July 20, 2019 | Mumbai

Edelweiss Agri Value Chain Limited

Rating outlook revised to 'Negative'; Ratings Withdrawn

Rating Action

Total Bank Loan Facilities Rated	**Rs.1000 Crore**
Long Term Rating	**CRISIL AA/Negative (Outlook revised from 'Stable' and rating withdrawn)**

Rs.500 Crore Non Convertible Debentures	**CRISIL AA/Negative (Outlook revised from 'Stable' and rating withdrawn)**
Non-Convertible Debentures Aggregating Rs.1000 Crore	**CRISIL AA/Negative (Outlook revised from 'Stable' and rating withdrawn)**
Rs.1000 Crore Commercial Paper Programme	**CRISIL A1+ (Withdrawn)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the long-term bank facilities and other long term debt instruments of Edelweiss Agri Value Chain Limited (EAVCL) to **'Negative'** from 'Stable' and has also **withdrawn** these ratings. EAVCL (formerly known as Edelweiss Commodities Services Limited) has been merged into Edelweiss Rural Corporate Services Limited (ERCSL: rated CRISIL AA/Negative/CRISIL A1+) due to consolidation of the commodities business at the group level and the company ceases to exist. The withdrawai is in line with the CRISILs withdrawal policy.

The rating centrally factored in the expectation of strong managerial, financial and, operational support for EAVCL from its ultimate parent, Edelweiss Financial Services Limited (EFSL; rated, 'CRISIL A1+', holding company of the Edelweiss group), both on an ongoing basis and in the event of distress. Such expectation reflected the strategic importance of EAVCL to EFSL as well as the strong moral obligation of EFSL to support EAVCL, given the shared name and commoaities being a major business for the group.

CRISIL has revised its rating outlook on the long-term debt instruments of Edelweiss group entities to 'Negative' from 'Stable'. The outlook revision factors in the current challenging operating environment for non-banking financiers {non-banking financial companies (NBFCs) including housing finance companies, which has led to difficulty in funding access, especially for those with a wholesale lending book. Interest from investors in the debt capital market for non-banks has reduced in the recent past, and a material turnaround is not expected in the near term. Further, with rising borrowing cost and slowdown in disbursements by non-banks - mainly to wholesale borrowers, refinancing risks for real estate players has increased. This could strain the asset quality of the wholesale lending portfolio of non-banks, in the near to medium term.

From a funding perspective, the recent budgetary announcement of Government support to public sector banks through a partial credit enhancement mechanism for buying asset pools from NBFCs should bring some respite for the sector.

Given the current environment, with lenders exercising caution in increasing exposures, the Edelweiss group has witnessed a reduction in incremental funds raised in the past few months. Funds raised in the first quarter of fiscal 2020 are around half of the incremental funds raised in the quarter ended March 31, 2019. Consequently, the overnight on-balance sheet liquidity (including cash, liquidity investments and treasury assets) has reduced from the level of Rs 6,527 crore as on March 31, 2019. This is excluding other liquid assets (investments, securities-based lending book) which can be accessed if necessary- this stood at Rs 4,750 crore as on March 31, 2019. Borrowing costs have also risen for the group as seen for many other non-banks as well. The group's ability to raise fresh funds from diverse sources over the near term will be a key monitorable.

Reported asset quality metrics of the group remains stable with overall gross non-performing assets (GNPA) at 1.9% as on March 31, 2019. However, the loan book remain chunky with around 50% of the overall portfolio towards wholesale lending (of which around 60% is towards real estate). Further, a sizeable proportion of the wholesale book is currently under moratorium with bullet or staggered repayments. While the group follows sound credit appraisal and risk management practices, has adequate collateral cover for its wholesale loans, and has also built strong recovery capabilities, asset quality in the past was also supported by an active refinance market, particularly for the real estate loans. The group also benefits from its diversified business ecosystem, and as part of its account specific recovery/resolution strategy it has sold some of the stressed exposures in the lending business to the Edelweiss Asset Reconstruction Company Limited (on an arm's length basis) to benefit from the latter's better resolution capability and strong legal team. With the slowdown in the real estate sector and incipient stress for developers, Edelweiss group's ability to get timely refinance/exits, recover from some of these exposures and maintain asset quality metrics will remain a key monitorable.

Nevertheless, CRISIL has also taken in to account the group's ability to raise capital as has been proven even in the current market environment. It has entered into agreement to raise Rs 1800 crore from Caisse de depot et placement du Quebec (CDPQ) in the form of compulsory convertible debentures (CCDs) in ECL Finance (of which Rs 1040 crore has been already infused in the June 2019 quarter). This will bolster the group's networth, which is expected to increase to around Rs 10,000 crore by June end (Rs 8715 crore on March 31, 2019). The group is also considering raising capital in its wealth business by bringing in a strategic investor.

The ratings continue to reflect the group's diversified business and earnings profile with presence across credit, capital market, and insurance segments, and demonstrated ability to build significant presence in multiple lines of business. The ratings also factor in an established market position in capital market-related segments resulting in a regular stream of fee-based income.

These rating strengths are partially offset by vulnerability of asset quality to concentration in the wholesale lending segment, particularly in the current challenging environment, for some business lines such as the real estate developer segment. Furthermore, the profitability ratios and gearing are relatively weaker than many other large predominantly wholesale players.

CRISIL will continue to monitor the group's ability to raise fresh funding, progress of the proposed stake sale in the wealth business that would bolster the group's capital position, as well as any increase in build-up of stress in the wholesale book. Based on these factors, CRISIL will take appropriate rating action.

Analytical Approach

For arriving at the ratings, CRISIL has considered the standalone business and financial risk profiles of EAVCL. CRISIL has also factored in the support that EAVCL is expected to receive from its ultimate parent, Edelweiss Financial Services Ltd. (EFSL). This is because EAVCL and EFSL have extensive business and operational linkages and a common brand.

CRISIL has combined the business and financial risk profiles of Edelweiss Financial Services Limited (EFSL) and its subsidiaries to arrive rating of EFSL. That's because all these entities, collectively referred to as the Edelweiss group, have significant operational, financial, and managerial integration and also operate under the common Edelweiss brand.

About the Group

The Edelweiss group comprised of 46 subsidiaries as on March 31, 2019. There are plans to further bring it down in fiscal 2020 to around 35 (subject to requisite approvals). The group had 476 offices (including 8 international offices in 6 locations) in around 200 cities as on March 31, 2019. Its main business lines are credit, franchise businesses, and insurance. These businesses entail loans to corporates and individuals, mortgage finance, including loans against property and small-ticket housing loans, SME finance, agri credit including commodity sourcing and distribution, institutional and retail equity broking, corporate finance and advisory, wealth management, third-party financial products distribution, alternative and domestic asset management, and life and general insurance. In addition, the BMU focuses on liquidity and asset-liability management. Edelweiss Agri Value Chain Limited was merged into ERCSL due to consolidation of commodity business group level. The company currently ceases to exist.

For fiscal 2019, profit after tax (PAT) of the group was Rs 995 crore on total income of Rs 10,881 crore against PAT of Rs 863 crore on total income of Rs 8,920 crore in fiscal 2018. The net worth of the group increased to Rs 8,715 crore as on March 31, 2019, from Rs 7,762 crore as on March 31, 2018.

Key Financial Indicators

As on/For the year ended March 31 unaudited limited reviewed as per IndAS	Units	2019	2018
Total Assets	Rs crore	64303	63325
Total income	Rs crore	10881	8920

PAT after minority interest	**Rs crore**	**995**	**863**
Gross NPA	**%**	**1.87**	**1.75**
Adjusted gearing*	**Times**	**5.2**	**6.1**
Return on assets	**%**	**1.7**	**1.5**

**indicates gross gearing, the net gearing excluding the liquid assets of Balance Sheet Management Unit (BMU), stood at 4.4 times as on March 31, 2019*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (INR. Crs)	Rating Assigned with Outlook
NA	Non Convertible Debentures#	NA	NA	NA	500	Withdrawn
NA	Non Convertible Debentures#	NA	NA	NA	200	Withdrawn
NA	Non Convertible Debentures#	NA	NA	NA	100	Withdrawn
INE616U07036	Non Convertible Debentures#	30-Jun-17	8.70%	30-Jun-27	400	Withdrawn
NA	Non Convertible Debentures#	NA	NA	NA	300	Withdrawn
NA	Commercial Paper Programme	NA	NA	7-365 days	1000	Withdrawn
NA	Proposed Long Term Bank Loan Facility*	NA	NA	NA	375	Withdrawn
NA	Long Term Bank Facility^	NA	NA	NA	625	Withdrawn

 # Yet to be issued
**interchangeable with short term bank facilities*
^interchangeable between letter of credit, buyer's credit and fund based facilities

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	1000.00	Withdrawn			30-08-18	CRISIL A1+		--		--	--
						19-03-18	CRISIL A1+					
Non Convertible Debentures	LT	0.00 19-07-19	Withdrawn			30-08-18	CRISIL AA/Stable	12-06-17	CRISIL AA/Stable		--	--
						19-03-18	CRISIL AA/Stable	08-03-17	CRISIL AA/Stable			
						27-02-18	CRISIL AA/Stable	31-01-17	CRISIL AA/Stable			
Short Term Debt	ST					27-02-18	CRISIL A1+	12-06-17	CRISIL A1+	26-12-16	CRISIL A1+	--
								08-03-17	CRISIL A1+	09-05-16	CRISIL A1+	
								31-01-17	CRISIL A1+	30-03-16	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	1000.00	Withdrawn			30-08-18	CRISIL AA/Stable	12-06-17	CRISIL AA/Stable		--	--

						19-03-18	CRISIL AA/Stable	08-03-17	CRISIL AA/Stable		
						27-02-18	CRISIL AA/Stable	31-01-17	CRISIL AA/Stable		

All amounts are in Rs.Cr

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Long Term Bank Facility^	625	Withdrawn	Long Term Bank Facility^	625	CRISIL AA/Stable
Proposed Long Term Bank Loan Facility*	375	Withdrawn	Proposed Long Term Bank Loan Facility*	375	CRISIL AA/Stable
Total	1000	--	Total	1000	--

*interchangeable with short term bank facilities
^interchangeable between letter of credit, buyer's credit and fund based facilities

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.