

December 27, 2022

Edelweiss Custodial Services Limited: Long-term and short-term ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Non-fund Based Bank Lines	1,834.00	1,834.00	[ICRA]AA- (Stable)/ [ICRA]A1+; upgraded from [ICRA]A+(Stable)/[ICRA]A1
Total	1,834.00	1,834.00	

*Instrument details are provided in Annexure I

Rationale

To arrive at the rating, ICRA has taken a consolidated view of Nuvama Wealth Management Limited (erstwhile Edelweiss Securities Limited) and its subsidiaries (hereafter referred to as NWML Group or the Group), due to the common senior management team, shared brand name, and financial and operational linkages.

ICRA has upgraded the ratings on borrowing programme of Edelweiss Custodial Services Limited on back of change in ownership with it becoming a part of the Nuvama Group. ICRA notes the proposed name change to Nuvama Clearing Services Limited, which is expected within a fortnight.

The rating factors in NWML Group's strong market position in the wealth management business with assets under advice (AUA; excluding custody assets) of Rs. 1.71 lakh crore and its comfortable capitalisation with a consolidated net worth of Rs. 2,065 crore as of September 30, 2022. Also, NWML Group's association with Pacific Alliance Group (PAG) is expected to benefit it in global relationships, besides auguring well for its financial flexibility. The rating is, however, constrained by the exposure of its businesses to the inherent volatility in the capital markets, besides regulatory uncertainties and associated reputational risks. It is noted that most of the Group's businesses are fee based and borrowings are primarily availed in the form of commercial paper and market linked debentures for capital market lending to customers. The same is mainly raised from its own wealth business clients.

While upgrading the rating, ICRA has noted that the demerger of NWML Group is currently underway and the Group has made fresh application for merchant banking business, which is currently housed under Edelweiss Financial Services Limited {EFSL; rated [ICRA]A+ (Stable)}. Going forward, NWML will be listed on stock exchange(s) and EFSL's shareholders would receive equity shares of NWML. The said process is likely to be completed within the next few quarters. EFSL had announced the sale of a part of its stake in the wealth management business to PAG in Q2 FY2021. In March 2021, PAG paid Rs. 2,366 crore to acquire the wealth management segment of the Edelweiss Group (including a primary investment of Rs. 435 crore), which was subsequently renamed NWML. Additionally, PAG acquired the entire equity ownership of the erstwhile investors, Kora Management and Sanaka Capital, in NWML. With this, PAG held 61.5% in NWML and EFSL held 38.5% with an option to increase its stake to 44%. In Q3 FY2022, the Edelweiss Group exercised this option.

Key rating drivers and their description

Credit strengths

Strong market position in wealth management business – NWML Group offers retail and private wealth management, advisory/investment banking, institutional equities, asset management, broking and distribution services to affluent, high-net-worth individuals (HNIs), ultra HNIs and institutional clients. Its strong market position among non-banking entities in the wealth management business is reflected in the AUA (excluding custody assets) of Rs. 1.71 lakh crore as on September 30,

2022 compared to Rs. 1.39 lakh crore as of March 31, 2021. As of September 30, 2022, 54% of the AUA was in equity, 22% in fixed income, 13% in mutual funds/insurance, 6% in portfolio management services/alternative investment funds (AIFs) and 4% in structured products. The Group added net new money of Rs. 9,274 crore in FY2022 and Rs. 6,581 crore in H1 FY2023. It had 2,900 UHNI clients and 9.8 lakh affluent clients as of September 30, 2022 and is present in 65 locations with 1,121 relationship managers.

Besides the AUA, the Group had Rs. 44,450 crore of custody assets as of September 30, 2022. It undertakes lending activities through its non-banking financial company (NBFC), i.e. Nuvama Wealth Finance Limited (NWFL). NWFL, which provides loan against securities (LAS), employee stock ownership plan (ESOP) and initial public offering (IPO) funding to its wealth management clients, had a loan book of Rs. 1,889 crore as of September 30, 2022. Moreover, the broking entity (Nuvama Wealth and Investment Limited) which provide margin trade funding and ESOP funding, had a loan book of Rs. 1,192 crore as of September 30, 2022.

Comfortable capitalisation – NWML Group's consolidated net worth stood at Rs. 2,065 crore as on September 30, 2022 with a reported gearing of 2.4x. The Group is primarily focused on less capital-intensive fee-based businesses, while the borrowings are primarily required for the short-tenor ESOP/LAS and margin financing offerings to its wealth management clients and for the clearing services and institutional equities segment. Currently, with minimal additional sponsor investments in own manufactured AIFs, a less capital-intensive business and moderate growth plans for its lending book, NWML Group is comfortably capitalised for the near to medium term.

Association with PAG to support global relationships and financial flexibility – PAG is one of the large Asia-focused private investment firms with assets under management (AUM) of \$50 billion across Asia and leading institutional investors from Europe, North America, Asia and the Middle East. It is supported by a team of more than 300 investment professionals in 12 offices in Asia and across the world. Through PAGAC Ecstasy Pte Ltd, PAG acquired a majority stake in NWML Group in FY2021 for Rs. 2,366 crore from various investors, including EFSL. As on September 30, 2022, it held a 55.34% stake in NWML Group while a fund managed by PAG (Asia Pragati Strategic Investment Fund) held a 0.9% stake. The association with PAG is expected to benefit NWML by leveraging PAG's global relationships in setting up AIFs, expand its clientele and improve its cost of borrowings.

Credit challenges

Exposure to inherent volatility in capital markets besides regulatory uncertainties – The Group's AUA is driven by fresh inflows as well as fluctuations in the capital markets, which could impact revenue growth. To reduce the volatility in income, the management is also focusing on increasing the share of assets generating recurring revenues. To improve client engagement and enhance the value derived from the customer franchise, the Group aims to increase the share of the asset management businesses (own manufactured AIFs). Revenues are also susceptible to regulatory changes, which could have adverse implications on the profitability. Thus, changes in the regulations and their potential impact on the business model would remain a key rating sensitivity.

Franchise risk – The Group relies on its franchise, which has been developed over the years, for the acquisition and retention of clients as well as employees. Any reputational damage could affect the AUA and hence the revenues and profitability. The ability to retain the relationship manager base also remains imperative to maintain low client attrition rates.

Modest borrowing profile, though partially driven by limited funding requirements – The Group's funding profile remains concentrated with borrowings largely comprising market linked debentures (63% of overall borrowings as on September 30, 2022). These principal protected market linked debentures (PP-MLDs) offer tax efficiency to investors and funding from such instruments could be susceptible to changes in tax laws. Further, most of these PP-MLDs are raised from NWML Group's wealth management clients.

The Group's funding requirements will be driven by the growth in the loan book, margin requirements for the broking business and its contribution to the sponsor share in the AIFs. As of September 30, 2022, the Group's other sources of funding included commercial paper (18%) to fund its short-term requirements, bank lines (overdraft lines; 6%), non-convertible debentures (NCDs; 9%) and others (4%). The debt securities had a weighted average borrowing cost of 8.67% (annualised) for H1 FY2023.

Liquidity position: Adequate

NWML Group's liquidity position is adequate. As of September 30, 2022, Nuvama group had liquidity of Rs 2,314 crores of which Rs 1,447 is in unencumbered cash & equivalents and unutilised bank lines of Rs. 239 crore and Rs 628 is in form of securities held for trading compared to repayments of Rs. 2,311 crore falling due up till February 28, 2024. Apart from this, the Group has short-term loan assets, which may be liquidated at short notice.

Rating sensitivities

Positive factors – ICRA may change the outlook to Positive or upgrade the rating if the Group demonstrates a sustained increase in the annual recurring assets while growing the AUM and maintaining comfortable capitalisation and profitability.

Negative factors – ICRA may downgrade the rating or change the outlook to Negative if there is a material and prolonged erosion in the Group's AUA with high client and advisor attrition. Increase in the consolidated gearing beyond 3.5x on a sustained basis would also be a negative from a credit perspective. Any regulatory change or action resulting in a material adverse change to the business model may warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry Rating Methodology for non-banking finance companies Rating approach- consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the consolidated financials of NWML and taken a consolidated view of NWML and its subsidiaries, due to the common senior management team, shared brand name, and financial and operational linkages.

About the company

The erstwhile Edelweiss Custodial Services Limited (presently known as Nuvama Clearing Services Limited or NCSL) is registered with SEBI as a Clearing member and as a Professional Clearing Member registered with NSE Clearing Ltd (NCL), Indian Clearing Corporation Ltd (ICCL), Multi Commodity Clearing Corporation of India Ltd (MCXCCL) and National Commodity Clearing Ltd (NCCL) which clears and settle trades of various Trading Members and Custodial Participants. Further NCSL is also providing Fund Accounting Services to Portfolio Managers (PMS) and Alternative Investment Fund (AIF) and Domestic Body Corporates. It invests in fixed deposits and other highly liquid callable instruments as a part of its treasury activities. NCSL is a fully-owned subsidiary of NWML. PAGAC Ecstasy Pte. Limited is the ultimate holding company. As on September 30, 2022, PAGAC Ecstasy Pte. Ltd held a ~56% stake in NWML while Edelweiss Group held ~44%.

The company reported a profit after tax (from continuing operations) of Rs. 62.80 crore on total income of Rs. 277.64 crore in FY2022 compared to a net profit of Rs. 97.48 crore on total income of Rs. 239.81 crore in FY2021. Its total assets stood at Rs. 4,203.76 crore while its net worth was Rs. 295.42 crore as of March 31, 2022 compared to Rs. 4,176.98 crore and Rs. 232.15 crore, respectively, as of March 31, 2021. The company had nil on-balance sheet borrowings as on March 31, 2022.

Nuvama Wealth Management Limited

NWML Group is one of the leading non-banks in the wealth management space. It offers retail and private wealth management, advisory/investment banking, institutional equities, asset management, broking and distribution services to affluent, high-net-worth individuals (HNIs), ultra HNIs and institutional clients. As of September 30, 2022, assets under its advice (AUA, excluding custody assets) stood at Rs. 1.76 lakh crore compared to Rs. 1.72 lakh crore as of March 31, 2022 and Rs. 1.41 lakh crore as of March 31, 2021.

NWML Group, erstwhile Edelweiss Securities Limited, was incorporated in 1993. It was earlier a wholly-owned subsidiary of EFSL. However, EFSL announced the sale of a part of its stake in the wealth management business to PAG in Q2 FY2021. Thereafter, PAG paid Rs. 2,366 crore in March 2021 to acquire the Edelweiss Group's wealth management segment (including a primary investment of Rs. 435 crore), which was subsequently renamed NWML. Additionally, PAG acquired the entire equity ownership of erstwhile investors, Kora Management and Sanaka Capital, in NWML Group. With this, it held 61.5% in NWML Group while EFSL held 38.5% with an option to increase its stake to 44%. In Q3 FY2022, the Edelweiss Group exercised this option. As of September 30, 2022, PAG held a 56% stake in NWML Group, primarily through PAGAC Ecstasy Pte Ltd. As per the arrangement, NWML is to be listed on stock exchange(s) post the demerger, whereby EFSL's shareholders would receive equity shares of NWML Group. The said process is likely to be completed within the next few quarters. The Group's net worth, on a consolidated basis, stood at Rs. 2,064.91 crore as of September 30, 2022 compared to Rs. 1,912.85 crore as of March 31, 2022. It posted a profit before tax (PBT; before exceptional items) of Rs. 182.13 crore in H1 compared to Rs. 303.48 crore in FY2022.

Key financial indicators

NWML (consolidated)	FY2021/Mar-21	FY2022/Mar-22	H1 FY2023/Sep-22
Brokerage income	381.91	426.17	256.34
Other income (excluding net gain on fair value changes and net gain on sale of investments)	341.42	476.42	410.35
Net interest income	144.68	234.10	102.78
Net operating income (NOI)	868.01	1136.69	769.47
Net operating income (including net gain on fair value changes and net gain on sale of investments)	1051.70	1341.61	844.75
Total operating expenses*	875.03	1033.34	665.61
Total operating expenses (excluding goodwill write off)	831.68	1033.34	665.61
Profit before tax from continuing operations (excluding exceptional items)	212.23	303.48	182.13
Profit after tax from continuing operations (PAT)**	-482.80	857.13	132.31
PAT/NOI	-55.62%	75.41%	17.19%
PAT (excluding exceptional items)/Net operating income (including net gain on fair value changes and net gain on sale of investments)	14.63%	16.81%	15.66%
Cost-to-income ratio	100.81%	90.91%	86.50%
Cost-to-income ratio (including net gain on fair value changes and net gain on sale of investments and excluding goodwill write off)	79.08%	77.02%	78.79%
Return on average net worth	-33.72%	48.67%	13.30%
Return on average net worth (excluding exceptional items)	10.75%	12.80%	13.30%
Net worth^	1609.48	1912.85	2064.91
Gearing (times)	0.89	1.86	2.43

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

* w.e.f. half year ended September 30, 2022; the Group has presented certain expenses amounting to Rs 75.13 crore on gross basis in its financial statements. Accordingly in the above table, total revenues are appearing on gross basis for the half year ended September 30, 2022, whereas for the periods till FY22, total revenues are presented on net basis

** NWML was 100% subsidiary of EFSL in fiscal 2020. In fiscal 2021 many other entities which were earlier part of EFSL came under the umbrella of NWML. This led to increase in fee income, net gain on fair value change, employee costs, overall increase in income and expenses. Therefore, financials FY21 are not comparable due to structural changes in NWML. ^ Consolidated net worth as of March 31, 2020 was Rs. 1,253.82 crore

Edelweiss Custodial Services Limited	FY2021/Mar-21	FY2022/Mar-22	H1 FY2023/Sep-22
Net interest income	174	148	46
Non interest income	11	48	36
Gross Operating income	240	278	118
Net Operating income	185	195	82
Total operating expenses	55	114	51
Profit before tax	130	82	31
Profit after tax	97	63	23
PAT/Average assets	2.76%	1.50%	1.02%
Cost-to-income ratio	29.67%	58.25%	62.52%
Return on average net worth	42.47%	23.81%	7.43%
Net worth	232	295	318
Gearing (times)	0.00	0.00	0.00

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument		Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020	
					Dec 27, 2022	Jun 24, 2022	Jun 29, 2021	Nov 09, 2020	Oct 19, 2020	May 05, 2020	Jun 25, 2019	Apr 05, 2019
1	Long-term/Short-term Non-fund Based Bank Lines	Long term/Short term	1,834	1,350	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+

Source: Company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term/Short-term Non-fund Based Bank Lines	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	200.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	250.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	50.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	200.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	100.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	200.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	200.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines-Bank Guarantee	NA	NA	NA	150.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Long-term/Short-term Non-fund Based Bank Lines - Unallocated	NA	NA	NA	484.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name (H1 FY2023)	NWML Group Ownership	Consolidation Approach
Nuvama Wealth Management Limited (erstwhile Edelweiss Securities Limited)	Parent	ICRA has taken a consolidated view of the parent and its subsidiaries.
Nuvama Wealth and Investments Limited (erstwhile Edelweiss Broking Limited)	100%	
Nuvama Wealth Finance Limited (erstwhile Edelweiss Finance and Investments Limited)	100%	
Nuvama Clearing Services Limited (erstwhile Edelweiss Custodial Services Limited)	100%	
Nuvama Asset Management Limited (erstwhile ESL Securities Limited)	100%	
Nuvama Custodial Services Limited (erstwhile Edelweiss Capital Services Limited)	49%	
Nuvama Capital Services (IFSC) Limited (erstwhile Edelweiss Securities IFSC Limited)	100%	
Nuvama Financial Services Inc (erstwhile Edelweiss Financial Services Inc)	100%	
Nuvama Financial Services (UK) Limited (erstwhile Edelweiss Financial Services (UK) Limited)	100%	
Nuvama Investment Advisors (Hongkong) Private Limited (erstwhile Edelweiss Securities (Hong Kong) Private Limited)	100%	
Nuvama Investment Advisors Private Limited (erstwhile Edelweiss Investment Advisors Private Limited)	100%	

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