

June 06, 2024

## Edelweiss Asset Reconstruction Company Limited: Update on material event

### Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible Debenture Programme	217.00	217.00	[ICRA]A Rating Watch with Negative Implications; outstanding
Non-convertible Debenture Programme	90.00	90.00	[ICRA]A+(CE) Rating Watch with Negative Implications; outstanding
Long-term Fund Based Bank Lines	225.00	225.00	[ICRA]A Rating Watch with Negative Implications; outstanding
Long-term Principal Protected Market Linked Debenture Programme	28.34	28.34	PP-MLD [ICRA]A+(CE) Rating Watch with Negative Implications; outstanding
<b>Total</b>	<b>560.34</b>	<b>560.34</b>	

\*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

#### Material Event

On May 29, 2024, the Reserve Bank of India (RBI) had imposed business restrictions on Edelweiss Asset Reconstruction Company Limited (EARC) and a Group company namely - ECL Finance Limited (ECLF). The [order](#) related to EARC was on account of the observations in its operations and governance frameworks with respect to the financial position as of March 2023. The regulator directed EARC to cease and desist from acquisition of financial assets including security receipts (SRs) and re-organising existing SRs into senior and sub-ordinate tranches. The [order](#) related to ECLF was on account of the observations about the wholesale business with respect to the company's financial position as of March 2023. The regulator directed ECLF to cease and desist from undertaking any structured transactions in respect of its wholesale exposures other than repayment and closure of accounts in its normal course of business. Both the orders directed the Group to strengthen its assurance functions within specified timelines. The business restrictions on ECLF and EARC would be reviewed after the rectification of the supervisory observations by the Group to the satisfaction of the regulator.

As per EARC's press release dated May 29, 2024, there will not be any material impact on the company's resolution and recovery efforts, which would continue normally, and it will take immediate steps to address the concerns raised by the RBI. Further, the company mentioned that its operations will be aligned with the regulatory expectations, wherever needed. As per ECLF's press release dated May 29, 2024, the Group believes that these directions will not materially impact its strategy and business. Moreover, the reduction of the wholesale exposures will continue, as permitted, in the normal course of business.

**Impact of material event**

A continuation of the business restrictions in EARC would likely impact the segment's growth plans and consequently its profitability, though, the cash flows and income from existing assets under management is not expected to be impacted. The management has articulated that they have addressed few of the regulator's observations in Q4 FY2024 and its target to address the pending observations within specified timelines. In this regard, given the likely reputational impact on the Group, the timely resolution of the business restrictions in EARC and other group company along with compliance with regulatory norms going forward, impact on the Group's financial flexibility and developments pertaining to proposed stake monetisation, Group's fund-raising ability, and rundown of its wholesale exposures in a timely manner will remain key monitorable.

ICRA is cognisant that one of the erstwhile companies of Edelweiss Group [Nuvama clearing Services Limited (Erstwhile Edelweiss Custodial Services Limited) (NCSL)] had received a SAT order in the matter of Anugrah Stock & Broking Ltd. in December 2023. ICRA will continue to monitor the developments in the matter of Anugrah Stock & Broking Ltd. and the impact on the Group's financial profile, if any. NCSL has currently initiated appeal against the SAT order in the honourable Supreme Court.

EARC's liquidity position is currently adequate with on-balance sheet liquidity of about Rs. 500 crore in May 2024 and estimated inflows of Rs. 1,225 crore against debt repayment obligations (principal + interest) of ~Rs. 829 crore between June 2024 to March 2025. Further, ICRA believes that liquidity line from Edelweiss Group will be forthcoming, if required. The Group's liquidity position also remains adequate with on-balance sheet liquidity of about Rs. 2,500 crore in May 2024, against debt repayment obligations (principal + interest) of ~Rs. 4,566 crore between June 2024 to March 2025.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, Liquidity position, key financial indicators 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	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach - Third-party Explicit Support</a>
Parent/Group support	Support from Edelweiss Financial Services Limited (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. 31,590 crore as on March 31, 2024. 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 FY2024, EARC reported a net profit of Rs. 355 crore (FY23: Rs. 318 crore). As of March 31, 2024, the company's net worth stood at Rs. 3,150 crore (Rs. 2794 crore as of March 31, 2023).

### 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 alternatives, asset management, wholesale and retail lending, home finance, distressed assets resolution, general insurance, and life insurance. On a consolidated basis, it posted a total income of Rs. 9,601 crore and a profit after tax (PAT) of Rs. 528 crore in FY2024 compared to Rs. 8,633 crore and Rs. 406 crore, respectively, in FY2023. As of March 31, 2024, the Group's capitalisation profile was characterised by a consolidated net worth of Rs. 6,049 crore and a gearing of 3.3 times compared to Rs. 7,846 crore and 2.8 times as of March 31, 2023.

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
		Amount Rated	Amount Outstanding	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
		(Rs. crore)	(Rs. crore)	Jun 06, 2024	Dec 28, 2023	Jun 22, 2023	Jun 24, 2022	Jun 29, 2021
1 Non-convertible Debenture	Long Term	90.00	89.50 <sup>^</sup>	[ICRA]A+ (CE); Rating Watch with Negative Implications	[ICRA]A+ (CE); Rating Watch with Negative Implications	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Negative)
2 Non-convertible Debenture	Long Term	217.00	216.58 <sup>^</sup>	[ICRA]A; Rating Watch with Negative Implications	[ICRA]A; Rating Watch with Negative Implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
3 Long-term Fund-based Bank Lines	Long Term	225.00	40.94	[ICRA]A; Rating Watch with Negative Implications	[ICRA]A; Rating Watch with Negative Implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)
4 Long-term Principal Protected Market Linked Debenture	Long Term	28.34	27.43 <sup>^</sup>	PP-MLD [ICRA]A+ (CE); Rating Watch with Negative Implications	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)

<sup>^</sup>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	Current Rating and Outlook
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	Current Rating and Outlook
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**

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## ICRA Limited

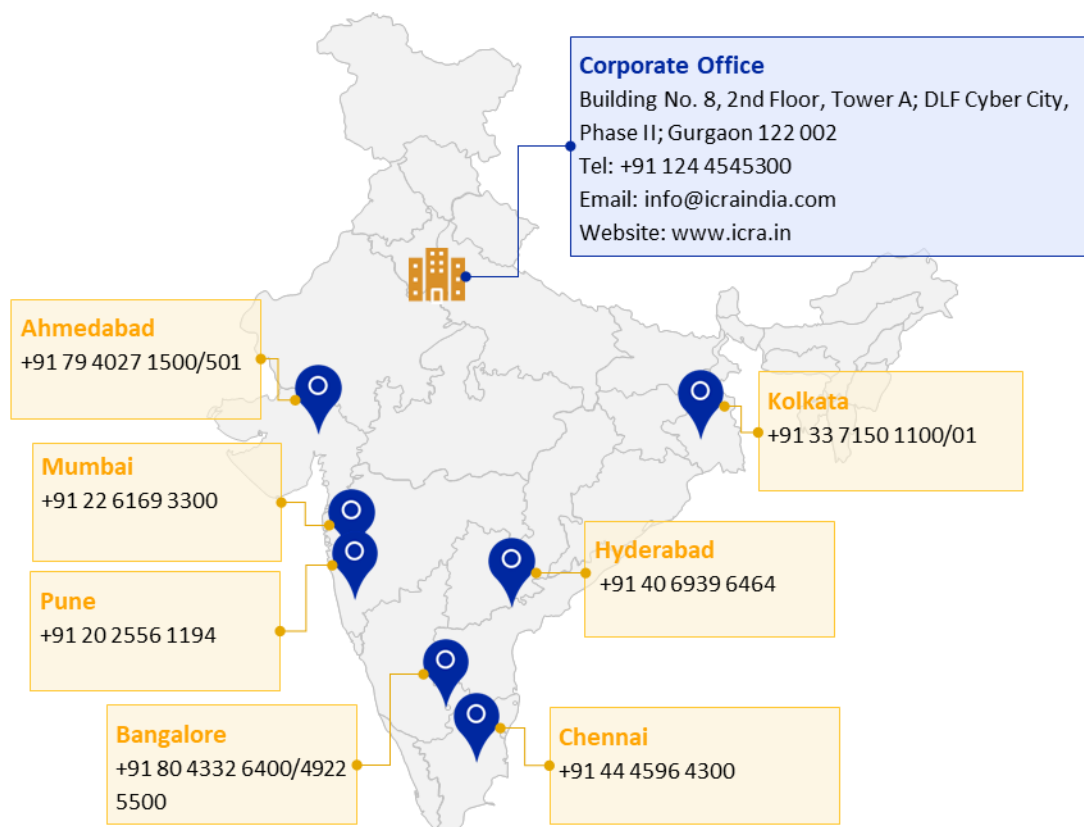


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