



RATING RATIONALE

07 Jun 2024

Edelweiss Retail Finance Limited

Brickwork Ratings downgrades the ratings of Non-Convertible Debentures (NCD) of Rs. 50 Crores and Perpetual Debt Instruments of Rs. 100 Crores of Edelweiss Retail Finance Limited. and places the ratings on Rating Watch with Negative Implications

Particulars

Instruments **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (10 April 2024)	Present
Non Convertible Debentures (NCDs)	50.00	50.00	Long Term	BWR AA-/ Negative (Reaffirmation)	BWR A+/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)
Perpetual Debt Instruments	100.00	100.00	Long Term	BWR A+/ Negative (Reaffirmation)	BWR A/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)
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 in Annexure II.

RATING ACTION / OUTLOOK - Brickwork Ratings (BWR) downgrades the ratings, removes the outlook negative and places the rating on rating watch with negative implications of NCDs, and Perpetual Debt Instruments issued by **Edelweiss Retail Finance Limited**, as tabulated above.

Material Event

The Reserve Bank of India vide its Press Release 2024-2025/397 dated May 29, 2024, initiated supervisory Action against two Edelweiss group entities, ECL Finance Limited (ECL) and Edelweiss Asset Reconstruction Company Limited (EARCL), based on material supervisory concerns. The Reserve Bank of India, in exercise of its powers under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) and the Reserve Bank of India Act, 1934, imposed business restrictions on ECL Finance Limited and Edelweiss Asset Reconstruction Company Limited.



The RBI has directed (i) ECL Finance Ltd (ECL) to cease and desist, with immediate effect, from undertaking any structured transactions in respect of its wholesale exposures, other than repayment and/ or closure of accounts in its normal course of business. (ii) Edelweiss Asset Reconstruction Company Limited (EARCL) to cease and desist from acquisition of financial assets including security receipts (SRs) and reorganizing the existing SRs into senior and subordinate tranches.

The RBI's action was based on material concerns observed by the regulator during the course of its supervisory examinations, essentially arising out of conduct of the group entities acting in concert, by entering into a series of structured transactions for evergreening stressed exposures of ECL, using the platform of EARCL and connected AIFs, thereby circumventing applicable regulations. Incorrect valuation of SRs was also observed by the regulator in both ECL and EARCL.

The RBI in its press release, stated that, in ECL, supervisory observations included submission of incorrect details of its eligible book debts to its lenders for computation of drawing power, non-compliance with loan to value norms for lending against shares, incorrect reporting to Central Repository for Information on Large Credits system (CRILC) and, non-adherence to Know Your Customer (KYC) guidelines. As per the regulator, ECL, by taking over loans from non-lender entities of the group for ultimate sale to the group ARC, allowed itself to be used as a conduit to circumvent regulations which permit ARCs to acquire financial assets only from banks and Financial Institutions, stated the regulator in its aforesaid press release. In EARCL, other violations observed by RBI included not placing the Reserve Bank's supervisory letter issued after the previous inspection for 2021-22 before the Board, noncompliance with regulations pertaining to settlement of loans and sharing of nonpublic information of its clients with group entities.

The regulator has observed that instead of taking meaningful remedial action to rectify the said deficiencies, the group entities were resorting to new ways to circumvent regulations. The regulator further stated that over the last few months, the Reserve Bank has been engaging with the senior management of the captioned entities and their statutory auditors, but no meaningful corrective action has been evidenced so far, necessitating the imposition of business restrictions.

Both the companies have been directed to strengthen their assurance functions to ensure regulatory compliance in letter and spirit at all times. The business restrictions being placed now shall be reviewed after the rectification of the supervisory observations by the group to the satisfaction of the Reserve Bank.

The company, in its response to the RBI's action for ECL, through disclosure to the stock exchange, stated that the order is in reference to the company's wholesale exposure, and the Company's Board had approved discontinuation of this business as disclosed in its financial statements as at 31 March 2024. Hence the Company believes that these directions will not materially impact its strategy and its business as reduction of wholesale exposure will continue as permitted, in the normal course of business.

For EARCL, the company stated that it has taken note of RBI's guidance and will take necessary remedial steps as required immediately. The Company is reviewing the order and will address the observations mentioned in the RBI order. It does not expect any material impact on the Company's resolution and recovery efforts which would continue normally.



Impact of the Material Event and BWR action

The rating action by BWR takes into account the serious issues raised by the RBI leading to the supervisory action/restrictions on the Edelweiss entities. In BWR's view, the restrictions imposed on the two group entities and the instances of violations which have been observed by the regulator raise concerns on the operational processes and compliances in the Edelweiss group. BWR believes that the reputational risk of the group as a whole is impacted, with its liquidity and borrowings profile remaining key monitorables over the near to medium term.

BWR also notes that the various group entities of Edelweiss have recently received income tax demand notices aggregating around Rs. 230.32 Crs (31 May 2024 till 06 Jun 2024). Any further claims/ incremental demands from the income tax authorities are likely to have an impact on the financial risk profile of the entities. As per Press Release filed by its various entities, the order is being examined and appropriate steps, including filing of appeals and rectification applications would be taken in this regard.

Previously, the negative outlook on the BWR ratings was on account of subdued growth of NBFC business and the conscious strategic shift in the business model from wholesale to asset light not yielding expected results. In BWR's view, the current regulatory action against the group entities has impacted the group's credit risk profile, as a whole. Hence, following the RBI supervisory action, considering the ongoing impact and pending further developments on these matters, BWR has placed the ratings on Rating Watch with Negative Implications, given the uncertainty on timelines for the resolution of the issues to the satisfaction of the regulator.

The Company has informed BWR that in its view, the aforesaid supervisory action of the regulator is not expected to have a material impact on the financials of the group/ entities. The decline in wholesale book and structured transactions in ECL was already initiated and hence they do not foresee a significant impact on profitability. On EARCL, the Company opined that though the business growth will be restricted, the resolutions and recovery will support the earnings and profitability of the company, though this will remain subdued with restriction on business activities. The company has informed BWR that they are in discussions with RBI and that the regulator has provided them 2-3 weeks time to respond with their remedial measures to rectify the deficiencies pointed out. Further, the Group's intent of monetising 10-20% stake in Edelweiss Alternative Asset Advisors Limited (EAAA) and plans to divest its stake in Nuvama Wealth Management Limited by FY25 may support liquidity generation and assist debt reduction.

BWR is in discussions with the Edelweiss management on this matter. BWR will continue to closely monitor and assess the impact of these regulatory actions, further developments and incremental disclosures pertaining to these actions on the overall credit risk profile, including fund raising ability of the Edelweiss group and the time taken for revocation of the same. As part of the continuous surveillance, BWR shall closely monitor the impact on the group's financial flexibility, its strategy to address the various issues, access to bank borrowings, leverage and ability to meet the rated debt covenants and maturing debt obligations and liquidity over the medium term in the event of slower business growth. The decline in share prices and the income tax demand notices to the various group entities increasing the likely financial liabilities, are being monitored by BWR. BWR keeps all its outstanding ratings under continuous surveillance. Any unfavorable regulatory/legal action, impact on the rated entities' access to financing or cost of financing from



lenders/investors/capital markets on a medium to long-term basis and performance of the rated Edelweiss group entities shall be the key rating sensitivities. BWR will continuously monitor the developments and review the ratings once there is additional clarity.

EFSL is a diversified financial services player and has many subsidiaries across various fields of finance, as listed in Annexure -III of this rationale. BWR has considered the ultimate ownership of EFSL, shared brand name, and strong operational, financial, and managerial linkages, and has taken a consolidated view on Edelweiss Financial Services Ltd (EFSL) and its subsidiaries (collectively referred to as the Edelweiss group) for the ratings of the Edelweiss group entities.

BWR notes that the group is well-diversified, with a presence across the critically important sectors of retail credit, asset management, insurance, alternative assets, and asset reconstruction. The ability of the group and the synergies within the group to strengthen its compliances, governance, oversight, risk management & internal controls and systems to the satisfaction of the regulator shall remain key monitorables.

KEY RATING DRIVERS

For Credit Strengths and Credit Risks Please refer to the rating rationale dated - [10 April 2024](#)

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

Considering the ultimate ownership of EFSL, its Shared brand name, and strong operational, financial, and managerial linkages, a consolidated view of 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:

- Significant improvement in regulatory compliances to the satisfaction of the regulator
- Improvement in asset quality and profitability.

Negative:

- Any further developments and incremental disclosures pertaining to the RBI's supervisory actions and non-compliance resulting in sustained weakening of the business profile
- Weakening of group financial flexibility and restricted ability to raise resources at competitive rates.
- Any further challenges in governance, oversight, risk management and internal controls could also trigger a downgrade
- Gross NPA crossing 3% and gearing 5x would be negative. Further reduction in AUM, along with the weakening of the asset quality or credit books are key rating negatives.



LIQUIDITY POSITION: ADEQUATE

As on 31 March 2024, the group had adequate liquidity, consisting of liquidable assets (cash/bank balance, Fixed Deposits, liquid investments, Gsecs, and treasury assets) of Rs 3,331 Crores.

Apart from that expected inflows and borrowings are Rs. 11,200 crores, against the repayment obligations for the next 12 months Rs. 6,200 Crores. Further, EFSL has plans for monetizing some of its holdings/investments after it is out of the Lock-in period to generate sufficient cash availability.

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.

STANDALONE PERFORMANCE OF EDELWEISS RETAIL FINANCE LIMITED:

On a standalone basis, the company has achieved revenue of Rs. 107.03 Crs as of Mar 2024, compared to Rs. 128.70 Crs as of the end of March 2023, through a mix of interest income, Processing fee, Commission income and fair value gains. The bottom line as of Mar 2024 was Rs. 14.41 Crs, compared to Rs. 27.79 Crs as of March 2023.

ABOUT THE EDELWEISS GROUP

Edelweiss Financial Services Limited (EFSL), is the group’s holding company. The group has a presence in diversified businesses such as retail lending, wholesale lending, asset reconstruction, asset management, life insurance, and general insurance. The company is listed on the BSE and NSE.

KEY FINANCIAL INDICATORS (Edel Finance Company Limited Standalone)

Key Parameters	Units	FY22	FY23	FY24
Result Type		Audited	Audited	Audited
Total Income	Rs in Crs	173.85	128.7	107.03
Net Profit / Loss	Rs in Crs	18.47	27.79	14.41
Net worth	Rs in Crs	508.73	536.65	551.09
Borrowings	Rs in Crs	673.19	378.61	365.45
Gearing	In times	1.32	0.71	0.67

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters	Units	FY22	FY23	FY24
Result Type		Audited	Audited	Audited
Total Income	(Rs in Crores)	7,304.6	8,632.58	9,601.57
Net-Profit/(Loss)	(Rs in Crores)	212.1	405.59	528.04
Networth	(Rs in Crores)	8,457.00	8,502.00	6,049.29
Gearing	(In times)	2.84	3.17	3.35
Loan Portfolio	(Rs in Crores)	22,872	17,354	14,804
Gross NPA- NBFC	(%)	2.76	2.07	2.45
Gross NPA- Housing	(%)	1.99	1.91	1.69

COMPLEXITY LEVELS OF THE INSTRUMENTS

NCD: Simple

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

KEY COVENANTS OF INSTRUMENTS OR FACILITIES RATED: Basic terms are mentioned in Annexure I. All the issues are old instruments.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: No Non-cooperation by other CRAs.



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

Sr. No.	Name of Facility/Instrument	Current Rating			10 April 2024	10Oct2022	Rating History for the past 3 years							
		Type	Amount (Rs. Crs)	Rating			2021			2020				
1	NCDs	Long Term	50.00	BWR A+/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)	BWR AA-/ Negative (Reaffirmation)	BWR AA-/ Negative (Reaffirmation and Change in outlook)	50.00	BWR AA-/ Stable	13.11.2020					
									Long Term	50	BWR AA-/ Stable			
									10.11.2020					
									Long Term	50	BWR AA-/ Stable			
									21.09.2020					
Long Term	50	BWR AA/ Negative												
3.	NCDs	-	-		-				15.11.2021			13.11.2020		
									Long Term	-	Withdrawn	Long Term	400	BWR AA-/ Stable
									10.11.2020					
									Long Term	400	BWR AA-/ Stable			
									21.09.2020					
									Long Term	400	BWR AA/ Negative			
2	Perpetual Debt Instruments	Long Term	100	BWR A/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)	BWR A+/ Negative (Reaffirmation)		100	BWR A+/ Stable	15.11.2021			13.11.2020		
									Long Term	100	BWR A+/ Stable			
									10.11.2020					
									Long Term	100	BWR A+/ Stable			
									21.09.2020					
Long Term	100	BWR AA-/ Negative												
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](#)
- [Market/ Equity Linked Debentures](#)

Analytical Contacts	
Ankita Kothari Senior Rating Analyst ankita.k@brickworkratings.com	Hemant Sagare Director - Ratings hemanth.s@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

ANNEXURE I -

**Details of Bank Facilities:
Not Applicable**

ANNEXURE II

INSTRUMENT DETAILS (NCDs)

Liability	ISIN	Entity Name	Start Date	Coupon Rate	End Date	Outstanding On Report End Date	Frequency of Interest Payment	Complexity
PDI	INE528S08050	ERFL	26-Dec-17	9.75%	26-Dec-27	20.00	Annual	Highly Complex
PDI	INE528S08068	ERFL	7-Feb-18	10.00%	7-Feb-28	20.00	Annual	Highly Complex
PDI	INE528S08068	ERFL	7-Feb-18	10.00%	7-Feb-28	5.00	Annual	Highly Complex
						45.00		
PDI	Proposed					55.00		Highly Complex
	TOTAL (A)					100.00		
	Proposed NCD					50.00		Simple
	Total (A+B)					150.00		

ANNEXURE III
List of entities consolidated (as of 31 December 2023)

Name	Extent of Consolidation	Rationale for consolidation
Edelweiss Financial Service Limited	100%	Parent
ECL Finance Limited	100%	Subsidiary
Edelcap Securities Limited	100%	Subsidiary
Edelweiss Asset Management Limited	100%	Subsidiary
ECap Equities Limited	100%	Subsidiary
Edelweiss Trusteeship Company Limited	100%	Subsidiary
Nido Housing Finance Limited	100%	Subsidiary
Edelweiss Investment Adviser Limited	100%	Subsidiary
Edel Land Limited (Known as Ecap Equities Limited)	100%	Subsidiary
Edel Investments Limited	100%	Subsidiary
Edelweiss Rural & Corporate Services Limited	100%	Subsidiary
Comtrade Commodities Services Limited	100%	Subsidiary
Edel Finance Company Limited	100%	Subsidiary
Edelweiss Retail Finance Limited	100%	Subsidiary
Edelweiss Multi Strategy Fund Advisors LLP	100%	Subsidiary
Zuno General Insurance Limited	100%	Subsidiary
Edelweiss Tokio Life Insurance Company Limited	75.08%	Subsidiary
Edelweiss Securities and Investment Private Limited	100%	Subsidiary
EC International Limited	100%	Subsidiary
Nuvama Investment Advisors LLC (formerly known as EAAA LLC)	100%	Subsidiary
Edelweiss Alternative Asset Advisors Pte. Limited	100%	Subsidiary
Edelweiss International (Singapore) Pte. Limited	100%	Subsidiary
Edelgive Foundation	100%	Subsidiary
Edelweiss Alternative Asset Advisors Limited	99.05%	Subsidiary
Edelweiss Private Equity Tech Fund	95.60%	Subsidiary
Edelweiss Value and Growth Fund	96.05%	Subsidiary



Edelweiss Asset Reconstruction Company Limited	59.82%	Subsidiary
Allium Finance Private Limited	85.00%	Subsidiary
Edelweiss Global Wealth Management Limited	100.00%	Subsidiary
Edelweiss Capital Services Limited	51.00%	Subsidiary
India Credit Investments Fund	100%	Subsidiary
Edelweiss Real Assets Managers Limited	100%	Subsidiary
Sekura India Management Limited	100%	Subsidiary

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