

March 10, 2017

Edelweiss Financial Services Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme (IPO financing)	4,500	[ICRA]A1+; assigned
Commercial Paper Programme (IPO financing)	3,000	[ICRA]A1+; withdrawn
Non Convertible Debenture	500	[ICRA]AA (stable); outstanding
Commercial Paper	5000	[ICRA]A1+; outstanding
Short term Non Convertible Debenture	100	[ICRA]A1+; outstanding

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]A1+(pronounced ICRA A one plus) to the Rs. 4,500 crore IPO Financing programme of Edelweiss Financial Services Limited (EFSL). ICRA has also withdrawn the rating of [ICRA]A1+ outstanding on Rs. 3,000 crore IPO Financing programme assigned earlier.

ICRA also has a rating of [ICRA]AA (pronounced ICRA double A) outstanding on the Rs. 500 crore Non Convertible Debenture and [ICRA]A1+ outstanding on the Rs 5,000 crore Commercial Paper Programme and Rs 100 crore Short term Non Convertible Debenture of EFSL. The outlook on the long term rating is stable.

Rationale

While arriving at the ratings, ICRA has taken a consolidated view on credit profile of key Edelweiss group companies (collectively referred to as Edelweiss Group) owing to common promoters and senior management team, shared brand name, and strong financial and operation synergies shared across the group companies. The ratings reflect the group's strong capitalisation level, diversified income streams, strong presence in institutional equity broking and investment banking and robust risk management systems. The steady improvement in the group's non capital markets related businesses with improved seasoning of these businesses and stable asset quality indicators, adequate profitability and capitalization indicators provide support to the ratings of the Edelweiss group. ICRA also takes note of the group's improving liquidity profile with high liquid treasury assets and better diversification in resource mobilisations by targeting retail investors in the recent past and thereby moderately reducing the dependence on capital market borrowings; however refinancing risks exist on account of relatively higher (though declining) reliance on mutual funds.

Credit Strengths

- Strong presence in the institutional equity broking business backed by sound research capabilities.
- Group's adequate capitalisation levels for current scale of operations
- Diversified revenue streams with increased funding book size and improving presence in agri value chain services
- Adequate risk management and operational systems employed by the company
- Comfortable asset quality on its funding portfolio even with the current volatility in the capital markets and adequate cover on the same indicating strong risk management practices

Credit Challenges

- Manage asset quality into the funding business which has large structured finance exposure to corporates and promoter funding exposures.
- Given the increasing prominence of the credit business particularly wholesale lending, the company's ability to raise long term loans, access to multiple sources of funding and maintain ALM remains critical
- Maintaining profitability in the core capital markets linked agency business line
- Maintain and upgrade risk management while growing the business volumes

Description of key rating drivers highlighted above:

Edelweiss group is a diversified financial services player engaged in wholesale and retail credit, commodity financing and warehousing services, corporate debt syndication and debt restructuring, equity broking, corporate finance advisory, wealth advisory and asset management services. The group has forayed into housing finance in FY2011 and into life insurance business in FY2012. The group had also ventured into the distressed assets credit in FY2010, SME finance in FY2012 and Agri financing in FY2014.

The financing business of the group continues to be the key driver for the group, with increased focus in expanding the loan book. As at December 2016, the group's lending book stood at Rs 24,972 crore, comprising of the wholesale segment (29% of the lending portfolio), mortgage segment (37% of the lending portfolio), distressed assets credit (14% of the lending portfolio), SME and agri financing (13% of the lending portfolio), with the balance being attributed by loan against shares (7% of the lending portfolio). The mortgage segment also includes the builder loan segment. The builder loan and the wholesale segment, which together constitute 54% of the overall lending portfolio has higher concentration risk on account of higher ticket size. Excluding the builder loan book, the mortgage book comprises of home loans, which are primarily housed in Edelweiss Housing Finance Limited (EHFL) and loans against property (LAP), which are offered by EHFL, Edelweiss Retail Finance Limited as well as ECL Finance Limited. The group had also ventured into the distressed assets credit in FY2010, SME finance in FY2012 and Agri financing in FY2014; on the back of steady growth the share of these segments in the overall portfolio have increased to 14% and 10% respectively. The mortgage book and the SME/agri financing book is a relatively more granular book. The distressed asset credit portfolio is the amount of capital deployed by Edelweiss ARC while purchasing assets for resolution from banks.

Edelweiss Group's reported asset quality indicators remained stable with gross non-performing assets (NPA) at 1.53% of overall advances (home loans on 90+ DPD and rest 120+ DPD) and net NPAs at ~0.55% as at December 2016. The group's ability to maintain the asset quality across business cycles along with the portfolio growth and the competitive pressure would be closely monitored by ICRA and it would remain a key rating sensitivity.

Broking with revenue share at 9% remains one the key lines of business for the Group, though this has declined from 17% in FY12, as the financing business achieved scale. Edelweiss Group, with average daily volume of Rs 5200 crore in FY2016, is one of the strong players in the institutional broking segment. Edelweiss Group also has a good presence in the commodity trading, investment banking business and debt capital markets. The group has also expanded its presence in managing warehouses and in a gold refinery business to further consolidate and improve its presence in commodity financing businesses.

Edelweiss Group's has a gearing of 6.15 times on consolidated net worth of Rs 3,819 crore as on March 31, 2016. However, on excluding the CBLO borrowings, gearing would be lower at 5.10 times. The reported capital adequacy was 17.85% (Tier I at 14.41%) as on December 31, 2016. Resources profile of the group is fairly diversified across market NCDs, CPs and bank borrowings.

Analytical approach:

For arriving at the ratings, ICRA has taken a consolidated view for Edelweiss Financial Services Limited along with its group companies which are in similar businesses.

Links to applicable Criteria

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

Company Profile**Edelweiss Group**

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 and retail financing, commodity financing, corporate debt syndication and debt restructuring, equity broking - both 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.

Recent Results

At consolidated level, EFSL reported a consolidated net profit (after tax and minority interest) of Rs 155 crore in Q3FY2017 as compared to a PAT of Rs 106 crore in Q3FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	March 2017	FY2017	FY2016	FY2015
					February 2017	December 2015	November 2014
1	Commercial Paper Programme (IPO financing)	Short term	4,500	[ICRA]A1+	-	-	-
2	Commercial Paper Programme (IPO financing)	Short term	3,000	Withdrawn	ICRA]A1+	-	-
3	Non Convertible Debenture	Long Term	500	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)
4	Commercial Paper	Short term	5000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short term Non Convertible Debenture	Short term	100	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non Convertible Debenture	10-Jul-15	10.20%	4-Jul-17	2.50	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	8-Aug-17	5.00	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	10-Apr-17	6.00	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	10-Apr-18	3.50	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	6-Feb-18	4.00	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	13-Jul-18	2.00	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	4-Oct-18	2.70	[ICRA]AA (stable)
Non Convertible Debenture	10-Jul-15	10.20%	20-Jun-18	13.00	[ICRA]AA (stable)
Non Convertible Debenture - Yet to be issued	NA	NA	NA	461.30	[ICRA]AA (stable)
Commercial Paper	NA	NA	7-365 days	5,000.00	[ICRA]A1+
Short term NCD - Yet to be issued	NA	NA	NA	100.00	[ICRA]A1+
Commercial Paper Programme (IPO financing)	NA	NA	7-30 days	4,500.00	[ICRA] A1+

Source: Company

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