



RATING RATIONALE

07 Oct 2022

Edelweiss Financial Services Ltd.

Brickwork Ratings reaffirms and changes the outlook for the ratings for Non Convertible Debentures (NCD) of Rs.418.70 Crs and Principal Protected Market Linked Debentures (PP-MLDs) of Rs.500 Crs of Edelweiss Financial Services Ltd.

Particulars

Instruments **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (21 Sep 2021)	Present
Non Convertible Debentures (NCDs)	418.70	418.70	Long Term	BWR AA-/ Stable (Reaffirmed)	BWR AA-/Negative (Reaffirmation and Change in outlook)
Principal Protected Market Linked Debentures (PP-MLDs)	500.00	500.00	Long Term	BWR PP-MLD AA-/ Stable (Reaffirmed)	BWR PP-MLD AA-/ Negative (Reaffirmation and Change in outlook)
Total	918.70	918.70	Rupees Nine Hundred Eighteen Crores and Seventy Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Instruments are provided at Annexures II.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings and revises the outlook to negative for the ratings of NCDs and PP-MLDs issued by **Edelweiss Financial Services Ltd.**, as tabulated above.

Considering the ultimate ownership of EFSL, shared brand name and strong operational, financial and managerial linkages, a consolidated view on 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.

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 non lending businesses, experienced management team, adequate capitalization and adequate liquidity cushion to meet its debt repayments. The rating is however constrained by moderation in the group's financial risk profile with a shrinkage in the credit loan book, resulting in reduction in interest income and moderate asset quality, mainly in the wholesale mortgage and structured collateralized credit segments.

BWR also believes the group is well-diversified, with retail credit, wholesale lending, asset management, insurance, alternative assets and asset reconstruction, which may continue to



support its overall growth. This, coupled with the group's demonstrated ability to raise capital in the past couple of years, is expected to provide additional strength to the group businesses.

The group gradually was able to reduce its wholesale lending book on a quarter on quarter (QoQ) basis by down-selling its stressed assets to asset reconstruction companies (ARC)'s or other investors. Despite shrinkage in its loan book, the group's profitability has improved on account of generating healthy fee income from its non-credit business. Further, planned monetization of some of its businesses is expected to strengthen the group's liquidity and further reduce the gearing levels. Considering diversification of its product profile coupled with ability to raise and have continued group support, BWR reaffirms the rating at existing level. Group support is expected to be continued with the company along with strong operational, financial and managerial linkages.

The negative outlook factors in the continuous decline in the credit book owing to the reduction in wholesale book and stagnant retail book. Going forward, the group plans to increase its retail exposure and also to follow an asset light model including an increase in the share of co-lending activities to its total assets under management (AUM). The impact on its income and profitability from the group's strategic shift in the credit business remains a monitorable. Also, asset quality remains moderate though improved compared to previous quarters where the Stage III book has improved from Rs.1,182 Crs as on March 31, 2021 to Rs.886 Crs as on March 31, 2022 and to Rs.874 Crs as on June 30, 2022, mainly due to recoveries and sale to ARCs. The group's credit vertical's exposure in Security Receipts remains at around Rs.4,500 Crs, recoveries of which shall be monitorable. Further, Stage II loan book amounting to Rs.3,706 Crs at consolidated level continues to form 1/3rd of the total loan book of Rs.11,535 crs (incl. fully provided accounts) as on June 30, 2022, recoveries/ additional slippages from which shall remain monitorable. The Insurance vertical both Life Insurance and General Insurance is loss making and expected to continue to incur losses over near term as it is yet to complete the expected gestation period. The group's one of the profitable verticals, Wealth Management, where present share of EFSL is 44%, will be demerged by end of FY23 which may impact the profitability at consolidated level to the said extent, since it contributed ~50% of its total profits over the past few quarters. The overall profitability at consolidated level has also declined from Rs.254 crs for FY21 to Rs.212 Crs for FY22 and it has booked PAT of Rs.35 Crs for Q1FY23. The group's ability to improve upon / maintain the profitability while switching to different business models and entering into retail segment by many of its business entities and after hiving off of the wealth Management segment 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.

KEY RATING DRIVERS

Credit Strengths:-

Diversified business profile: The group has presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, wealth management including capital market activities like broking and investment banking, asset management and insurance.



The group has also established its healthy market standing in the wealth management business and witnessed its assets under advice (AUA) grow from Rs.18,500 Crs in FY15 to Rs.1,55,000 Crs in FY21. It further increased to ~Rs. 1,96,200 Crs as at 30 Jun 2022 though slightly dipped from Rs.2,02,000 Crs as at 31 Mar 2022, with a considerably large retail and high net worth individual (HNI) customers. The group is also engaged in investment banking and institutional equity broking businesses. The Asset Under Management (AUM) for its asset management company (AMC) has grown to Rs.85,000 Crs as at the end of 31 Mar 2022 and further to Rs.88,000 Crs as on 30 Jun 2022, it was Rs.29,100 Crs as at the end of 31 Mar 2020 and Rs.55,000 Crs as at the end of 31 Mar 2021. The assets management under alternative assets have been steadily growing and has reached to Rs.36,250 Crs from Rs.30,500 Crs as on 31 Mar 2022 and Rs.21,700 Crs as on 31 March 2020.

For the lending segment, though the AUM is declining mainly due to sharp decline in wholesale book, the group is increasingly focusing on building a granular loan book mainly consisting of retail mortgage loans and small and medium enterprise (SME) loans.

BWR believes the group will continue to benefit from its diversified businesses, both for future growth and for improving profitability over the medium term.

Adequate capitalisation: The overall capital adequacy ratio of key operating entities is adequate. The total capital adequacy ratio (CAR) of ECL Finance stood at 32%, Edelweiss Housing Finance at 30.9% and Edelweiss Asset Reconstruction Company Ltd. at 42.6% as on 30 Jun 2022. EFSL's gearing on a consolidated basis reduced from 3.35 times as on 31 March 2020 to 2.8 times as on 30 Jun 22 due to reduction in borrowings on a QoQ basis.

The group has demonstrated its ability to raise capital on a frequent basis 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.

During FY22 it has raised Rs.8,569 Crs from various sources including NCDs/Bank Borrowings/CPs/Securitizations.

BWR believes that the group is adequately capitalized for future growth.

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 twelve members, including seven 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.



Credit Risks:-

Average asset quality: Asset quality remains moderate though improved compared to previous quarters where the Stage III book has improved from Rs.1,182 Crs as on March 31, 2021 to Rs.886 Crs as on March 31, 2022 and to Rs.874 Crs as on June 30, 2022, mainly due to recoveries and sale to ARCs. The Stage III book improved from Rs.1,182 Crs as on 31 March 2021 to Rs.886 Crs as on 31 March 2022. Of the total stage III assets of Rs.874 Crs, Rs.558 crs of accounts which have been fully provided for are expected to be written off during FY23. This will reduce the stressed book and also may not increase the gross NPAs over the near term. Of the remaining Stage III assets of Rs.307 Crs, ~55% of accounts (Rs.165 crs) are from retail segment and balance from Wholesale segment (Rs.142 crs). Slippages of these accounts to NPA over the near term will be monitorable. GNPA as on 30 Jun 2022 remained at 2.5% almost in line with previous quarter ended 31 Mar 2022 where it stood at 2.5% and NNPA stood at 1.8% as on 30 Jun 22 against 1.8% (excl. fully provided accounts) as at 31 Mar 22, which had; improved from GNPA of 6.7% and NNPA of 5.8% as at end of FY21 at consolidated level.

Further, the group's credit vertical's exposure in Security Receipts remains at around Rs.4,500 Crs, recoveries of which is monitorable. Further, Stage II loans amounting to Rs.3,706 Crs at consolidated level continues to form 1/3rd of the total loan book of Rs.11,535 crs (incl. fully provided accounts) as on June 30, 2022, recoveries/ additional slippages from which shall remain monitorable.

The group's asset quality has remained vulnerable to credit risks, albeit the group has been consciously reducing the wholesale credit book, the group's ability to control slippages and manage its asset quality is a key rating monitorable.

Subdued profitability at the operating level: Interest income for FY22 reduced to Rs.3,045 Crs, from Rs.4,034 Crs during FY21 and Rs.5,902 Crs during FY20, attributable to shrinkage of the loan book. During Q1 FY23, the interest income stood at Rs. 696 Crs against the interest income of Rs.773 Crs for the corresponding quarter of previous year. Fee and commission income too declined to Rs.1,444 Crs from Rs.1,654 Crs in the previous year. Total income for FY22 was 7,305 Crs (FY 21: Rs.10,848 Crs) which also included a gain of Rs.267 Crs on account of sale of controlling stake in its insurance broking business during FY22. Total income for Q1FY23 was Rs.1,294 Crs against Rs.1,649 Crs for Q1FY22 and Rs.1,915 Crs for Q4FY22.

The group continues to report profits lower than its peers on account of losses reported in credit business due to shrinkage of its loan book, lower return generating on large investments made in a highly liquid assets for maintaining its adequate liquidity position and continues to report losses in general and life insurance business which usually has long-gestation periods. PAT for FY22 was Rs.212 Crs (FY 21: Rs.254 Crs) whereas for Q1FY23 it was Rs.35 Crs. BWR also notes that ~50% of the consolidated profitability is accounted for, from its Wealth Management segment which will be demerged from the group by end of FY 23.

Thus, the group's ability to improve the operating income and profitability from its credit business and insurance business while continuing to contribute healthy profits from its other non credit business remains a key monitorable over the medium term.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

Considering the ultimate ownership of EFSL, Shared brand name and strong operational, financial and managerial linkages, a consolidated view on 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

Positive: A significant improvement in asset quality and profitability with maintaining comfortable liquidity and capitalization, and the group's ability to grow its various businesses are key rating positives.

Negative: Reduction in AUM, further weakening of the asset quality or profitability, and/or a deterioration in capital structure and liquidity are key rating negatives.

LIQUIDITY POSITION: ADEQUATE

As on 30 Jun 2022, the group had adequate liquidity, consisting of overnight liquidable assets (cash/bank balance, Fixed Deposits, liquid investments, Gsecs and treasury assets) of Rs 2,000 Crs, unutilised bank lines of Rs. 80 Crs, and other liquidable assets (securities based lending book and treasury assets) of Rs.3,170 Crs. Further, it had average quarterly collections of around Rs.1,700 Crs during FY22. The repayment obligations for next 12 months are Rs.11,700 Crs. The group's plan to demerge its Wealth Management segment and monetise part of the other businesses is expected to provide additional liquidity to support the repayment obligations.

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, wealth management including broking and capital markets, asset management, life insurance and general insurance. The company is listed on the BSE and NSE. The promoter group held a 32.6% stake, and the management and employees held a 10.4% stake in EFSL as on 30 Jun 2022. The group had 30 subsidiaries as on 31 March 2022.

ABOUT THE EDELWEISS GROUP

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KEY FINANCIAL INDICATORS (EFSL Standalone)

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	(Rs in Crs)	1,722	1,372
Net-Profit/(Loss)	(Rs in Crs)	694	856
Networth	(Rs in Crs)	4,126	5,000
Borrowings	(Rs in Crs)	838	2432
Debt:Equity	(Times)	0.20	0.49

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	(Rs in Crs)	10,848.2	7304.6
Net-Profit/(Loss)	(Rs in Crs)	253.9	212.1
Networth	(Rs in Crs)	7,677.0	8,457.0
Gearing	(In times)	4.7	2.8
Total loan portfolio (incl. Distressed Assets)	(Rs in Crs)	25,193	22,872
Gross Stage III asset	(%)	6.7	2.5*

*excl. fully provided accounts

COMPLEXITY LEVELS OF THE INSTRUMENTS

PP-MLDs: Highly Complex

NCD: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

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

Sr. No.	Name of Instrument	Current Rating			Rating History for the past 3 years								
		Type	Amount (Rs. Crs)	Rating	2021			2020			2019		
1	NCDs ^	Long Term	218.70	BWR AA-/ Negative (Reaffirmed and change in outlook)	21.09.2021			NA			NA		
					Long Term	218.70	BWR AA-/ Stable						
					05.03.2021			Long Term	400	BWR AA-/ Stable			
2	PP-MLDs	Long Term	200.00	BWR PP-MLD AA-/ Negative (Reaffirmed and change in outlook)	21.09.2021			NA			NA		
					Long Term	200	BWR PP-MLD AA-/ Stable						
					05.03.2021			Long Term	200	BWR PP-MLD AA-/ Stable			
3	NCDs ^	Long Term	200.00	BWR AA-/ Negative (Reaffirmed and change in outlook)	21.09.2021			09.11.2020			NA		
					Long Term	200	BWR AA-/ Stable	Long Term	200	BWR AA-/ Stable			
					05.03.2021			Long Term	200	BWR AA-/ Stable			
4	PP-MLDs	Long Term	300.00	BWR PP-MLD AA-/Negative (Reaffirmed and change in outlook)	21.09.2021			09.11.2020					
					Long Term	300	BWR PP-MLD AA-/ Stable	Long Term	300	BWR PP-MLD AA-/ Stable			
					05.03.2021			Long Term	300	BWR PP-MLD AA-/ Stable			
Total			918.70	Rupees Nine Hundred Eighteen Crores and Seventy Lakhs Only									

^ Public Issue (Retail)



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 Facilities: N/A

ANNEXURE II

INSTRUMENT (NCD and PP-MLD) DETAILS

Instrument	Issue Date	Amount (Rs Crs)*	Maturity Date	Coupon Rate	ISIN
Retail NCD	8-Jan-21	58.40	8-Jan-24	9.35%	INE532F07BK7
Retail NCD	8-Jan-21	15.49	8-Jan-24	NA #	INE532F07BL5
Retail NCD	8-Jan-21	55.90	8-Jan-26	9.39%	INE532F07BM3
Retail NCD	8-Jan-21	34.21	8-Jan-26	9.80%	INE532F07BN1
Retail NCD	8-Jan-21	10.80	8-Jan-26	NA #	INE532F07BO9
Retail NCD	8-Jan-21	18.07	8-Jan-31	9.53%	INE532F07BP6
Retail NCD	8-Jan-21	7.13	8-Jan-31	9.95%	INE532F07BQ4
Retail NCD	29-Apr-21	50.02	29-Apr-24	9.10%	INE532F07BV4
Retail NCD	29-Apr-21	12.50	29-Apr-24	NA #	INE532F07BW2
Retail NCD	29-Apr-21	81.92	29-Apr-26	9.16%	INE532F07BX0
Retail NCD	29-Apr-21	30.11	29-Apr-26	9.55%	INE532F07BY8
Retail NCD	29-Apr-21	9.30	29-Apr-26	NA #	INE532F07BZ5
Retail NCD	29-Apr-21	19.13	29-Apr-31	9.30%	INE532F07CA6
Retail NCD	29-Apr-21	15.72	29-Apr-31	9.70%	INE532F07CB4
Total Retail NCD Rated		418.70	Rupees Four Hundred and Eighteen Crores and Seventy Lakhs only		

# NA since these are Zero Coupon Bonds					
PP-MLD	18-Dec-20	10.57	18-Dec-23	NA	INE532F07BJ9
PP-MLD	21-Dec-20	1.00	18-Dec-23	NA	INE532F07BJ9
PP-MLD	25-Feb-21	1.00	18-Dec-23	NA	INE532F07BJ9
PP-MLD	25-Feb-21	2.50	14-Jan-26	NA	INE532F07BS0
PP-MLD	12-Feb-21	1.50	18-Dec-23	NA	INE532F07BJ9
PP-MLD	1-Feb-21	10.00	18-Dec-23	NA	INE532F07BJ9
PP-MLD	29-Jan-21	1.55	15-Jan-24	NA	INE532F07BR2
PP-MLD	28-Jan-21	17.85	18-Dec-23	NA	INE532F07BJ9
PP-MLD	25-Jan-21	20.00	15-Jan-24	NA	INE532F07BR2
PP-MLD	25-Jan-21	5.00	14-Jan-26	NA	INE532F07BS0
PP-MLD	15-Jan-21	34.75	18-Dec-23	NA	INE532F07BJ9
PP-MLD	14-Jan-21	4.50	18-Dec-23	NA	INE532F07BJ9
PP-MLD	14-Jan-21	5.00	14-Jan-26	NA	INE532F07BS0
PP-MLD	14-Jan-21	15.00	15-Jan-24	NA	INE532F07BR2
PP-MLD	14-Jan-21	35.00	13-Jan-26	NA	INE532F07BT8
PP-MLD	3-Mar-21	5.00	15-Jan-24	NA	INE532F07BR2
PP-MLD	10-Mar-21	5.00	15-Jan-24	NA	INE532F07BR2
PP-MLD	16-Mar-21	2.00	14-Jan-26	NA	INE532F07BS0
PP-MLD	24-Mar-21	2.00	14-Jan-26	NA	INE532F07BS0
PP-MLD	24-Mar-21	6.00	15-Jan-24	NA	INE532F07BR2
PP-MLD	30-Apr-21	3	15-Jan-24	NA	INE532F07BR2
PP-MLD	30-Apr-21	2	14-Jan-26	NA	INE532F07BS0
PP-MLD	17-May-21	4	15-Jan-24	NA	INE532F07BR2
PP-MLD	17-May-21	1	14-Jan-26	NA	INE532F07BS0
PP-MLD	21-May-21	6.5	15-Jan-24	NA	INE532F07BR2
PP-MLD	21-May-21	1.5	14-Jan-26	NA	INE532F07BS0
Total PP-MLD Raised		203.22			
Proposed		296.78			
Total PP-MLD Rated		500.00	Rupees Five Hundred Crores only		

*outstanding/ Proposed as on 22 Sep 22

ANNEXURE III
List of entities consolidated (as on 30 Jun 2022)

Sr. No.	Name of Entity	Extent of consolidation	Rationale for consolidation
1	Edelweiss Financial Services Ltd.	Full	Parent
2	ECL Finance Limited	Full	Subsidiary
3	Edelcap Securities Limited	Full	Subsidiary
4	Edelweiss Asset Management Limited	Full	Subsidiary
5	Ecap Securities and Investment Ltd. (Formally known as Ecap Equities Ltd)	Full	Subsidiary
6	Edelweiss Trusteeship Company Limited	Full	Subsidiary
7	Edelweiss Housing Finance Limited	Full	Subsidiary
8	Edelweiss Investment Adviser Limited	Full	Subsidiary
9	Edel Land Limited	Full	Subsidiary
10	Edel Investments Limited	Full	Subsidiary
11	Edelweiss Rural & Corporate Services Limited	Full	Subsidiary
12	Comtrade Commodities Services Ltd. (Formally known as Edelweiss Comtrade Limited)	Full	Subsidiary
13	Edel Finance Company Limited	Full	Subsidiary
14	Edelweiss Retail Finance Limited	Full	Subsidiary
15	Edelweiss Multi Strategy Fund Advisors LLP	Full	Subsidiary
16	Edelweiss Resolution Advisors LLP	Full	Subsidiary
17	Edelweiss General Insurance Company Limited	Full	Subsidiary
18	Edelweiss Securities and Investments Pvt Ltd	Full	Subsidiary
19	EC International Limited	Full	Subsidiary
20	EAAA LLC	Full	Subsidiary
21	Edelweiss Alternative Asset Advisors Pte. Limited	Full	Subsidiary
22	Edelweiss International (Singapore) Pte. Limited	Full	Subsidiary
24	Edelgive Foundation	Full	Subsidiary
25	Edelweiss Alternative Asset Advisors Limited	Full	Subsidiary
26	Edelweiss Private Equity Tech Fund	Full	Subsidiary
27	Edelweiss Value and Growth Fund	Full	Subsidiary
28	Edelweiss Asset Reconstruction Company Limited	Full	Subsidiary
29	EW Special Opportunities Advisors LLC	Full	Subsidiary

	(upto 23rd Jun 2022)		
30	Edelweiss Tokio Life Insurance Company Limited	Full	Subsidiary
31	Allium Finance Private Limited	Full	Subsidiary
32	Edelweiss Global Wealth Management Limited	Full	Subsidiary
33	Edelweiss Capital Services Limited	Full	Subsidiary
34	India Credit Investments Fund - II	Full	Subsidiary
35	Edelweiss Real Assets Managers Ltd	Full	Subsidiary
36	Sekura India Management Ltd	Full	Subsidiary
37	Edelweiss Securities Ltd	Partial	Associate
38	Edelweiss Finance and Invetments Ltd	Partial	Associate
39	Edelweiss Broking Ltd	Partial	Associate
40	Edelweiss Custodial Services Ltd	Partial	Associate
41	Edelweiss Financial Services Inc.	Partial	Associate
42	Edelweiss Invetsment Advisors Pvt Ltd	Partial	Associate
43	Edelweiss Securites (Hongkong) Pvt Ltd	Partial	Associate
44	Edelweiss Financial Services (UK) Ltd	Partial	Associate
45	Edelweiss Securities (IFSC) Ltd	Partial	Associate
46	ESL Securities Ltd	Partial	Associate
47	Various Trusts	-	-



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