

December 28, 2023

Edelweiss Asset Reconstruction Company Limited: Placed on rating watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	217.00	217.00	[ICRA]A; placed on rating watch with negative implications
Non-convertible Debenture Programme	90.00	90.00	[ICRA]A+(CE); placed on rating watch with negative implications
Long-term Fund Based Bank Lines	225.00	225.00	[ICRA]A; placed on rating watch with negative implications
Long-term Principal Protected Market Linked Debenture Programme	28.34	28.34	PP-MLD [ICRA]A+(CE); placed on rating watch with negative implications
Total	560.34	560.34	

*Instrument details are provided in Annexure-I

Note: The credit enhanced (CE) rating for the non-convertible debentures (NCDs) and market linked debentures is based on the strength of an unconditional, irrevocable and continuing guarantee provided by Edelweiss Financial Services Limited (EFSL; guarantor). This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

PP-MLD refers to the principal protected market linked debenture programme. According to the terms of the rated market linked debentures, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary as they are linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The assigned rating expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with the variability in returns resulting from the adverse movements in the variable(s) concerned

Rating Without Explicit Credit Enhancement

[ICRA]A

Rationale

On December 18, 2023, Edelweiss Financial Services Limited/Edelweiss Group informed the exchanges about an **order** passed by Securities Appellate Tribunal (SAT) involving Nuvama clearing Services Limited (Erstwhile Edelweiss Custodial Services Limited) (NCSL) in the matter of Anugrah Stock & Broking Ltd. The order dismissed NCSL's appeal against the Member and Core Settlement Guarantee Fund Committee of NSE Clearing Limited, for the transactions pertaining to CY2019-CY2020. The SAT upheld the core settlement committee's earlier order requiring reinstatement of securities worth ~Rs. 460 crore liquidated during Q4 FY2020 and Q1 FY2021. During the demerger of its wealth management business, Edelweiss Group had indemnified NCSL for the potential liabilities that may arise out of this transaction.

In addition to the above event, The Reserve Bank of India (RBI) recently issued a notification pertaining to **Investments in Alternative Investment Funds (AIFs)** by regulated entities (RE). As per the circular, if an AIF scheme, in which a RE is already an investor, makes a downstream investment in a debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If RE has already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from date of issuance of this circular. In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100% provision on such investments. Further, investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from the RE's capital funds.

Following the above developments, ICRA has placed the rating(s) outstanding on rating watch with negative implications. ICRA will continue to monitor the developments and take suitable rating action once more clarity emerges regarding resultant liability of the Edelweiss Group, if any, in the matter of Anugrah Stock & Broking Ltd. and the impact on the company's financial profile. ICRA is cognisant that NCSL has initiated appeal against the SAT order in the honourable Supreme Court.

In regard to the AIF investments held in REs, the Group has approached the regulator to seek clarity regarding few of its investments and applicability of notification. While the capitalisation profile of the NBFCs in the Group remains comfortably above the threshold levels (ECL Finance Limited: tier-I of 18.4%, Edelweiss Retail Finance Limited: tier 1 of 53% as of September 30, 2023), it is expected to moderate to some extent (basis initial estimates of the management, the capital may be impacted by Rs. 100-200 crore, however the impact could be higher, subject to clarifications sought from the regulator and strategic arrangements). ICRA will continue to monitor the developments in this regard.

ICRA notes the Group's publicly disclosed intent of monetisation of 10-20% stake in Edelweiss Alternative Asset Advisors Limited (EAAA) which is expected to support the Group in augmenting cushion for absorbing any impairments related to residual risks residing in the balance sheet, liquidity generation and debt reduction. Additionally, given the appreciation of the investment in Nuvama Wealth Management Limited (value worth of ~Rs. 1,750 crore as of December 25, 2023) since its listing on September 26, 2023, the fair valuation gain on the same is expected to offer some head room in absorbing losses, if required.

ICRA notes that the Group's liquidity position is currently adequate with on-balance sheet liquidity of Rs. 3,065 crore, against repayment obligations of ~Rs. 3,263 crore between October 01, 2023, to March 31, 2024. The on-balance sheet liquidity and envisaged inflows from loan book, provide headroom for absorbing incremental liquidity requirement (if any) arising on account of aforesaid developments. Further, the planned stake sale of EAAA is expected to support the liquidity position of the Group in the medium term.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, Liquidity position, and Rating sensitivities: [Click here](#)

Adequacy of credit enhancement

The ratings factor in the guarantee provided by EFSL, which is unconditional, irrevocable and continuing. It covers all obligations that may arise on the rated NCDs and PP-MLDs. The payment mechanism is designed to ensure timely payments to the investors, as per the terms of the transaction, either by the issuer or the guarantor. If the company does not deposit the requisite funds in the Designated Account on any T-1 date (T being the coupon payment date, scheduled principal redemption date, put/call option settlement date or redemption date under an early redemption/acceleration event), the guarantor is obligated to deposit the shortfall amount in the Designated Account latest by 12.00 p.m. on the T date. If the guarantor fails to deposit such funds in the Designated Account on the T date, it would constitute a default on the part of the guarantor.

Salient covenants of the rated facility

- The Company shall not permit any transfer of the controlling interest or make any drastic change in the management setup
- The Company shall, during the currency of the debentures, maintain a security cover equal to the principal and interest payable throughout the tenure of the debentures
- The Company shall provide additional security to meet the shortfall if the Trustee and/or debenture holder(s) are of the opinion that, at any time during which the debentures are outstanding, the security provided by the company has become inadequate. The Company shall provide and furnish to the Trustee to its satisfaction such additional security for maintaining the security cover as provided in the financial covenants and conditions as may be acceptable to the Trustee to cover such deficiency.

- The Company shall comply with all regulatory and other requirements as specified by the relevant Governmental authorities and stock exchanges from time to time and ensure compliance with the applicable laws, the debt listing agreement entered into with the stock exchanges, the disclosure documents and the prudential guidelines.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Consolidation and Rating Approach Rating Approach - Third-party Explicit Support
Parent/Group support	Support from EFSL (the ultimate parent)
Consolidation/Standalone	Standalone

About the company

Edelweiss Asset Reconstruction Company Limited (EARC) was incorporated in September 2009 by the Edelweiss Group in partnership with a group of high-net-worth individual (HNI) investors. The Group, through its Group companies, held a 59.84% stake as on March 31, 2023, while the remaining stake is held by other investors. EARC has emerged as the largest ARC in the country with AUM of Rs. 37,111 crore as on March 31, 2023. The company focusses on the large single borrower segment, an asset class with a high-risk profile on account of its complexity, higher ticket size as well as the significant degree of engagement with promoters. In recent years, EARC has also forayed into retail assets resolution, though its share in overall AUM remains moderate. In FY2023, EARC reported a net profit of Rs. 318 crore (PY: Rs. 253 crore) on a total income of Rs. 1001 crore (PY: Rs. 899 crore). As of March 31, 2023, the company's net worth stood at Rs. 2794 crore (PY: Rs. 2476 crore).

Key financial indicators

Edelweiss Asset Reconstruction Company Limited	FY2021	FY2022	FY2023
Total income	867	899	1,001
Profit after tax	186	253	318
Net worth	2,222	2,476	2,794
Assets under management	40,473	40,251	37,111
EARC 's investments in SRs	4,773	4,749	4,439
EARC Recoveries	1,701	1,981	2,435
Total assets	5,933	6,079	5,947
Return on capital employed ¹	3.5%	5.0%	6.6%
Return on average assets (%)	3.0%	4.2%	5.3%
Return on average equity (%)	8.7%	10.8%	12.1%
Gross gearing (times)	1.62	1.34	1.04

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore, 1: investments and loans

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (Edelweiss), the holding company of the Edelweiss Group of companies, was incorporated in 1995 to offer investment banking services primarily to technology companies. At present, the Group is engaged in wholesale and retail lending, home finance, distressed assets resolution, general insurance, life insurance, alternatives and asset management. On a standalone basis, Edelweiss posted a total income of Rs. 3,089 crore and a PAT of Rs. 2,388 crore in FY2023 compared to total income of Rs. 1,373 crore and PAT of Rs. 933 crore in FY2022. While on a consolidated basis, Edelweiss posted a total income of Rs. 8,633 crore and a PAT of Rs. 344 crore in FY2023 compared to total income of Rs. 7,305 crore and PAT of Rs. 189 crore in FY2022. With fair valuations of stake held in Nuvama in FY2023, the Group had a consolidated net worth

of Rs. 7,846 crore as of March 31, 2023. However, with allotment of 30% stake held in Nuvama to shareholders of Edelweiss, the consolidated net worth to ~Rs. 5,547 crore as of September 30, 2023.

Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2021	FY2022	FY2023
Net interest income	200	61	371
Total income	10,849	7,305	8,633
Profit after tax (Edelweiss' share)	265	189	344
Profit after tax - Including MI	254	212	406
Net worth	7,677	7,592	7,846
Loan assets	22,455	20,098	17,354
Total assets	46,350	43,280	44,064
Return on assets (%)	0.5%	0.5%	0.9%
Return on equity (%)	3.4%	2.8%	5.3%
Gross NPA ¹ (%)	8.5%	8.5%	10.5%
NNPA/ Gross loan book ¹ (%)	4.5%	1.9%	2.7%
Net NPA (%)	5.0%	2.2%	2.1%
Net NPA/Net worth (%)	8.2%	2.6%	2.6%
Gross gearing (times)	3.7	2.99	2.8
CRAR (%)	21.0%	30.0%	33.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 1: excluding credit substitutes.

Edelweiss Financial Services Limited (consolidated-ex insurance; ICRA's estimates)	FY2021	FY2022	FY2023
PAT (post MI)	462	405	610
Net worth (ex-MI)	5,922	5,783	5,892
Borrowing ¹	26,681	21,315	19,185
Gearing (times)	4.80	3.93	3.69
Return on equity (ex-MI)	7.8%	7.0%	10.4%

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

1: excluding borrowings through triparty repo and compulsorily convertible debentures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
				Date & Rating		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				Dec 27, 2023	Jun 22, 2023	Jun 24, 2022	Jun 29, 2021	Oct 19, 2020	May 05, 2020
1 Non-convertible Debenture	Long Term	90.00	89.50^	[ICRA]A+ (CE); rating watch with negative implications	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Negative)	[ICRA]A+ (CE) (Negative)	[ICRA]A+ (CE) (Negative)
2 Non-convertible Debenture	Long Term	-	-	-	-	-	[ICRA]A+ (CE) (Negative)	[ICRA]A+ (CE) (Negative)	[ICRA]A+ (CE) (Negative)
3 Non-convertible Debenture	Long Term	217.00	216.58^	[ICRA]A; rating watch with negative implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)
4 Long-term Fund-based Bank Lines	Long Term	225.00	40.94	[ICRA]A; rating watch with negative implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)
5 Long-term Fund-based Bank Lines	Long Term	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)
6 Long-term Principal Protected Market Linked Debenture	Long Term	28.34	27.43^	PP-MLD [ICRA]A+ (CE); rating watch with negative implications	PP-MLD [ICRA]A+ (CE) (Stable)	PP-MLD [ICRA]A+ (CE) (Stable)	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)
7 Long-term Principal Protected Market Linked Debenture	Long Term	-	-	-	PP-MLD [ICRA]A+ (CE) (Stable); withdrawn	PP-MLD [ICRA]A+ (CE) (Stable)	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)
8 Long-term Principal Protected Market Linked Debenture	Long Term	-	-	-	-	-	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)	PP-MLD [ICRA]A+ (CE) (Negative)
9 Commercial Paper Programme	Short Term	-	-	-	-	-	-	-	-

^ balance yet to be issued/allocated

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debenture Programme (CE)	Simple
Long-term Principal Protected Market Linked Debenture	Moderately Complex
Non-convertible Debenture Programme	Simple
Long-term 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Existing rating
INE015L07550	Non-convertible Debenture	12-Sep-2017	8.85%	11-Sep-2024	60.00	[ICRA]A+ (CE); rating watch with negative implications
INE015L07204	Non-convertible Debenture	27-Jun-2016	-	22-Jun-2026	2.00	[ICRA]A+ (CE); rating watch with negative implications
INE015L07212	Non-convertible Debenture	28-Jun-2016	-	23-Jun-2026	4.00	[ICRA]A+ (CE); rating watch with negative implications
INE015L07261	Non-convertible Debenture	01-Jul-2016	10.00%	26-Jun-2026	18.50	[ICRA]A+ (CE); rating watch with negative implications
INE015L07279	Non-convertible Debenture	04-Jul-2016	10.00%	29-Jun-2026	5.00	[ICRA]A+ (CE); rating watch with negative implications
NA	Non-convertible Debenture - Proposed	NA	NA	NA	0.50	[ICRA]A+ (CE); rating watch with negative implications
INE015L07576	Non-convertible Debentures	08-Oct-2018	2.00%	07-Oct-2028	216.58	[ICRA]A; rating watch with negative implications
NA	Non-convertible Debenture - Proposed	NA	NA	NA	0.42	[ICRA]A; rating watch with negative implications
NA	Long-term Fund-based Bank Lines	NA	NA	NA	75.00	[ICRA]A; rating watch with negative implications
NA	Long-term Fund-based Bank Lines - Unutilised	NA	NA	NA	150.00	[ICRA]A; rating watch with negative implications
INE015L07253	Long-term Market Linked Debenture	30-Jun-2016	Nifty 10 Yr G-Sec Index Linked	25-Jun-2026	2.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07337	Long-term Market Linked Debenture	12-Jul-2016	Nifty 10 Yr G-Sec Index Linked	07-Jul-2026	2.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07386	Long-term Market Linked Debenture	18-Jul-2016	Nifty 10 Yr G-Sec Index Linked	13-Jul-2026	3.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07428	Long-term Market Linked Debenture	22-Jul-2016	Nifty 10 Yr G-Sec Index Linked	17-Jul-2026	2.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07428	Long-term Market Linked Debenture	16-Jan-2019	Nifty 10 Yr G-Sec Index Linked	17-Jul-2026	0.46	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07543	Long-term Market Linked Debenture	11-Sep-2017	Nifty 10 Yr Benchmark G-Sec Index Linked	05-Sep-2024	10.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07543	Long-term Market Linked Debenture	06-Sep-2017	Nifty 10 Yr Benchmark G-Sec Index Linked	05-Sep-2024	4.00	PP-MLD [ICRA]A+ (CE); rating watch with negative implications
INE015L07543	Long-term Market Linked Debenture	13-Oct-2017	Nifty 10 Yr Benchmark G-Sec Index Linked	05-Sep-2024	3.97	PP-MLD [ICRA]A+ (CE); rating watch with negative implications

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Existing rating
NA	Long-term Market Linked Debenture - Yet to be issued	NA	NA	NA	0.91	PP-MLD [ICRA]A+ (CE); rating watch with negative implications

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis - Not applicable

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Anil Gupta

+91 124 4545 314

anil.g@icraindia.com

Deep Inder Singh

+91 124 4545 830

deep.singh@icraindia.com

Subhrajyoti Mohapatra

+91 080 4332 6406

subhrajyoti.mohapatra@icraindia.com

Kruti Jagad

+91 22 6114 3447

kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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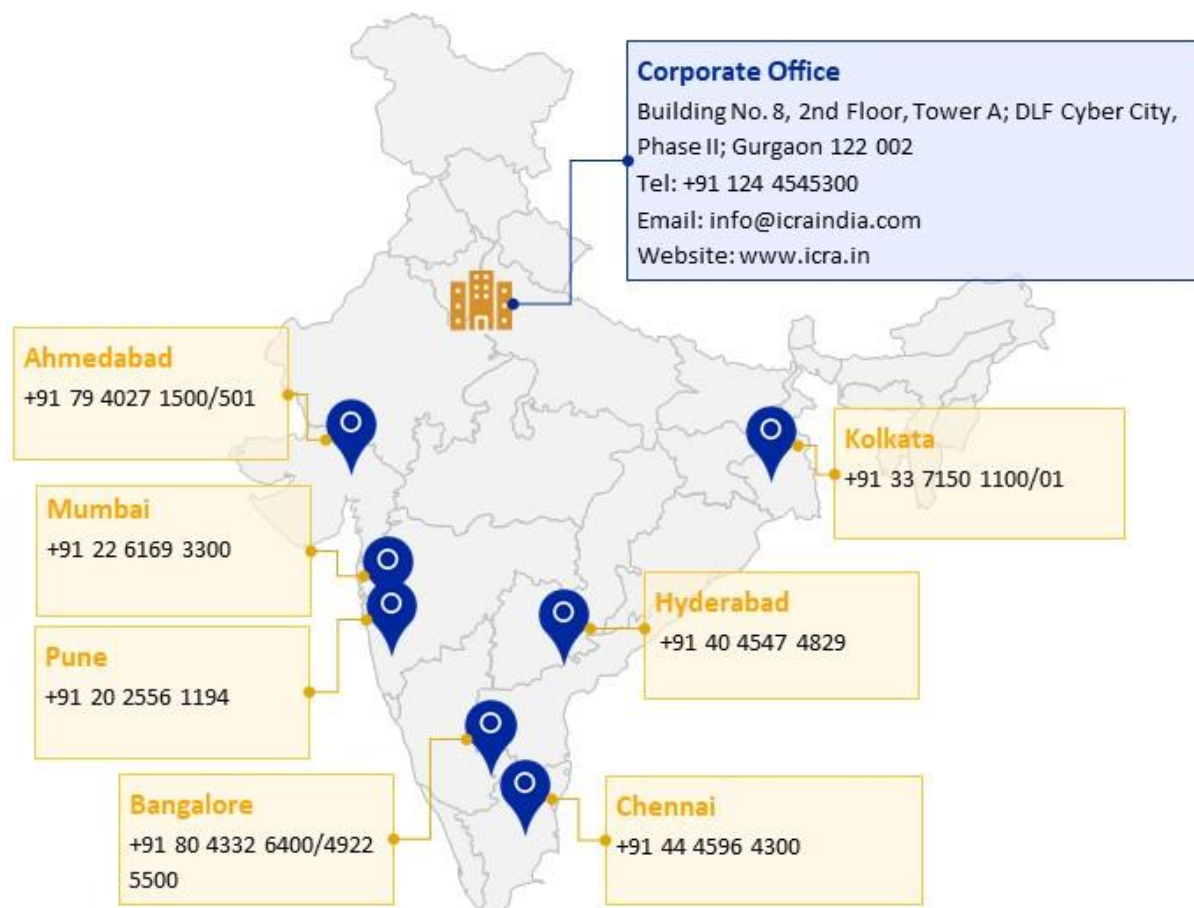


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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