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Edelweiss Financial Services Limited (EFSL)

August 16, 2024

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Proposed Commercial Paper (CPs)	900.00	IVR A1+/RWNI (IVR A One Plus/Rating watch with negative implications)	-	Assigned	Simple
Total	900.00 (Rupees Nine Hundred Crore Only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has assigned its ratings to the proposed commercial paper issue of EFSL (holding company of the Edelweiss group), as it derives comfort from established track record of the group with presence across diversified business verticals with sizeable scale of operations and adequate capitalisation of the group with proven track record of monetising group assets. However, the ratings are constrained by average asset quality, pressure on group's profitability and limitations on group company businesses.

Infomerics ratings has placed the rating under watch with negative implications considering the supervisory concerns raised by the Reserve Bank of India (RBI) via its press release on May 29, 2024, on ECL Finance Limited (ECLF) and Edelweiss Asset Reconstruction company Ltd (EARC). The RBI has ordered ECLF to cease and desist, with immediate effect, from undertaking any structured transactions in respect of its wholesale exposures, other than repayment and/ or closure of accounts in its normal course of business. Separately, EARC has been ordered to cease and desist from acquisition of financial assets including security receipts (SRs) and reorganizing the existing SRs into senior and subordinate tranches.

RBI had shared its inspection observations with the companies in February 2024 and the management has informed that the group has already taken corrective steps on several



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matters. This includes observations such as valuation differences, where there would be a financial implication- the required additional provisioning has been made in the March 2024 quarter and therefore is factored into fiscal 2024 results for both the companies. Management has also informed that all the AIF units held by the Edelweiss group with SRs as the underlying have been liquidated post the December 2023 RBI guideline pertaining to the investments made by NBFCs in AIFs.

The management has informed that they are continuously engaged with the regulator and have submitted their response to the supervisory concerns raised by the RBI and have also submitted a remedial action plan and expects that the restrictions will be lifted the due course.

Infomerics Ratings will continue to closely monitor the updates from the regulator on lifting of restrictions placed on the two companies and take necessary rating action based on the outcome.

Key Rating Sensitivities:

Downward Factors

- Substantial decline in overall financial profile of the group.
- Substantial deterioration in capitalisation, liquidity and profitability of the group and /or delay in planned divestments
- Deterioration in the asset quality from the current levels
- Adverse action from the regulator/delay from the regulator on lifting the restrictions on the businesses.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of the group.

The Edelweiss group was established in 1995 and is present across various financial services businesses, including loans to individuals, mortgage finance - loans against property and



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small-ticket housing loans, MSME finance, alternative and domestic asset management, and life and general insurance. In addition, the Balance sheet Management Unit (BMU) focuses on liquidity and asset-liability management. The group had 293 offices (including 10 international offices in 6 locations) in around 136 cities in FY24 (refers to period April 1st, 2023, to Mar 31, 2024). Furthermore, as part of streamlining its operating structure, the group has restructured the businesses into four verticals namely credit (Lending), insurance, asset management and asset reconstruction.

Diversified business verticals with sizeable scale of operations albeit moderation witnessed in recent past.

The Edelweiss group has sizeable operations across various business verticals i.e. Lending (wholesale and retail), insurance (life and general), asset management, and asset reconstruction.

The asset management business comprises mutual fund (Edelweiss Asset Management Ltd) and alternate asset businesses (Edelweiss Alternative Asset Advisors Ltd). The asset management business has substantially grown in last few years and currently the AUM stood at Rs 1,81,700.00 crore as on March 31, 2024, when compared to Rs 1,51,500.00 crore as on March 31, 2023. The AUM has further grown to Rs 1,92,350.00 crore as on 30 June 2024.

In the asset reconstruction segment, Edelweiss Asset Reconstruction Company Limited's (EARCL) total AUM has declined to Rs 31,590.00 crore as on March 31, 2024 (Rs 37,100.00 crore and Rs 40,200.00 crore as on March 31, 2023, and March 31, 2022). The AUM has further reduced to Rs 29,905.00 crore as on 30 June 2024 given the restrictions imposed by RBI on fresh asset acquisitions. EARCLs recoveries and acquisition of assets stood at Rs 9,416.00 crore and Rs 13,187 crore respectively for FY24. In Q1FY25, EARCLs recoveries stood at Rs 1,332.00 crore with no fresh acquisitions.

In the lending business vertical, group has two NBFCs, ECL Finance Ltd which is into wholesale (Construction loans) and retail -MSME lending, Edelweiss Retail Finance Ltd which is into retail – MSME lending and one housing finance company, Nido Home Finance Ltd which is into housing loan segment.



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Total AUM of NBFC stood at Rs 6,924.00 crore (comprising of own loan book of Rs 1753.00 crore, group loans of Rs 305.47 crore, investments in SR's of Rs 3,976.83 crore and assigned book of Rs 888.83 crore) as on 31 March 2024 when compared to Rs 7,847.00 crore as on 31 March 2023. The degrowth in AUM is on account of discontinuation of wholesale lending segment. The AUM has further declined to Rs 6,502.00 crore in Q1FY25.

Total AUM of HFC stood at Rs 3,962.00 crore (Including Housing loans of Rs 2,549 crore, LAP of Rs 1104 crore and construction finance of Rs 308 crore) as on 31 March 2024 when compared to Rs 4,115.00 crore as on 31 March 2023. The AUM of HFC has further grown to Rs 4,054.00 crore in Q1FY25.

The group is also having its presence in life insurance business (Edelweiss Tokio Life Insurance Company Ltd) and general insurance businesses (Zuno General Insurance Limited), which are gaining scale and are expected to breakeven over the medium term.

Going forward, with the discontinuation of wholesale lending, restrictions on asset reconstruction business and planned divestment in various business verticals, maintaining growth momentum will be a key monitorable.

Adequate capitalisation with proven track record of monetising group assets

The group has maintained adequate capitalisation to support the growth in various business verticals backed by proven track record of capital raise over the years. Edelweiss group has raised Rs 4,400.00 crores from global investors since 2016. On a consolidated basis, the group has a tangible Networth of Rs 5,850.74 crore as on 31 March 2024 as against Rs 7670.01 crore as on March 31, 2023 (Rs 7386.00 crore as on March 31, 2022). The decline in consolidated Networth is on account of demerger of "Nuvama Wealth Management Ltd", a listed entity and the proceeds were distributed to the EFSL shareholders. EFSL held 44% stake in Nuvama and after the demerger, 30% of Nuvama's shares were distributed to EFSL shareholders, reducing EFSL's net worth by ~ Rs 2,300.00 crore. As on 30 June 2024, the consolidated Networth stood at Rs 6052.00 crore.



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The group has an established track record of monetizing its assets and unlock their intrinsic values and the latest being monetizing ~30% of its stake in “Nuvama Wealth Management Ltd”, group’s wealth management arm. The group plans to monetize assets worth ~Rs4,500 crores in FY25 by selling their stake in asset management business and remaining stake in Nuvama Wealth Management Ltd.

Key Rating Weaknesses

Average asset quality

The asset quality of the group in lending business remains average with NBFCs (Consolidated) reporting gross NPA of 2.45% and net NPA of 1.42% for FY24 when compared to 2.07% and 1.29% respectively for FY23 and HFC reporting gross NPA of 1.69% and net NPA of 1.19% for FY24 when compared to 1.91% and 1.46% respectively for FY23. Since majority of the AUM consist of big-ticket size MSME loans and LAP loans, where the delinquencies are higher when compared to other asset classes. Going forward, the ability to maintain healthy asset quality will be a key rating monitorable.

Pressure on group’s profitability.

The group has reported PAT of Rs 528.04 crore in FY24 with major contribution from Asset reconstruction business vertical which stood at Rs 355 crore for FY24, lending business vertical contributing Rs 169 crore and Rs 248 crore from asset management business vertical. The same stands adjusted against losses incurred from other companies and deferred tax credit of Rs 305 crore. Consolidated Net profit margin has declined to 3.65% in Q1FY25 from 5.50% in FY24.

Considering that the majority of the group’s profitability is coming from ARC and lending business verticals and given the restrictions levied on these businesses by the regulator, the profitability of the group will be under pressure in coming years. However, the management has informed that the asset management business and insurance business have grown multi fold in last three years and expected to contribute majorly towards the profitability of the group in the medium to long term.



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Limitations on group company businesses

Reserve Bank of India (RBI) through its press release dated 29 May 2024, as a supervisory action directed ECL Finance Ltd to cease and desist, with immediate effect, from undertaking any structured transactions in respect of its wholesale exposures, other than repayment and/or closure of accounts in its normal course of business and Edelweiss Asset Reconstruction Company Ltd to cease and desist from acquisition of financial assets including security receipts (SRs) and reorganizing the existing SRs into senior and subordinate tranches.

Given that both these business verticals are strategically important and profit-making verticals in the group and the restriction levied by the regulator on these businesses will impact the overall financial profile of the group. Hence, any adverse move/outcome from the regulator on continuation of these businesses or delay in lifting the restriction will be a key rating monitorable.

Analytical Approach: Consolidated

Infomerics Ratings has adopted consolidated approach as these entities, collectively referred to as the Edelweiss group, have significant operational, financial and managerial linkages. All these companies have common promoters and share common brand name “Edelweiss.”

The Edelweiss group comprises of 28 subsidiaries and associates as on March 31, 2024. “Edelweiss Financial Services Limited” (EFSL) is the holding company of the group, where the financials of all the subsidiaries/associates/group companies gets consolidated.

Applicable Criteria:

[Rating Methodology for Financial Institutions/Non-Banking Finance companies](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)



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Criteria on consolidation of companies

Liquidity: Strong

Edelweiss group has strong liquidity of Rs 2878.00 crore as on 31 March 2024 against total debt repayments of Rs 5,298.00 crore for next 12 months. The current liquidity is sufficient to cover debt repayments for the next 6 months (not including the opex requirements). The group has adequately matched asset liability profile as on 31 March 2024. Edelweiss Group has 14% stake in Nuvama Wealth Management Limited which is currently valued around Rs.3,022.00 crore. The group is also planning to divest its stake in alternative business which is expected to generate around Rs.1000-Rs.1500 crore. Infomerics expects that the group will be able to maintain adequate liquidity with the expected cash inflows from planned divestments.

About the company – Edelweiss Financial Services Limited (EFSL)

EFSL, incorporated in 1995 is a registered as a category I Merchant Banker with SEBI and is the holding company of the Edelweiss group. It is primarily engaged in investment banking services and provides development, managerial and financial support to group entities.

About the Group: Edelweiss Group

The Edelweiss group has 28 subsidiaries and associates as on March 31, 2024. The group had 293 offices (including 10 international offices in 6 locations) in around 136 cities as on March 31, 2024. The group is present across various financial services businesses, including loans to individuals, mortgage finance – loans against property and small-ticket housing loans, MSME finance, alternative and domestic asset management, and life and general insurance.

Financials (Consolidated)*: EFSL

	(Rs. crore)	
For the year ended* / As on	31-03-2023	31-03-2024
	Audited	Audited
Total Income	8632.59	9601.57



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For the year ended* / As on	31-03-2023	31-03-2024
PAT	405.56	528.04
Tangible Net worth	7670.01	5850.74
Total Debt	28347.94	28551.00
Total Assets	42676.48	41174.55
Ratios		
Overall Gearing (Times)	3.70	4.88
ROTA (%)	1.01	1.31
Interest Coverage (times)	1.10	1.16
Gross NPA [Stage III] (%)	2.07	2.45
Net NPA [Stage III] (%)	1.29	1.42

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Proposed Commercial Paper	Short Term	900.00	IVR A1+/RWNI	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).



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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Instrument	ISIN	Date of Issuance	Maturity Date	Coupon (%)	Amount (Rs in Crores)	Listing Status	Rating
Proposed CPs	-	-	-	-	900.00	To be listed	IVR A1+/RWNI
	Total				900.00		

Annexure 2: Facility wise lender details – Not Applicable

Annexure 3: Detailed explanation of covenants of the rated Security/facilities:

Draft Term sheet for the proposed Commercial Paper issue of Rs 900.00 crore



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Issuer	ECAP Equities Ltd
Issue size	Upto Rs 4000 crore
Face Value	500,000.00
ROI	9.10%
Issue Date	TBD
Maturity Date	TBD
No of Days	Upto 364 days
Purpose	Rollover of existing CPs

Annexure 4: List of companies considered for consolidated analysis:

Name of entities consolidated	Extent of consolidation	Rationale for consolidation
ECL Finance Limited	Full	Subsidiary
Edelcap Securities Ltd	Full	Subsidiary
Edelweiss Asset Management Ltd	Full	Subsidiary
ECap Securities and Investments Ltd (Formerly known as ECap Equities Ltd)	Full	Subsidiary
Edelweiss Trusteeship Company Ltd	Full	Subsidiary
Nido Home Finance Ltd (Earlier known as Edelweiss Housing Finance Ltd)	Full	Subsidiary
Edelweiss Investment Adviser Ltd	Full	Subsidiary
ECap Equities Ltd (Formerly known as Edel Land Ltd)	Full	Subsidiary
Edelweiss Investment Ltd	Full	Subsidiary
Edelweiss Rural and Corporate Services Ltd	Full	Subsidiary
Comtrade Commodities Services Ltd (Formerly known as Edelweiss Comtrade Ltd)	Full	Subsidiary
Edel Finance Company Ltd	Full	Subsidiary
Edelweiss Retail Finance Ltd	Full	Subsidiary
Edelweiss Multi Strategy Fund Advisors LLP	Full	Subsidiary
Zuno General Insurance Limited (Formerly known as Edelweiss General Insurance Company Ltd)	Full	Subsidiary
Edelweiss Securities and Investments Pvt Ltd	Full	Subsidiary



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EC International Ltd	Full	Subsidiary
Nuvama Investment Advisors LLC (Formerly known as EAAA LLC)	Full	Subsidiary
Edelweiss Alternative Asset Advisors Pte. Ltd	Full	Subsidiary
EdelGive Foundation	Full	Subsidiary
Edelweiss Alternative Asset Advisors Ltd	Full	Subsidiary
Edelweiss Private Equity Tech Fund	Full	Subsidiary
Edelweiss Value and Growth Fund	Full	Subsidiary
Edelweiss Asset Reconstruction Company Ltd	Full	Subsidiary
Edelweiss Tokio Life Insurance Company Ltd	Full	Subsidiary
Allium Finance Pvt Ltd	Full	Subsidiary
Edelweiss Global Wealth Management Limited	Full	Subsidiary
Nuvama Custodial Services Ltd (formerly known as Edelweiss Capital Services Ltd)	Full	Subsidiary
India Credit Investment Fund II	Full	Subsidiary
Sekura India Management Ltd	Full	Subsidiary
Edelweiss Retail Assets Managers Ltd	Full	Subsidiary

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.