	44,496
Net NPA (%)	0.47	0.60
ROTA (%)	1.00	1.35

A: Audited

ESL

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total income	416.89	382.59
PAT	15.09	21.63
Interest coverage (times)	1.11	1.30
Total Assets	2,072.70	1,665.98
Net NPA (%)	-	-
ROTA (%)	0.74	1.16

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.*

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****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	-	-	7-364 days	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	1000.00	CARE A1+	-	1)CARE A1+ (02-Nov-16)	1)CARE A1+ (16-Oct-15)	1)CARE A1+ (12-Mar-15)

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