



## RATING RATIONALE

21 March 2024

Edelweiss Financial Services Ltd.

**Brickwork Ratings reaffirms the ratings for Non-Convertible Debentures (NCD) of Rs. 344.81 Crores and Principal Protected Market Linked Debentures (PP-MLDs) of Rs. 352.78 Crores for Edelweiss Financial Services Ltd.**

### Particulars

Instruments **	Amount Rated (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous (7 October 2022)	Present
Non Convertible Debentures (NCDs)	418.70	<b>344.81</b>	Long Term	BWR AA-/Negative (Reaffirmation and Change in outlook)	<b>BWR AA-/Negative (Reaffirmation)</b>
Principal Protected Market Linked Debentures (PP-MLDs)	500.00	<b>352.78</b>	Long Term	BWR PP-MLD AA-/ Negative (Reaffirmation and Change in outlook)	<b>BWR PP-MLD AA-/ Negative (Reaffirmation)</b>
<b>Total</b>	918.70	<b>697.59</b>	<b>Rupees Six Hundred Ninety-Seven Crores and Fifty-Nine Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Instruments are provided in Annexure II.

### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings of NCDs and PP-MLDs issued by **Edelweiss Financial Services Ltd.** (EFSL or the 'Company'), as tabulated above.

EFSL is a diversified financial services player and has many subsidiaries across various fields of finance, as listed in Annexure -III of this rationale. BWR has considered the ultimate ownership of EFSL, shared brand name, and strong operational, financial, and managerial linkages, and has taken a consolidated view on Edelweiss Financial Services Ltd (EFSL) and its subsidiaries (collectively referred to as the Edelweiss group) for the ratings of the Edelweiss group entities.

The rating reaffirmation factors in the Edelweiss group's established track record as a financial services conglomerate, its diversified business profile with presence across various lending and non-lending businesses, its experienced management team, improvement in operating income and profits YOY basis as per provisional financials for December 2023, adequate capitalization, growing AUM/AUA and adequate liquidity cushion to meet its debt repayments. The rating is however constrained by the relatively slower growth in retail lending and subdued profitability, although improved from earlier years. The Group has opted for an asset-light model for its retail business, driven by co-lending with multiple banks. However, due to teething issues, delays in operationalization of the process and systems integrations, etc., the growth in the retail segment



has been muted. While disbursements have picked up, the ability to achieve an optimum scale of operations and consistently higher levels of profitability remains to be seen.

The continuation of the negative outlook factors in the slower-than-expected growth in the retail segment, and the fact that a conscious strategic shift in the business model has not yet yielded the expected results.

BWR also believes the group is well-diversified, with a presence across the critically important sectors of retail credit, asset management, insurance, alternative assets, and asset reconstruction. All the verticals continue to support its overall growth. This, coupled with the group's demonstrated ability to raise capital, is expected to provide additional strength to the group's businesses.

The wholesale credit book has run down to Rs. 585 Crores as of December 2023 as compared to Rs. 4,432 Crores as of December 2022. The group gradually was able to reduce its wholesale lending book on a quarter-on-quarter (QoQ) basis by sell-down of stressed assets to asset reconstruction companies (ARC) and other investors, besides recovering a substantial amount. Despite shrinkage in its wholesale loan book, the group's profitability has improved on account of a reduction in the finance cost and impairment of financial instruments.

In FY23 & 9MFY24, the group's total consolidated income stood at Rs. 8632.58 crores and Rs. 6574.95 crores respectively which was mainly derived from interest income accounting for 34.12% (9MFY24: 32.05%) of the total income. The net gain on fair value contributed 26.69% in FY23 (9MFY24: 31.65%). The group's fee-based income was 14.41% in FY23 (9MFY24: 14.23%) and insurance premium contribution stood at 22.33% in FY23 (9MFY24: 20.84%) of total operating income. The provisional operating income of Rs. 6574.95 Crores for 9MFY24 has improved YOY basis by 19% (9MFY23: Rs. 5534.92 Crores). The ARC and the AMC verticals contribute the most to the profitability of the company. The overall profits at the consolidated level have also improved from Rs. 212.08 Crores for FY22 to Rs. 405.55 Crores for FY23 and it has booked a PAT of Rs. 324.96 Crores for 9MFY24.

The group's one vertical, Wealth Management, where the present share of EFSL is 14%, was de-merged in the first quarter of FY24. The group's ability to improve upon / maintain profitability while switching to different business models and entering into the retail segment by many of its business entities will be a rating monitorable over the near term. BWR shall also monitor the efforts of the group to create value across its business over the medium term.

Further, the planned monetization of some of its businesses is expected to strengthen the group's liquidity position and further improve the gearing levels. Considering the diversification of its product profile coupled with the ability to raise funds and also continued group support, BWR reaffirms the rating at the existing level. Group support is expected to be continued with the company along with strong operational, financial, and managerial linkages.

Also, asset quality remains moderate though improved compared to previous quarters. The Stage III asset has gradually decreased by 22%, it was Rs. 962 Crores as of December 2022 and is presently at Rs.754 Crores as of the end of December 2023, mainly due to recoveries, sale to ARCs and other external agencies. Further, the Stage II loan book amounting to Rs. 433 Crores at the consolidated level continues to form 7.28% of the total loan book of Rs. 5945.00 Crores (incl.



fully provided accounts) as of 31 December 2023, recoveries/ additional slippages from which shall remain monitorable. The Insurance vertical both Life Insurance and General Insurance is loss-making due to the long gestation period associated with the insurance business. The general insurance is expected to reach near break-even point by 2025 and the Life insurance business by 2026. As informed by the management, the life insurance vertical already reached Embedded Value Breakeven in FY23.

## KEY RATING DRIVERS

### **Credit Strengths:-**

**Experienced management team:** EFSL and its various subsidiaries are led by a qualified and experienced management team having vast experience in banking and financial services. Mr. Rashesh Shah, the co-founder of the Edelweiss group, has over three decades of diverse experience in financial markets. He is currently the Chairman, Managing Director, and Chief Executive Officer of EFSL. Venkatchalam Ramaswamy, the co-founder of the Edelweiss group, is currently the Vice Chairman and Executive Director and has almost three decades of experience in financial markets. EFSL is led by an experienced board comprising six members, including three independent directors, with most members having over three decades of experience. The company also has an experienced team of professionals at the senior and middle management levels with a long track record with the group.

**Diversified business profile and established AUM across the verticals:** The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, and capital market activities like broking and investment banking, asset management, and insurance. This enables the spreading of risk and exploiting the opportunities available across segments.

The group has also established its healthy market standing across the segments and witnessed growth in its assets under management. Credit AUM (including SR Book) is Rs. 10,760 Crores as of 31st December 2023 though slightly dipped from Rs. 11,962 Crores as of 31 March 2023. The group is increasingly focusing on building a granular loan book mainly consisting of retail mortgage loans and small and medium enterprise (SME) loans, actively through co-lending. The Asset Under Management (AUM) for its asset management company (AMC) has grown to Rs. 1,23,000 Crores as of the end of 31 December 2023 as compared to Rs. 1,05,000 Crores as of 31st March 2023. The assets management under alternative assets has been steadily growing and has reached Rs.52,100 Crores from Rs.46,500 Crores as of 31 December 2023 and 31st March 2023, respectively.

**Adequate capitalization:** The overall capital adequacy ratio of key operating entities is adequate. The total capital adequacy ratio (CAR) of the lending business stood at 39.80%, Edelweiss Housing Finance at 34.80% and Edelweiss Asset Reconstruction Company Ltd. at 56.10% as of 31st December, 2023. EFSL's gearing on a consolidated basis marginally deteriorated from 2.84x as of March 31, 2022, to 3.17x as of March 31, 2023, and remained 3.12x as of 31 December 2023 mainly due to reduced net worth after a 30% stake of Nuvama Wealth Management Limited being distributed to existing shareholders of EFSL. TNW is Rs.



8512.00 Crores for the year ending on 31st March 2023 and Rs. 6046.00 Crores as per provisional financials as of 31st December 2023.

The group has demonstrated its ability to raise capital frequently to support business growth and also cover asset-side risks. Further inflows are expected over the near to medium term through the execution of its plan to monetize part of some of its businesses for which management estimates considerable enterprise valuation compared to its initial investments. BWR believes that the group is adequately capitalized for future growth.

### **Credit Risks:-**

**Average asset quality:** While the asset quality has been improving, with the reduction in Stage III assets by 22% since last year from December 2022 to December 2023, the asset quality remains monitorable on account of the shift to retail business. The Gross NPA at the consolidated level stood at 2.69% for NBFC and 2.24% for the housing business for 9MFY24 (GNPA for NBFC 2.97%, Housing 2.45% as of 9MFY23), indicating a scope for further improvement. The group's asset quality has remained vulnerable to credit risks, despite the reduction in the wholesale book.

**Consistent decline in the credit book:** While the AUM/ AUA of verticals like AMC, ARC, and AAA is improving, the credit portfolio has been seeing a steady decline, mainly due to the strategic realignment of the portfolio from mainly wholesale lending to focused retail lending based on an asset-light model. However, the delay in operationalization of the process has resulted in slower-than-expected growth in the credit book. While disbursements have improved, optimization of the scale of operations remains monitorable.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

Considering the ultimate ownership of EFSL, its Shared brand name, and strong operational, financial, and managerial linkages, a consolidated view of Edelweiss Financial Services Ltd (EFSL) and its subsidiaries (collectively referred to as the Edelweiss group) is considered for the ratings of the Edelweiss group entities.

BWR has applied its rating methodology as detailed in the rating criteria (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

#### **Upward:**

- A significant improvement in asset quality and profitability, Improvement in retail advances and asset quality, and gross NPAs to below 2% while maintaining comfortable liquidity and capitalization are key rating positives.

#### **Downward:**

- Gross NPA crossing 3% and gearing 5x would be negative. Further reduction in AUM, along with the weakening of the asset quality or credit books are key rating negatives.

### **LIQUIDITY POSITION: ADEQUATE**

As on 31 December, the group had adequate liquidity, consisting of liquidable assets (cash/bank balance, Fixed Deposits, liquid investments, Gsecs, and treasury assets) of Rs 3,454 Crores.



Apart from that expected inflows and borrowings are Rs. 9700 crores, against the repayment obligations for the next 12 months Rs. 10,200 Crores. Further, EFSL has plans for monetizing some of its holdings/investments to generate sufficient cash availability.

## COMPANY PROFILE

Edelweiss Financial Services Limited (EFSL), previously known as Edelweiss Capital Limited, was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy. It is the group's holding company. The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, asset management, life insurance, and general insurance. The company is listed on the BSE and NSE. The promoter group held a 32.80% stake, and the management and employees held a 6.40% stake in EFSL as of 31st December 2023.

## ABOUT THE EDELWEISS GROUP

Edelweiss Financial Services Limited (EFSL), is the group's holding company. The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, asset management, life insurance & general insurance. The company is listed on the BSE & NSE.

## KEY FINANCIAL INDICATORS (EFSL Standalone)

Key Parameters	Units	FY22	FY23	9MFY24
Result Type		Audited	Audited	Provisional
Total Income	Rs in Crores)	1,372	3088.69	227.25
Net-Profit/(Loss)	Rs in Crores)	933	2388.26	(36.33)
Networth	Rs in Crores)	5,000	7255.26	4730.60
Borrowings (Debt Securities )	Rs in Crores)	2432.21	2588.65	2745
Debt: Equity	(Times)	0.49	0.36	0.58

## KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY22	FY23	9MFY24
Result Type		Audited	Audited	Provisional
Total Income	(Rs in Crores)	7304.6	8,632.58	6574.95
Net-Profit/(Loss)	(Rs in Crores)	212.1	405.59	324.96
Networth	(Rs in Crores)	8,457.00	8,502.00	6046.00
Gearing	(In times)	2.84	3.17	3.12
Total loan portfolio (incl. Distressed Assets)	(Rs in Crores)	22,872	14,768	13,344
Gross NPA- NBFC	(%)	2.76	2.07	2.69
Gross NPA- Housing	(%)	1.99	1.91	2.24

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

PP-MLDs: Highly Complex

NCD: Simple

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**KEY COVENANTS OF INSTRUMENTS OR FACILITIES RATED:** Basic terms are mentioned in the annexure I

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY:** No Noncooperation by other CRAs.

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Sr. No.	Name of Instrument	Current Rating (2024)			Rating History for the past 3 years		
		Type	Amount (Rs. Cr)	Rating	7 October 2022	21 Sept 2021 and 5 March 2021	9 November 2020
1	NCDs	Long Term	344.81	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed and change in outlook)	21 Sept 2021 BWR AA-/ Stable (Reaffirmed)  Withdrawn NCD of Rs. 255 Crores BWR AA-/ Stable  5 March 2021 BWR AA-/ Stable (Reaffirmed)  Assigned NCD of Rs. 400 Crores BWR AA-/ Stable	BWR AA-/ Stable (Assigned)  Rs. 50 Crores BWR AA-/ Stable (Downgraded & outlook changed to Stable)
2	PP-MLDs	Long Term	352.78	BWR PP-MLD AA-/ Negative (Reaffirmed)	BWR PP-MLD AA-/ Negative (Reaffirmed and change in outlook)	21 Sept 2021 BWR PP-MLD AA-/ Stable (Reaffirmed)  5 March 2021 BWR PP-MLD AA-/ Stable (Reaffirmed)  Rs. 200 Crores BWR PP-MLD AA-/ Stable (Assigned)  Rs. 200 Crores BWR PP-MLD A1+ Withdrawn	BWR PP-MLD AA-/ Stable (Assigned)
<b>Total</b>			<b>697.59</b>	<b>Rupees Six Hundred Ninety-Seven Crores and Fifty-Nine Lakhs Only</b>			

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Criteria for Consolidation of Companies](#)
- [Market/ Equity Linked Debentures](#)

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**Edelweiss Financial Services Limited (EFSL)**

**ANNEXURE I  
DETAILS OF BANK LOAN FACILITIES -NIL**

**ANNEXURE II  
INSTRUMENT (NCD) DETAILS**

Instrument	Issue Date	Previous (Rs Crs)	Maturity Date	Coupon Rate	ISIN	Present (Rs Crs)
Retail NCD	8-Jan-21	58.4	8-Jan-24	9.35¾	INE532F07B K7	0.00
Retail NCD	8-Jan-21	15.49	8-Jan-24	NA#	INE532F07B L5	0.00
Retail NCD	8-Jan-21	55.9	8-Jan-26	9.39%	INE532F0713M3	55.9
Retail NCD	8-Jan-21	34.21	8-Jan-26	9.80%	INE532F07B NI	34.21
Retail NCD	8-Jan-21	10.8	8-Jan-26	NA#	INE532F078O9	10.8
Retail NCD	8-Jan-21	18.07	8-Jan-31	9.53%	INE532F07B P6	18.07
Retail NCD	8-Jan-21	7.13	8-Jan-31	9.95%	INE532F07B Q4	7.13
Retail NCD	29-Apr-21	50.02	29-Apr-24	9.10%	INE532F07B V4	50.02
Retail NCD	29-Apr-21	12.5	29-Apr-24	NA#	INE532F07B W2	12.5
Retail NCD	29-Apr-21	81.92	29-Apr-26	9.16%	INE532F07B XO	81.92
Retail NCD	29-Apr-21	30.11	29-Apr-26	9.55¾	INE532F07BY8	30.11
Retail NCD	29-Apr-21	9.3	29-Apr-26	NA#	INE532F07B 25	9.30
Retail NCD No redeem	29-Apr-21	19.13	29-Apr-31	9.30%	INE532F07C A6	19.13
Retail NCD	29-Apr-21	15.72	29-Apr-31	9.70%	INE532F07C B4	15.72
<b>Total Retail NCD Rated</b>		<b>418.7</b>				<b>344.81</b>
#NA since these are Zero Coupon Bonds I NCDs INE532F07B K7 and INE532F07B L5 are redeemed as of 8 January 2024.						



### INSTRUMENT (NCD and PP-MLD) DETAILS

Instrument	Issue Date	Previous (Rs Crs)	Maturity Date	Coupon Rate	ISIN	Present (Rs. in Crs)
PP-MLD	18-Dec-20	10.57	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	21-Dec-20	1	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	25-Feb-21	1	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	25-Feb-21	2.5	14-Jan-26	NA	INE532F07BS0	2.50
PP-MLD	12-Feb-21	1.5	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	1-Feb-21	10	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	29-Jan-21	1.55	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	28-Jan-21	17.85	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	25-Jan-21	20	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	25-Jan-21	5	14-Jan-26	NA	INE532F07BS0	5.00
PP-MLD	15-Jan-21	34.75	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	14-Jan-21	4.5	18-Dec-23	NA	INE532F07BJ9	0.00
PP-MLD	14-Jan-21	5	14-Jan-26	NA	INE532F07BS0	5.00
PP-MLD	14-Jan-21	15	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	14-Jan-21	35	13-Jan-26	NA	INE532F07BT8	35.00
PP-MLD	3-Mar-21	5	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	10-Mar-21	5	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	16-Mar-21	2	14-Jan-26	NA	INE532F07BS0	2.00
PP-MLD	24-Mar-21	2	14-Jan-26	NA	INE532F07BS0	2.00
PP-MLD	24-Mar-21	6	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	30-Apr-21	3	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	30-Apr-21	2	14-Jan-26	NA	INE532F07BS0	2.00
PP-MLD	17-May-21	4	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	17-May-21	1	14-Jan-26	NA	INE532F07BS0	1.00
PP-MLD	21-May-21	6.5	15-Jan-24	NA	INE532F07BR2	0.00
PP-MLD	21-May-21	1.5	14-Jan-26	NA	INE532F07BS0	1.50
Total PP-MLD Raised		203.22			O/s PP-MLDs	56.00
Proposed		296.78				296.78
<b>Total Previous PP-MLD</b>		<b>500</b>			<b>Total Present PP-MLD</b>	<b>352.78</b>

PPMLDs INE532F07BR2 and INE532F07BJ9 are redeemed as of 15 January 2024 and 18 December 2023 respectively.



**ANNEXURE III**  
**List of entities consolidated (as of 31 December 2023)**

<b>Name</b>	<b>Extent of Consolidation</b>	<b>Rationale for consolidation</b>
<b>Edelweiss Financial Service Limited</b>	<b>100%</b>	<b>Parent</b>
ECL Finance Limited	100%	Subsidiary
Edelcap Securities Limited	100%	Subsidiary
Edelweiss Asset Management Limited	100%	Subsidiary
ECap Equities Limited	100%	Subsidiary
Edelweiss Trusteeship Company Limited	100%	Subsidiary
Nido Housing Finance Limited	100%	Subsidiary
Edelweiss Investment Adviser Limited	100%	Subsidiary
Edel Land Limited (Known as Ecap Equities Limited)	100%	Subsidiary
Edel Investments Limited	100%	Subsidiary
Edelweiss Rural & Corporate Services Limited	100%	Subsidiary
Comtrade Commodities Services Limited	100%	Subsidiary
Edel Finance Company Limited	100%	Subsidiary
Edelweiss Retail Finance Limited	100%	Subsidiary
Edelweiss Multi Strategy Fund Advisors LLP	100%	Subsidiary
Zuno General Insurance Limited	100%	Subsidiary
Edelweiss Tokio Life Insurance Company Limited	75.08%	Subsidiary
Edelweiss Securities and Investment Private Limited	100%	Subsidiary
EC International Limited	100%	Subsidiary
Nuvama Investment Advisors LLC (formerly known as EAAA LLC)	100%	Subsidiary
Edelweiss Alternative Asset Advisors Pte. Limited	100%	Subsidiary
Edelweiss International (Singapore) Pte. Limited	100%	Subsidiary
Edelgive Foundation	100%	Subsidiary
Edelweiss Alternative Asset Advisors Limited	99.05%	Subsidiary
Edelweiss Private Equity Tech Fund	95.60%	Subsidiary
Edelweiss Value and Growth Fund	96.05%	Subsidiary



Edelweiss Asset Reconstruction Company Limited	59.82%	Subsidiary
Allium Finance Private Limited	85.00%	Subsidiary
Edelweiss Global Wealth Management Limited	100.00%	Subsidiary
Edelweiss Capital Services Limited	51.00%	Subsidiary
India Credit Investments Fund	100%	Subsidiary
Edelweiss Real Assets Managers Limited	100%	Subsidiary
Sekura India Management Limited	100%	Subsidiary

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