

October 14, 2022

Edelweiss Retail Finance Limited (ERFL):: Brickwork Ratings (BWR) revises rating for Non-Convertible Debenture issues from existing rating of [BWR AA-/ Stable (Reaffirmed) to BWR AA-/Negative (Reaffirmation and Change in outlook)]

Brickwork Ratings (BWR) has revised its rating on the Non-Convertible Debenture issues from existing rating BWR AA-/ Stable (Reaffirmed) to BWR AA-/Negative (Reaffirmation and Change in outlook) of Edelweiss Retail Finance Limited (ERFL).

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
Brickwork Ratings (BWR)	Non-Convertible Debentures	BWR AA-/ Stable (Reaffirmed)	BWR AA-/Negative (Reaffirmation and Change in outlook)

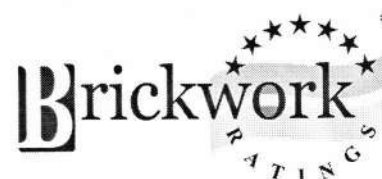
Please find attached herewith the Press Release from Brickwork Ratings (BWR) for perusal and record.

This is for your information and records.

For IDBI Trusteeship Services Limited



Authorized Signatory



RATING RATIONALE

10 Oct 2022

Edelweiss Retail Finance Limited

Brickwork Ratings reaffirms the ratings of Non Convertible Debentures (NCD) of Rs. 50 Crores and Perpetual Debt Instruments of Rs. 100 Crores of Edelweiss Retail Finance Limited while changing the outlook

Particulars

Instruments **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (15 Sep 2021)	Present
Non Convertible Debentures (NCDs)	50.00	50.00	Long Term	BWR AA-/ Stable (Reaffirmed)	BWR AA-/Negative (Reaffirmation and Change in outlook)
Perpetual Debt Instruments	100.00	100.00	Long Term	BWR PP-MLD AA-/ Stable (Reaffirmed)	BWR PP-MLD AA-/ Negative (Reaffirmation and Change in outlook)
Total	150.00	150.00	Rupees One Hundred and Fifty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Instruments are provided at Annexures II.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings and revises the outlook to negative for the ratings of NCDs and PP-MLDs issued by Edelweiss Retail Finance Services Limited, as tabulated above.

Considering the ultimate ownership of EFSL, shared brand name and strong operational, financial and managerial linkages, a consolidated view on Edelweiss Financial Services Ltd (EFSL) and its subsidiaries (collectively referred to as the Edelweiss group) is considered for the ratings of the Edelweiss group entities.

The rating reaffirmation factors in the Edelweiss group's established track record as a financial services conglomerate, its diversified business profile with presence across various non lending businesses, experienced management team, adequate capitalization and adequate liquidity cushion to meet its debt repayments. The rating is however constrained by moderation in the group's financial risk profile with a shrinkage in the credit loan book, resulting in reduction in interest income and moderate asset quality, mainly in the wholesale mortgage and structured collateralized credit segments.

BWR also believes the group is well-diversified, with retail credit, wholesale lending, asset management, insurance, alternative assets and asset reconstruction, which may continue to



support its overall growth. This, coupled with the group's demonstrated ability to raise capital in the past couple of years, is expected to provide additional strength to the group businesses.

The group gradually was able to reduce its wholesale lending book on a quarter on quarter (QoQ) basis by down-selling its stressed assets to asset reconstruction companies (ARC)'s or other investors. Despite shrinkage in its loan book, the group's profitability has improved on account of generating healthy fee income from its non-credit business. Further, planned monetization of some of its businesses is expected to strengthen the group's liquidity and further reduce the gearing levels. Considering diversification of its product profile coupled with ability to raise and have continued group support, BWR reaffirms the rating at existing level. Group support is expected to be continued with the company along with strong operational, financial and managerial linkages.

The negative outlook factors in the continuous decline in the credit book owing to the reduction in wholesale book and stagnant retail book. Going forward, the group plans to increase its retail exposure and also to follow an asset light model including an increase in the share of co-lending activities to its total assets under management (AUM). The impact on its income and profitability from the group's strategic shift in the credit business remains a monitorable. Also, asset quality remains moderate though improved compared to previous quarters where the Stage III book has improved from Rs.1,182 Crs as on March 31, 2021 to Rs.886 Crs as on March 31, 2022 and to Rs.874 Crs as on June 30, 2022, mainly due to recoveries and sale to ARCs. The group's credit vertical's exposure in Security Receipts remains at around Rs.4,500 Crs, recoveries of which shall be monitorable. Further, Stage II loan book amounting to Rs.3,706 Crs at consolidated level continues to form 1/3rd of the total loan book of Rs.11,535 crs (incl. fully provided accounts) as on June 30, 2022, recoveries/ additional slippages from which shall remain monitorable. The Insurance vertical both Life Insurance and General Insurance is loss making and expected to continue to incur losses over near term as it is yet to complete the expected gestation period. The group's one of the profitable verticals, Wealth Management, where present share of EFSL is 44%, will be demerged by end of FY23 which may impact the profitability at consolidated level to the said extent, since it contributed ~50% of its total profits over the past few quarters. The overall profitability at consolidated level has also declined from Rs.254 crs for FY21 to Rs.212 Crs for FY22 and it has booked PAT of Rs.35 Crs for Q1FY23. The group's ability to improve upon / maintain the profitability while switching to different business models and entering into retail segment by many of its business entities and after hiving off of the wealth Management segment will be a rating monitorable over the near term. BWR shall also monitor the efforts of the group to create value across its business over the medium term.

KEY RATING DRIVERS

Credit Strengths:-

Diversified business profile: The group has 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.

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.1,55,000



Crs in FY21. It further increased to ~Rs. 1,96,200 Crs as at 30 Jun 2022 though slightly dipped from Rs.2,02,000 Crs as at 31 Mar 2022, with a considerably large retail and high net worth individual (HNI) customers. The group is also engaged in investment banking and institutional equity broking businesses. The Asset Under Management (AUM) for its asset management company (AMC) has grown to Rs.85,000 Crs as at the end of 31 Mar 2022 and further to Rs.88,000 Crs as on 30 Jun 2022, it was Rs.29,100 Crs as at the end of 31 Mar 2020 and Rs.55,000 Crs as at the end of 31 Mar 2021. The assets management under alternative assets have been steadily growing and has reached to Rs.36,250 Crs from Rs.30,500 Crs as on 31 Mar 2022 and Rs.21,700 Crs as on 31 March 2020.

For the lending segment, though the AUM is declining mainly due to sharp decline in wholesale book, the group is increasingly focusing on building a granular loan book mainly consisting of retail mortgage loans and small and medium enterprise (SME) loans.

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 stood at 32%, Edelweiss Housing Finance at 30.9% and Edelweiss Asset Reconstruction Company Ltd. at 42.6% as on 30 Jun 2022. EFSL's gearing on a consolidated basis reduced from 3.35 times as on 31 March 2020 to 2.8 times as on 30 Jun 22 due to reduction in borrowings on a QoQ basis.

The group has demonstrated its ability to raise capital on a frequent basis to support business growth and also cover asset-side risks. Further inflows are expected over the near to medium term through the execution of its plan to monetize part of some of its businesses for which management estimates considerable enterprise valuation compared to its initial investments. During FY22 it has raised Rs.8,569 Crs from various sources including NCDs/Bank Borrowings/CPs/Securitizations.

BWR believes that the group is adequately capitalized for future growth.

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: Asset quality remains moderate though improved compared to previous quarters where the Stage III book has improved from Rs.1,182 Crs as on March 31, 2021 to Rs.886 Crs as on March 31, 2022 and to Rs.874 Crs as on June 30, 2022, mainly due to recoveries and sale to ARCs. The Stage III book improved from Rs.1,182 Crs as on 31 March 2021 to Rs.886 Crs as on 31 March 2022. Of the total stage III assets of Rs.874 Crs, Rs.558 crs of accounts which have been fully provided for are expected to be written off during FY23. This will reduce the stressed book and also may not increase the gross NPAs over the near term. Of the remaining Stage III assets of Rs.307 Crs, ~55% of accounts (Rs.165 crs) are from retail segment and balance from Wholesale segment (Rs.142 crs). Slippages of these accounts to NPA over the near term will be monitorable. GNPA as on 30 Jun 2022 remained at 2.5% almost in line with previous quarter ended 31 Mar 2022 where it stood at 2.5% and NNPA stood at 1.8% as on 30 Jun 22 against 1.8% (excl. fully provided accounts) as at 31 Mar 22, which had; improved from GNPA of 6.7% and NNPA of 5.8% as at end of FY21 at consolidated level.

Further, the group's credit vertical's exposure in Security Receipts remains at around Rs.4,500 Crs, recoveries of which is monitorable. Further, Stage II loans amounting to Rs.3,706 Crs at consolidated level continues to form 1/3rd of the total loan book of Rs.11,535 crs (incl. fully provided accounts) as on June 30, 2022, recoveries/ additional slippages from which shall remain monitorable.

The group's asset quality has remained vulnerable to credit risks, albeit the group has been consciously reducing the wholesale credit book, the group's ability to control slippages and manage its asset quality is a key rating monitorable.

Subdued profitability at the operating level: Interest income for FY22 reduced to Rs.3,045 Crs, from Rs.4,034 Crs during FY21 and Rs.5,902 Crs during FY20, attributable to shrinkage of the loan book. During Q1 FY23, the interest income stood at Rs. 696 Crs against the interest income of Rs.773 Crs for the corresponding quarter of previous year. Fee and commission income too declined to Rs.1,444 Crs from Rs.1,654 Crs in the previous year. Total income for FY22 was 7,305 Crs (FY 21: Rs.10,848 Crs) which also included a gain of Rs.267 Crs on account of sale of controlling stake in its insurance broking business during FY22. Total income for Q1FY23 was Rs.1,294 Crs against Rs.1,649 Crs for Q1FY22 and Rs.1,915 Crs for Q4FY22.

The group continues to report profits lower than its peers on account of losses reported in credit business due to shrinkage of its loan book, lower return generating on large investments made in a highly liquid assets for maintaining its adequate liquidity position and continues to report losses in general and life insurance business which usually has long-gestation periods. PAT for FY22 was Rs.212 Crs (FY 21: Rs.254 Crs) whereas for Q1FY23 it was Rs.35 Crs. BWR also notes that ~50% of the consolidated profitability is accounted for, from its Wealth Management segment which will be demerged from the group by end of FY 23.

Thus, the group's ability to improve the operating income and profitability from its credit business and insurance business while continuing to contribute healthy profits from its other non credit business remains a key monitorable over the medium term.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

Considering the ultimate ownership of EFSL, Shared brand name and strong operational, financial and managerial linkages, a consolidated view on Edelweiss Financial Services Ltd (EFSL) and its subsidiaries (collectively referred to as the Edelweiss group) is considered for the ratings of the Edelweiss group entities.

BWR has applied its rating methodology as detailed in the rating criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

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

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

LIQUIDITY POSITION: ADEQUATE

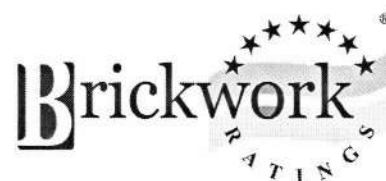
As on 30 Jun 2022, the group had adequate liquidity, consisting of overnight liquidable assets (cash/bank balance, Fixed Deposits, liquid investments, Gsecs and treasury assets) of Rs 2,000 Crs, unutilised bank lines of Rs. 80 Crs, and other liquidable assets (securities based lending book and treasury assets) of Rs.3,170 Crs. Further, it had average quarterly collections of around Rs.1,700 Crs during FY22. The repayment obligations for next 12 months are Rs.11,700 Crs. The group's plan to demerge its Wealth Management segment and monetise part of the other businesses is expected to provide additional liquidity to support the repayment obligations.

COMPANY PROFILE

Edelweiss Retail Finance Limited (ERFL) is a Systemically Important Non Deposit Accepting Non-Banking Financial Company (SI-ND-NBFC), registered with the Reserve Bank of India. ERFL is primarily engaged in the business of providing loans against property, business loans and rural finance loans.

ABOUT THE EDELWEISS 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.



KEY FINANCIAL INDICATORS (ERFL Standalone)

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	(Rs in Crs)	225.04	176.38
Net-Profit/(Loss)	(Rs in Crs)	26.86	18.47
Networth	(Rs in Crs)	489.93	508.73
Borrowings	(Rs in Crs)	742.64	457.87
Debt:Equity	(Times)	1.52	0.90

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Total Income	(Rs in Crs)	10,848.2	7304.6
Net-Profit/(Loss)	(Rs in Crs)	253.9	212.1
Networth	(Rs in Crs)	7,677.0	8,457.0
Gearing	(In times)	4.7	2.8
Total loan portfolio (incl. Distressed Assets)	(Rs in Crs)	25,193	22,872
Gross Stage III asset	(%)	7.7	2.5*

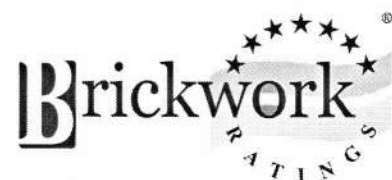
*excl. fully provided accounts

COMPLEXITY LEVELS OF THE INSTRUMENTS

NCD: Simple

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

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil



RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr. No.	Name of Facility/Instrument	Current Rating			Rating History for the past 3 years								
		Type	Amount (Rs. Crs)	Rating	2021			2020			2019		
1	NCDs	Long Term	50.00	BWR AA-/Negative (Reaffirmation and Change in outlook)	15.11.2021			13.11.2020			21.09.2019		
					Long Term	50.00	BWR AA-/Stable	Long Term	50	BWR AA-/Stable	Long Term	50	BWR AA-/Negative
								10.11.2020			05.07.2019		
								Long Term	50	BWR AA-/Stable	Long Term	50	BWR AA+/Negative
								21.09.2020			30.03.2019		
3.	NCDs	-	-	-	15.11.2021			13.11.2020			21.09.2019		
					Long Term	-	Withdrawn	Long Term	400	BWR AA-/Stable	Long Term	400	BWR AA/Negative
								10.11.2020			05.07.2019		
								Long Term	400	BWR AA-/Stable	Long Term	400	BWR AA+/Negative
								21.09.2020			30.03.2019		
2	Perpetual Debt	Long Term	100	BWR A+/Neg	15.11.2021			13.11.2020			21.09.2019		
					Long	100	BWR	Long	100	BWR A+	Long	100	BWR

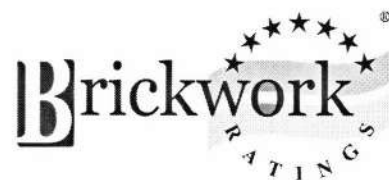


	Instrument s			ative (Reaffir mation and Change in outlook)	Term		A+/Stable	Term		/Stable	Term		AA-/Nega tive
								10.11.2020			05.07.2019		
								100	BWR A+ /Stable	Long Term	Long Term	100	BWR AA/Negati ve
								21.09.2020			30.03.2019		
								Long Term	100	BWR AA-/ Negative	Long Term	100	BWR AA/Stable
	Total		150.00					Rupees One Hundred and Fifty Crores Only					

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Criteria for Consolidation of Companies](#)

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Edelweiss Retail Finance Limited (ERFL)

ANNEXURE I - Details of Bank Facilities: N/A

ANNEXURE II

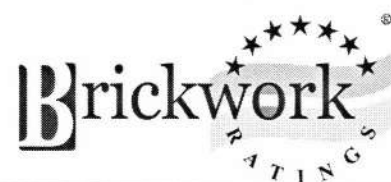
INSTRUMENT (NCD and PP-MLD) DETAILS

Instrument	Issue Date	Amount (Rs Crs)	Maturity Date	Coupon Rate	ISIN
Perpetual Debt Instrument	26-Dec-17	20.00	26-Dec-27	9.75%	INE528S08050
Perpetual Debt Instrument	7-Feb-18	20.00	7-Feb-28	10.00%	INE528S08068
Perpetual Debt Instrument	7-Feb-18	5.00	7-Feb-28	10.00%	INE528S08068
TOTAL		45.00			
Proposed		5.00			
Total PDI Rated		50.00	Rupees Fifty Crores only		
Perpetual Debt Proposed		100.00	Rupees One Hundred Crores Only		

ANNEXURE III

List of entities consolidated (as on 30 Jun 2022)

Sr. No.	Name of Entity	Extent of consolidation	Rationale for consolidation
1	Edelweiss Financial Services Ltd.	Full	Parent
2	ECL Finance Limited	Full	Subsidiary
3	Edelcap Securities Limited	Full	Subsidiary
4	Edelweiss Asset Management Limited	Full	Subsidiary
5	Ecap Securities and Investments Ltd. (Formally known as Ecap Equities Ltd)	Full	Subsidiary
6	Edelweiss Trusteeship Company Limited	Full	Subsidiary
7	Edelweiss Housing Finance Limited	Full	Subsidiary
8	Edelweiss Investment Adviser Limited	Full	Subsidiary
9	Edel Land Limited	Full	Subsidiary
10	Edel Investments Limited	Full	Subsidiary
11	Edelweiss Rural & Corporate Services Limited	Full	Subsidiary



12	Comtrade Commodities Services Ltd. (Formally known as Edelweiss Comtrade Limited)	Full	Subsidiary
13	Edel Finance Company Limited	Full	Subsidiary
14	Edelweiss Retail Finance Limited	Full	Subsidiary
15	Edelweiss Multi Strategy Fund Advisors LLP	Full	Subsidiary
16	Edelweiss Resolution Advisors LLP	Full	Subsidiary
17	Edelweiss General Insurance Company Limited	Full	Subsidiary
18	Edelweiss Securities and Investments Pvt Ltd	Full	Subsidiary
19	EC International Limited	Full	Subsidiary
20	EAAA LLC	Full	Subsidiary
21	Edelweiss Alternative Asset Advisors Pte. Limited	Full	Subsidiary
22	Edelweiss International (Singapore) Pte. Limited	Full	Subsidiary
24	Edelgive Foundation	Full	Subsidiary
25	Edelweiss Alternative Asset Advisors Limited	Full	Subsidiary
26	Edelweiss Private Equity Tech Fund	Full	Subsidiary
27	Edelweiss Value and Growth Fund	Full	Subsidiary
28	Edelweiss Asset Reconstruction Company Limited	Full	Subsidiary
29	EW Special Opportunities Advisors LLC (upto 23rd Jun 2022)	Full	Subsidiary
30	Edelweiss Tokio Life Insurance Company Limited	Full	Subsidiary
31	Allium Finance Private Limited	Full	Subsidiary
32	Edelweiss Global Wealth Management Limited	Full	Subsidiary
33	Edelweiss Capital Services Limited	Full	Subsidiary
34	India Credit Investments Fund - II	Full	Subsidiary
35	Edelweiss Real Assets Managers Ltd	Full	Subsidiary
36	Sekura India Management Ltd	Full	Subsidiary
37	Edelweiss Securities Ltd	Partial	Associate
38	Edelweiss Finance and Investments Ltd	Partial	Associate
39	Edelweiss Broking Ltd	Partial	Associate
40	Edelweiss Custodial Services Ltd	Partial	Associate
41	Edelweiss Financial Services Inc.	Partial	Associate



42	Edelweiss Investment Advisors Pvt Ltd	Partial	Associate
43	Edelweiss Securities (Hongkong) Pvt Ltd	Partial	Associate
44	Edelweiss Financial Services (UK) Ltd	Partial	Associate
45	Edelweiss Securities (IFSC) Ltd	Partial	Associate
46	ESL Securities Ltd	Partial	Associate
47	Various Trusts	-	-

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