December 28, 2023

Edelweiss Rural & Corporate Services Limited: Placed on rating watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	620.27	620.27	[ICRA]A+; placed on rating watch with negative implications
Total	**620.27**	**620.27**	

**Instrument details are provided in Annexure I*

Rationale

On December 18, 2023, Edelweiss Financial Services Limited/Edelweiss Group informed the exchanges about an order passed by Securities Appellate Tribunal (SAT) involving Nuvama clearing Services Limited (Erstwhile Edelweiss Custodial Services Limited) (NCSL) in the matter of Anugrah Stock & Broking Ltd. The order dismissed NCSL's appeal against the Member and Core Settlement Guarantee Fund Committee of NSE Clearing Limited, for the transactions pertaining to CY2019-CY2020. The SAT upheld the core settlement committee's earlier order requiring reinstatement of securities worth ~Rs. 460 crore liquidated during Q4 FY2020 and Q1 FY2021. During the demerger of its wealth management business, Edelweiss Group had indemnified NCSL for the protentional liabilities that may arise out of this transaction.

In addition to the above event, The Reserve Bank of India (RBI) recently issued a notification pertaining to Investments in Alternative Investment Funds (AIFs) by regulated entities (RE). As per the circular, if an AIF scheme, in which a RE is already an investor, makes a downstream investment in a debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If RE has already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from date of issuance of this circular. In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100% provision on such investments. Further, investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from the RE's capital funds.

Following the above developments, ICRA has placed the rating(s) outstanding on rating watch with negative implications. ICRA will continue to monitor the developments and take suitable rating action once more clarity emerges regarding resultant liability of the Edelweiss Group, if any, in the matter of Anugrah Stock & Broking Ltd. and the impact on the company's financial profile. ICRA is cognisant that NCSL has initiated appeal against the SAT order in the honourable Supreme Court.

In regard to the AIF investments held in REs, the Group has approached the regulator to seek clarity regarding few of its investments and applicability of notification. While the capitalisation profile of the NBFCs in the Group remains comfortably above the threshold levels (ECL Finance Limited: tier-I of 18.4%, Edelweiss Retail Finance Limited: tier 1 of 53% as of September 30, 2023), it is expected to moderate to some extent (basis initial estimates of the management, the capital may be impacted by Rs. 100-200 crore, however the impact could be higher, subject to clarifications sought from the regulator and strategic arrangements). ICRA will continue to monitor the developments in this regard.

ICRA notes the Group's publicly disclosed intent of monetisation of 10-20% stake in Edelweiss Alternative Asset Advisors Limited (EAAA) which is expected to support the Group in augmenting cushion for absorbing any impairments related to residual risks residing in the balance sheet, liquidity generation and debt reduction. Additionally, given the appreciation of the investment in Nuvama Wealth Management Limited (value worth of ~Rs. 1,750 crore as of December 25, 2023) since its listing

on September 26, 2023, the fair valuation gain on the same is expected to offer some head room in absorbing losses, if required.

ICRA notes that the Group's liquidity position is currently adequate with on-balance sheet liquidity of Rs. 3,065 crore, against repayment obligations of ~Rs. 3,263 crore between October 01, 2023, to March 31, 2024. The on-balance sheet liquidity and envisaged inflows from loan book, provide headroom for absorbing incremental liquidity requirement (if any) arising on account of aforesaid developments. Further, the planned stake sale of EAAA is expected to support the liquidity position of the Group in the medium term.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, Liquidity position, and Rating sensitivities: Click here

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Consolidation Rating Approach
Parent/Group support	Not applicable; while arriving at the rating, ICRA has considered the consolidated financials (ex-insurance) of Edelweiss and has taken a consolidated view of the credit profiles of Edelweiss and its subsidiaries, which are engaged in retail lending and wholesale lending, and the asset management business due to the close linkages between the entities, common promoters and senior management team, shared brand name, and strong financial and operational synergies.
Consolidation/Standalone	ICRA has considered the consolidated financials (ex-insurance) of Edelweiss. Details of the subsidiaries are provided in Annexure II.

About the company

Incorporated in October 2006, Edelweiss Rural & Corporate Services Limited (ERCSL; erstwhile Edelweiss Commodities Services Limited) is a wholly-owned subsidiary of Edel Finance Company Limited. The company, on a standalone basis, reported a net loss of Rs. 196.9 crore on total income of Rs. 328.6 crore in FY2023 compared to a loss of Rs. 74.6 crore and total income of Rs. 625.8 crore in FY2022. As of March 31, 2023, its total assets stood at Rs. 2,702.0 crore (PY: Rs. 4,190.7 crore), net worth at Rs. 432.6 crore (PY: 629.3 crore) and borrowings at Rs. 2,209.9 crore (PY: Rs. 3,508.7 crore).

Edelweiss Financial Services Limited (parent)

Edelweiss Financial Services Limited (Edelweiss), the holding company of the Edelweiss Group of companies, was incorporated in 1995 to offer investment banking services primarily to technology companies. At present, the Group is engaged in wholesale and retail lending, home finance, distressed assets resolution, general insurance, life insurance, alternatives and asset management. On a standalone basis, Edelweiss posted a total income of Rs. 3,089 crore and a PAT of Rs. 2,388 crore in FY2023 compared to total income of Rs. 1,373 crore and PAT of Rs. 933 crore in FY2022. While on a consolidated basis, Edelweiss posted a total income of Rs. 8,633 crore and a PAT of Rs. 344 crore in FY2023 compared to total income of Rs. 7,305 crore and PAT of Rs. 189 crore in FY2022. With fair valuations of stake held in Nuvama in FY2023, the Group had a consolidated net worth of Rs. 7,846 crore as of March 31, 2023. However, with allotment of 30% stake held in Nuvama to shareholders of Edelweiss, the consolidated net worth declined to ~Rs. 5,547 crore as of September 30, 2023.

Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2021	FY2022	FY2023
Net interest income	200	61	371
Total income	10,849	7,305	8,633
Profit after tax (Edelweiss' share)	265	189	344
Profit after tax - Including MI	254	212	406
Net worth	7,677	7,592	7,846
Loan assets	22,455	20,098	17,354
Total assets	46,350	43,280	44,064
Return on assets (%)	0.5%	0.5%	0.9%
Return on equity (%)	3.4%	2.8%	5.3%
Gross NPA[1] (%)	8.5%	8.5%	10.5%
NNPA/ Gross loan book[1] (%)	4.5%	1.9%	2.7%
Net NPA (%)	5.0%	2.2%	2.1%
Net NPA/Net worth (%)	8.2%	2.6%	2.6%
Gross gearing (times)	3.7	2.99	2.8
CRAR (%)	21.0%	30.0%	33.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 1: excluding credit substitutes.

Edelweiss Financial Services Limited (consolidated-ex insurance; ICRA's estimates)	FY2021	FY2022	FY2023
PAT (post MI)	462	405	610
Net worth (ex-MI)	5,922	5,783	5,892
Borrowing[1]	26,681	21,315	19,185
Gearing (times)	4.80	3.93	3.69
Return on equity (ex-MI)	7.8%	7.0%	10.4%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
1: excluding borrowings through triparty repo and compulsorily convertible debentures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
			Amount Rated	Amount Outstanding	Date & Rating		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
			(Rs. crore)	(Rs. crore)	Dec 28, 2023	Jun 22, 2023	Jun 24, 2022	Jun 29, 2021	Oct 19, 2020	May 05, 2020
1	Non-convertible debenture programme	Long term	620.27	620.00^	[ICRA]A+; rating watch with negative implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
2	Non-convertible debenture programme	Long term	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
3	Long-term fund-based bank lines	Long term	-	-	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
4	Short term non-convertible debenture programme	Short term	-	-	-	-	-	-	-	-
5	Commercial paper programme	Short term	-	-	-	-	-	-	-	-
6	Commercial paper programme (IPO financing)	Short term	-	-	-	-	-	-	[ICRA]A1	[ICRA]A1
7	Short-term principal protected market linked debenture programme	Short term	-	-	-	-	-	-	PP-MLD [ICRA]A1	PP-MLD [ICRA]A1

^ Balance yet to be issued/allocated

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE657N07381	Non-convertible debenture	Jun 30, 2017	8.70%	Jun 30, 2027	200.00	[ICRA]A+; rating watch with negative implications
INE657N07431	Non-convertible debenture	Dec 22, 2017	9.25%	Dec 22, 2027	20.00	[ICRA]A+; rating watch with negative implications
INE616U07036	Non-convertible debenture	Jun 30, 2017	8.70%	Jun 30, 2027	400.00	[ICRA]A+; rating watch with negative implications
NA	Non-convertible debenture – Proposed	NA	NA	NA	0.27	[ICRA]A+; rating watch with negative implications

Source: Company

Annexure II: List of entities considered for consolidated analysis*

Edelweiss Financial Services Limited	Edelweiss Group Ownership	Consolidation Approach
Subsidiaries:		
ECL Finance Limited	100.00%	
Edelcap Securities Limited	100.00%	
Edelweiss Asset Management Limited	100.00%	
ECap Equities Limited	100.00%	
Edelweiss Trusteeship Company Limited	100.00%	
Edelweiss Housing Finance Limited	100.00%	
Edelweiss Investment Adviser Limited	100.00%	
Edel Land Limited	100.00%	
Edel Investments Limited	100.00%	
Edelweiss Rural & Corporate Services Limited	100.00%	
Comtrade Commodities Services Limited	100.00%	
Edel Finance Company Limited	100.00%	
Edelweiss Retail Finance Limited	100.00%	
Edelweiss Multi Strategy Fund Advisors LLP	100.00%	ICRA has taken a consolidated view of the parent and its subsidiaries
Edelweiss Resolution Advisors LLP	100.00%	
Edelweiss Securities and Investment Private Limited	100.00%	
EC International Limited	100.00%	
EAAA LLC	100.00%	
Edelweiss Alternative Asset Advisors Pte. Limited	100.00%	
Edelweiss International (Singapore) Pte. Limited	100.00%	
Edelgive Foundation	100.00%	
Edelweiss Alternative Asset Advisors Limited	99.05%	
Edelweiss Private Equity Tech Fund	95.60%	
Edelweiss Value and Growth Fund	70.05%	
Edelweiss Asset Reconstruction Company Limited	59.82%	
EW Special Opportunities Advisors LLC	67.00%	
Allium Finance Private Limited	85.00%	
Edelweiss Global Wealth Management Limited	100.00%	
Edelweiss Capital Services Limited	51.00%	
India Credit Investments Fund - II	100.00%	
Edelweiss Real Assets Managers Limited	100.00%	
Sekura India Management Limited	100.00%	

*Source: Edelweiss Financial Services Limited, * as on June 23, 2023*

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Subhrajyoti Mohapatra
+91 080 4332 6406
subhrajyoti.mohapatra@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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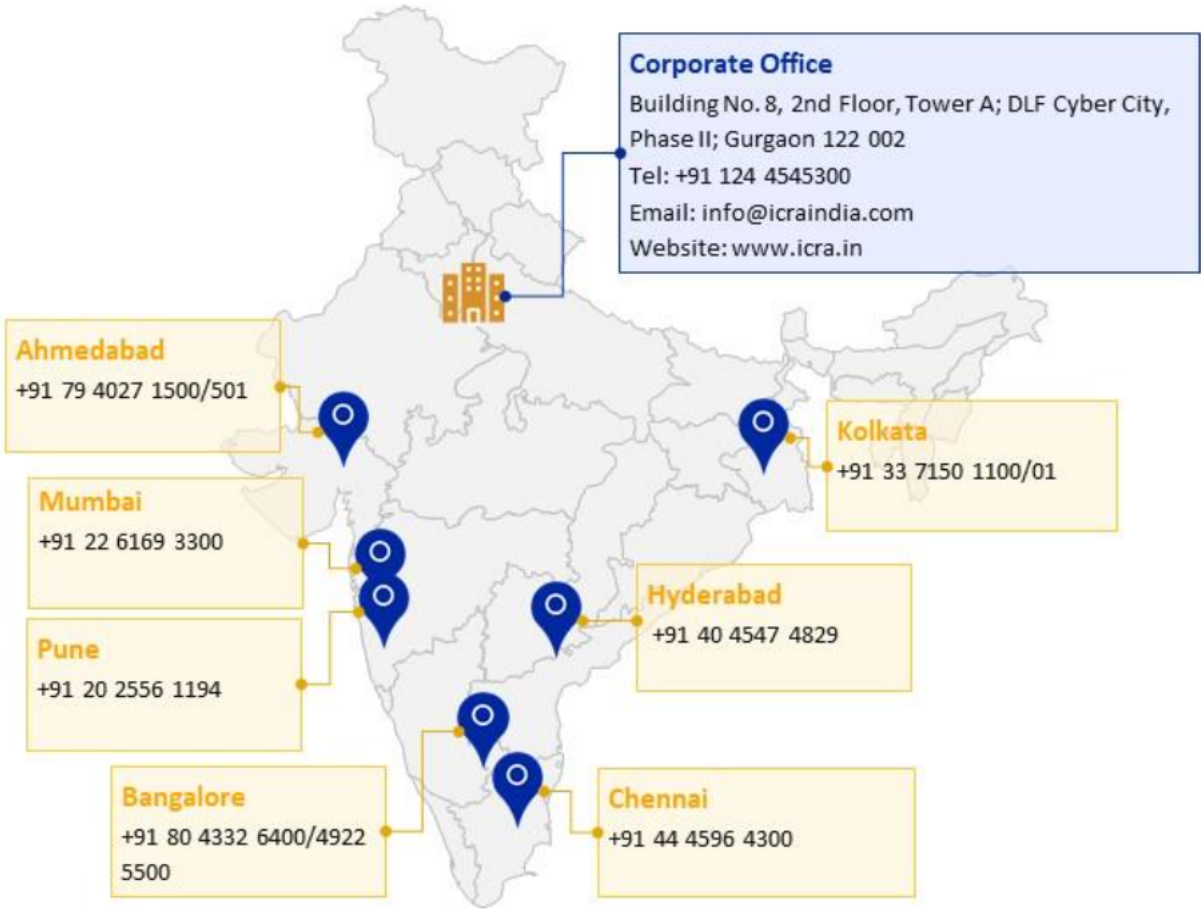
ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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