RATING RATIONALE

10 November 2020

Edelweiss Housing Finance Limited

Brickwork Ratings revises the ratings of the existing NCDs to 'BWR AA-/ Stable' from 'BWR AA/Negative' and of the Perpetual Debt Instruments to 'BWR A+/ Stable' from 'BWR AA-/Negative' for Edelweiss Housing Finance Limited.

Particulars

Instrument **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (21 Sep 2020)	Present
Non-Convertible Debentures (NCDs)	50.00	50.00	Long Term	BWR AA/ Negative	BWR AA-/ Stable (Downgraded & outlook changed to Stable)
	200.00	200.00			
Non-Convertible Debentures (NCDs) ^	500.00	500.00			
Perpetual Debt Instruments	100.00	100.00	Long Term	BWR AA-/ Negative	BWR A+/ Stable (Downgraded & outlook changed to Stable)
Total	**850.00**	**850.00**	**Rupees Eight Hundred Fifty Crores Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
^ Public Issue
** Details of NCDs, Perpetual Debt are provided in Annexure I.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) downgrades the rating of non-convertible debentures (NCDs) and perpetual debt instruments from 'BWR AA/Negative' to 'BWR AA-/Stable' and from 'BWR AA-/Negative' to 'BWR A+/ Stable', respectively, of Edelweiss Housing Finance Limited (EHFL or the company) as tabulated above.

The rating revision takes into account the moderation in the group's financial risk profile with a shrinkage in the loan book, both retail as well as corporate, resulting in lower income and weak asset quality, mainly in the wholesale mortgage and structured collateralised credit segments, which has resulted in a high impairment cost and has hence, impacted Edelweiss Group's overall profitability. The rating, however, continues to factor in the group's diversified business profile,

experienced management team, adequate capitalisation and liquidity cushion to meet its debt repayments. Furthermore, the group has been focusing on reducing its corporate portfolio by selling down stressed assets to asset reconstruction companies or other investors, or shifting the assets to a fund platform, which will provide the requisite completion finance to stalled projects. The corporate loan book decreased from Rs 18,055 Crs as on 31 March 2019 to Rs 8,613 Crs as on 30 September 2020. The group has already provided for most of its stressed assets and the impact of incremental provisioning on the overall profitability is expected to be limited going forward. BWR also believes the group is well-diversified into businesses such as retail credit, wealth management including broking and investment banking, asset management and asset reconstruction (ARC), which may continue to support its overall profitability. This, coupled with the group's demonstrated ability to raise capital in the past couple of years, is expected to provide balance sheet strength to the group businesses, and thereby, BWR has also revised the rating outlook to Stable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has taken a consolidated view on Edelweiss Financial Services Limited (EFSL) and its subsidiaries, including EHFL (collectively referred to as the Edelweiss group), having common promoters, shared brand name and strong operational, financial and managerial linkages. BWR has applied its rating methodology as detailed in the rating criteria (hyperlinks provided at the end of this rationale).

KEY RATING DRIVERS

Credit Strengths

Diversified business profile: The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, wealth management including capital market activities like broking and investment banking, asset management and insurance. In the lending business, the total credit portfolio (including distressed credit) stood at Rs 28,763 Crs as on 30 September 2020 (Rs 18,275 Crs excluding distressed credit). The group is increasingly focusing on building a granular loan book mainly consisting of retail mortgage loans and small and medium enterprise (SME) loans. The group reduced its exposure to corporate loan portfolio from Rs 18,055 Crs as on 31 March 2019 to Rs 10,050 Crs as on 31 March 2020, which had further reduced to Rs 8,613 Crs as on 30 September 2020.

The group has also established its healthy market standing in the wealth management business and witnessed its assets under advice (AUA) grow from Rs 18,500 Crs in FY15 to Rs 1,13,700 Crs in FY20 and further to Rs 1,33,200 Crs in September 2020. The group has a considerably large retail and high net worth individual (HNI) customer base, with around 6.45 lakh individual customers and around 2400 ultra HNI customers. In the asset management business, the group is a leading player in the alternate assets segment, with managed assets of Rs 29,500 Crs. The group is a relatively small player in the mutual fund segment with assets under management (AUM) of Rs 44,000 Crs as on 30 September 2020 (including alts and PMS). However, the

same has rapidly grown since 31 March 2019, when the AUM was Rs 17,500 Crs. The group is also engaged in investment banking and institutional equity broking businesses. It has also entered a joint venture with Tokio Marine Holdings Inc., one of the oldest and largest insurance companies in Japan, for its life insurance business. Under this vertical, the group has a network of 121 branches, over 2000 distribution partners, 51,723 agents and a customer base of ~3.70 lakh as on 31 March 2020. The solvency ratio is strong, at 216% as on 30 September 2020. BWR believes the group will continue to benefit from its diversified businesses, both for future growth and for improving profitability over the medium term.

Adequate capitalisation: The overall capital adequacy ratio of key operating entities is adequate. The total capital adequacy ratio (CAR) of ECL Finance Ltd was 23.5%, Edelweiss Retail Finance Ltd at 29.5%, Edelweiss Housing Finance Ltd at 28.2% and Edelweiss Asset Reconstruction Company Ltd at 34% as on 30 September 2020. EFSL's gearing on a consolidated basis marginally reduced from 5.28 times as on 31 March 2019 to 5.06 times as on 31 March 2020 and further to 4.87 times as on 30 September 2020. The group has demonstrated its ability to raise capital on a frequent basis to support business growth and also cover for asset-side risks. During FY20, the Edelweiss group raised around Rs 294 Crs in the form of compulsorily convertible preference shares (CCPSs) and around Rs 1040 Crs in the form of compulsorily convertible debentures (CCDs). This included an investment of Rs 177 Crs and Rs.117 Crs from Kora Management and Sanaka Capital, respectively, in the form of CCPSs in the EGIA business (which includes wealth management, asset management and capital markets) and an investment of Rs 1,040 Crs from Caisse de depot et placement du Quebec (CDPQ) in ECL Finance Ltd. Considering these investments as part of capital, the adjusted gearing reduced to 3.92 times as on 30 September 2020 (4.11 times as on 31 March 2020). The group has further entered into an agreement with PAGAC Ecstasy Pte Ltd. (Asia-focused investment group) to sell a 51% stake in Edelweiss Global Wealth Management Ltd for approximately Rs 2,200 Crs. This transaction is expected to be completed by Q4 FY21 and will further improve the capital position of the group. BWR believes that the group is adequately capitalised for future growth and to cover for asset-side risks, including those arising due to the COVID-19 crisis, over the medium term.

Experienced management team: EFSL and its various subsidiaries are led by a qualified and experienced management team having vast experience in banking and financial services. Mr. Rashesh Shah, the co-founder of the Edelweiss group, has over three decades of diverse experience in financial markets. He is currently the chairman, managing director and chief executive officer of EFSL. Venkatchalam Ramaswamy, the co-founder of the Edelweiss group, is currently the vice chairman and executive director and has almost three decades of experience in financial markets. EFSL is led by an experienced board comprising twelve members, including seven independent directors, with most members having over three decades of experience. The company also has an experienced team of professionals at the senior and middle management levels with a long track record with the group.

Credit Risks

Average asset quality: The asset quality in the credit business has deteriorated in the last 18 months. Gross non-performing assets (NPAs) for the total portfolio (excluding distressed assets business) increased to 5.46% as on 30 September 2020 from 1.87% as on 31 March 2019. While the asset quality in the retail loan book remained comfortable, the asset quality in the wholesale loan book deteriorated significantly. Gross NPAs in the corporate portfolio increased to 10.55% as on 30 September 2020 from 2.75% as on 31 March 2019. In absolute terms, corporate credit gross NPAs increased to Rs 909 Crs from Rs 497 Crs between this period, but in % terms, there has been a sharp increase due to de-growth in the loan portfolio and low denominator effect. The group's asset quality has remained vulnerable to credit risks, given its high concentration in the wholesale lending segment. The group has been focusing on reducing its corporate portfolio by selling down stressed assets to asset reconstruction companies. The company has partnered with the Meritz group of South Korea and launched a completion financing platform (AIF) to buy out existing real estate loans and provide requisite completion financing. The focus is on reducing the wholesale book through the sale of assets to investors and shifting the assets to a fund platform, which will provide completion finance to the projects. With the impact of COVID-19 on the domestic economy and slowdown in the real estate sector, the group's ability to control slippages and manage its asset quality is a key rating monitorable.

Impact on earnings profile: EFSL's total income (net of interest expenses) decreased from Rs 6,378 Crs during FY19 to Rs 4,810 Crs during FY20. The total income (net of interest expenses) has further moderated to Rs 2,225 Crs for H1 FY21. This is largely on account of lower interest income due to the shrinkage of the loan book. EFSL reported a net loss of Rs 2,045 Crs (after minority interest) during FY20, compared with a profit of Rs 995 Crs during FY19. The profitability has been significantly impacted by the increase in impairment costs. The company reviewed and revised its expected credit loss model during Q4 FY20 taking into account changes in the market environment and did an independent review on its wholesale portfolio. This model suggested higher impairment costs. The total impairment costs increased significantly to Rs 3,562 Crs for FY20. (FY19: Rs 704 Crs). The impairment costs for H1 FY21 stood at Rs 565 Crs. EFSL reported a net loss of Rs 294 Crs (after minority interest) during H1 FY21. BWR believes the group has already provided for most of its stressed assets and the impact of incremental provisioning on the overall profitability is expected to be limited going forward.

The lending business, ARC business and EGIA business largely contributed to the profits for FY19. However during FY20, the lending business reported steep losses, the ARC business and EGIA businesses reported lower profits and the insurance business continued to be loss-making, given the long gestation period. The insurance business is expected to turn profitable by around FY23. BWR believes the overall profitability could remain impacted in FY21 mainly due to the losses in the credit business, but to be partly offset by the earnings from other capital market-related and ARC businesses, which continue to gain traction. The group's ability to improve its profitability remains a key monitorable over the medium term.

RATING SENSITIVITIES

Going forward, the company's ability to improve its asset quality and profitability, and to maintain comfortable liquidity and capitalisation will be key rating sensitivity factors.

Positive: A significant improvement in asset quality and profitability, and the group's ability to grow its various businesses are key rating positives.

Negative: The weakening of the asset quality or profitability, and/or a deterioration in capital structure are key rating negatives.

LIQUIDITY POSITION: ADEQUATE

The company had adequate liquidity, with cash/ bank balance and fixed deposits of Rs 4,250 Crs, unutilised bank lines of Rs 250 Crs, liquid investments (consisting of mutual fund investments, Gsecs and treasury assets) of Rs 750 Crs and other liquidable assets (securities based lending book) of Rs 1,350 Crs as on 30 September 2020. The company has debt repayments of ~Rs.5,900 Crs between November 2020 to June 2021. The liquidity is adequate to meet its debt repayment obligations. As per the ALM position, there are no negative cumulative mismatches. The group has reduced its dependence on commercial paper borrowing, and it constituted 2% of its total borrowing as on 30 September 2020.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending directly or indirectly, to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on the interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and publish the same.

COMPANY PROFILE

Edelweiss Housing Finance Limited (EHFL) is a housing finance company registered with National Housing Bank (NHB) and offers home loans, construction finance and loans against property.

ABOUT THE GROUP

Edelweiss Financial Services Limited (EFSL), previously known as Edelweiss Capital Limited, was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy. It is the group's holding company. The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, wealth management including broking and capital

markets, asset management, life insurance and general insurance. The company is listed on the BSE and NSE. The promoter group held a 32.91% stake, and the management and employees held a 12.4% stake in EFSL as on 30 September 2020. The group had 47 subsidiaries as on 30 September 2020.

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY19	FY20
Result Type		**Audited**	**Audited**
Total Income	(Rs in Crs)	11161.22	9602.63
Net Profit / (Loss) (after minority interest)	(Rs in Crs)	995.17	(2045.24)
Net Worth	(Rs in Crs)	8714.99	7207.08
Gearing	(In times)	5.28	5.06
Total loan portfolio ^	(Rs in Crs)	36130	21032
Gross NPA ^	(%)	1.87	5.30
Net NPA ^	(%)	0.83	4.10
Total assets	(Rs in Crs)	64153.54	54280.33

^ excluding distressed credit

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Instrument	Current Rating						Rating History for the past 3 years											
		Type	Amount (Rs. Crs)	Rating	2020			2019			2018			2017		
1	NCDs	Long Term	50.00	BWR AA-/ Stable	21.09.2020			21.09.2019			29.03.2018			11.04.2017		
					Long Term	50	BWR AA/ Negative	Long Term	50	BWR AA/ Negative	Long Term	50	BWR AA+/ Stable	Long Term	50	BWR AA+/ Stable
					NA			5.07.2019			NA			13.02.2017		
								Long Term	50	BWR AA+/ Negative				Long Term	50	BWR AA+/ Stable
					NA			30.03.2019			NA			NA		
								Long Term	50	BWR AA+/ Stable						
2	NCDs	Long Term	200.00	BWR AA-/ Stable	21.09.2020			21.09.2019			29.03.2018			11.04.2017		
					Long Term	200	BWR AA/ Negative	Long Term	200	BWR AA/ Negative	Long Term	200	BWR AA+/ Stable	Long Term	200	BWR AA+/ Stable
					NA			5.07.2019			NA			13.02.2017		
								Long Term	200	BWR AA+/ Negative				Long Term	200	BWR AA+/ Stable
					NA			30.03.2019			NA			NA		
								Long Term	200	BWR AA+/ Stable						
3	NCDs ^	Long Term	500.00	BWR AA-/ Stable	21.09.2020			21.09.2019			29.03.2018			11.04.2017		
					Long Term	500	BWR AA/ Negative	Long Term	500	BWR AA/ Negative	Long Term	500	BWR AA+/ Stable	Long Term	500	BWR AA+/ Stable
					NA			5.07.2019			NA			13.02.2017		
								Long Term	500	BWR AA+/ Negative				Long Term	500	BWR AA+/ Stable
					NA			30.03.2019			NA			NA		
								Long Term	500	BWR AA+/ Stable						
4	Perpetual Debt	Long Term	100	BWR A+/ Stable	21.09.2020			21.09.2019			29.03.2018			11.04.2017		

					Long Term	100	BWR AA-/ Negative	Long Term	100	BWR AA-/ Negative	Long Term	100	BWR AA/ Stable	Long Term	100	BWR AA/ Stable
					NA			5.07.2019			NA			NA		
								Long Term	100	BWR AA/ Negative						
					NA			30.03.2019			NA			NA		
								Long Term	100	BWR AA/ Stable						
	Total		**850**		**Rupees Eight Hundred Fifty Crores Only**											

^ Public Issue

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- **General Criteria**
- **Banks & Financial Institutions**
- **Consolidation of companies**

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Edelweiss Housing Finance Limited

ANNEXURE I - INSTRUMENT DETAILS

Instrument	Issue Date	Amount (Rs in Crs)	Coupon Rate	Maturity Date	ISIN Particulars
NCDs ^	19-July-2016	58.90	9.75%	19-July-2021	INE530L07194
NCDs ^	19-July-2016	4.18	9.75%	19-July-2021	INE530L07202
NCDs ^	19-July-2016	24.84	9.57%	18-July-2026	INE530L07210
NCDs ^	19-July-2016	349.20	10.00%	18-July-2026	INE530L07228
NCDs ^	19-July-2016	5.98	10.00%	18-July-2026	INE530L07236
NCDs #	--	50.00	--	--	--
NCDs #	--	200.00	--	--	--
Perpetual Debt #	--	100.00	--	--	--

^ Public Issue
# Not yet raised

Edelweiss Housing Finance Limited

ANNEXURE II

List of entities consolidated

Name of Entity	% Ownership	Extent of consolidation	Rationale for consolidation
Edelweiss Securities Limited	100.00	Full	Subsidiary
Edelweiss Finance & Investments Limited	100.00	Full	Subsidiary
ECL Finance Limited	100.00	Full	Subsidiary
Edelweiss Global Wealth Management Limited	100.00	Full	Subsidiary
Edelweiss Gallagher Insurance Brokers Limited	74.00	Full	Subsidiary
Edelcap Securities Limited	100.00	Full	Subsidiary
Edelweiss Asset Management Limited	100.00	Full	Subsidiary
ECap Equities Limited	100.00	Full	Subsidiary
Edelweiss Broking Limited	100.00	Full	Subsidiary
Edelweiss Trusteeship Company Limited	100.00	Full	Subsidiary
Edelweiss Housing Finance Limited	100.00	Full	Subsidiary
Edelweiss Investment Adviser Limited	100.00	Full	Subsidiary
EC Commodity Limited	100.00	Full	Subsidiary
Edel Land Limited	100.00	Full	Subsidiary
Edelweiss Custodial Services Limited	100.00	Full	Subsidiary
Edel Investments Limited	100.00	Full	Subsidiary
Edelweiss Rural & Corporate Services Limited	100.00	Full	Subsidiary
Edelweiss Comtrade Limited	100.00	Full	Subsidiary
Edel Finance Company Limited	100.00	Full	Subsidiary
Edelweiss Retail Finance Limited	100.00	Full	Subsidiary
Edelweiss Multi Strategy Fund Advisors LLP	100.00	Full	Subsidiary
Edelweiss Resolution Advisors LLP	100.00	Full	Subsidiary
Edelweiss General Insurance Company Limited	100.00	Full	Subsidiary
Edelweiss Finvest Private Limited	100.00	Full	Subsidiary
Edelweiss Securities (IFSC) Limited	100.00	Full	Subsidiary
Edelweiss Securities and Investment Private Limited	100.00	Full	Subsidiary
Edelweiss Securities (Hong Kong) Private Limited	100.00	Full	Subsidiary
EC Global Limited	100.00	Full	Subsidiary

EC International Limited	100.00	Full	Subsidiary
EAAA LLC	100.00	Full	Subsidiary
Edelweiss Capital (Singapore) Pte. Limited	100.00	Full	Subsidiary
Edelweiss Alternative Asset Advisors Pte. Limited	100.00	Full	Subsidiary
Edelweiss International (Singapore) Pte. Limited	100.00	Full	Subsidiary
Edelweiss Investment Advisors Private Limited	100.00	Full	Subsidiary
Aster Commodities DMCC	100.00	Full	Subsidiary
Edelweiss Financial Services (UK) Limited	100.00	Full	Subsidiary
Edelweiss Financial Services Inc.	100.00	Full	Subsidiary
Edelweiss Alternative Asset Advisors Limited	95.00	Full	Subsidiary
Edelgive Foundation	100.00	Full	Subsidiary
Lichen Metals Private Limited	100.00	Full	Subsidiary
Edelweiss Private Equity Tech Fund	88.90	Full	Subsidiary
Edelweiss Value and Growth Fund	88.90	Full	Subsidiary
Edelweiss Asset Reconstruction Company Limited	74.80	Full	Subsidiary
EW Special Opportunities Advisors LLC	67.00	Full	Subsidiary
Edelweiss Tokio Life Insurance Company Limited	51.00	Full	Subsidiary
Allium Finance Private Limited	70.00	Full	Subsidiary
ESL Securities Limited	100.00	Full	Subsidiary

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