

Edelweiss Asset Reconstruction Company Limited

Rating of Provisional [ICRA]AA(SO) has been assigned to Rs. 500 crore¹ NCDs to be issued by Edelweiss Asset Reconstruction Company Limited (EARC; Issuer)[†]. The rating assigned carries a stable outlook.

Description	Face Value (Rs. crore)	Tenure	Rating Assigned
NCDs	500.0	Upto 10 years	Provisional [ICRA]AA(SO) (Stable)

The rating for the NCDs is based on the strength of an unconditional, irrevocable and continuing guarantee by Edelweiss Financial Services Limited (EFSL; Guarantor). The rating also factors the payment mechanism designed to ensure payment on the rated NCDs as per the terms of the transaction.

Key Features of the Transaction

The NCDs would have a scheduled tenor of upto 10 years from the deemed date of allotment. The NCDs would be redeemed in one bullet installment on the scheduled maturity date. Coupon amount would be payable on the NCDs on an annual basis. The guarantee from EFSL would cover all Issuer obligations that may arise on the rated NCDs.

The rating assigned by ICRA addresses the timely payment of the dues to the investors either by the Issuer or the Guarantor, as per the terms of the transaction.

About the Issuer

Edelweiss Asset Reconstruction Company Limited (EARC) was incorporated in September 2009 by Edelweiss Custodial Services Limited which holds 47.4% stake in EARC, with the balance stake being held by a group of HNIs. EARC is the largest ARC with AUM of Rs 27,680 crore as on March 31, 2016. The company operates wholly in the large corporate segment, perceived to be risky on account of its complexity, higher ticket size, as well as levels of high degree of engagement with promoters and bankers. In ICRA's view, EARC faces asset-quality-related challenges given its exposure to stressed assets, despite its adequate asset acquisition and resolution policy framework in place. As the company AUM has grown primarily in the past few years, the performance of the recently acquired portfolio remains to be seen. In the current economic scenario, marked by significant pressure on cash flows of borrowers, EARC's ability to recover money will remain a key monitorable. The income profile of the company is dominated by Fee Income and interest income from loans given for restructuring. EARC reported a PAT of Rs. 45 crore on a total income of Rs. 370 crore for FY 2015-16, compared with a PAT of Rs. 34 crore on a total income of Rs. 204 crore for FY 2014-15.

About the Guarantor

Edelweiss Financial Services Ltd (EFSL), the holding company of the Edelweiss Group of companies, was incorporated in 1995 by first generation entrepreneurs to offer investment-banking services primarily to the technology companies. Currently, Edelweiss Group is involved in the wholesale financing, commodity trading, corporate debt syndication and debt restructuring, equity broking - institutional and retail, corporate finance advisory services, wealth advisory and asset management. The group has forayed into housing finance in FY11 and into life insurance business in FY12. At consolidated level, EFSL reported a consolidated net profit (after tax and minority interest) of Rs 414 crore in FY 16 as compared to a PAT of Rs 329 crore in FY15.

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¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications



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