



RATING RATIONALE

07 Jun 2024

Nido Home Finance Limited (erstwhile Edelweiss Housing Finance Limited)

Brickwork Ratings downgrades the ratings of Non-Convertible Debentures (NCD) of Rs. 550.00 Crores and Perpetual debt instruments of Rs. 100.00 Crores for Nido Home Finance Limited (erstwhile Edelweiss Housing Finance Limited) and places it on Rating Watch with Negative Implications

Particulars

Instruments**	Amount Rs Crs.		Tenure	Rating#	
	Previous	Present		Previous (15 April, 2024)	Recommendation
NCD	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)
NCD	500.00	500.00			
Perpetual Debt Instrument	100.00	100.00		BWR A+/ Negative (Reaffirmation)	
Total	650.00	650.00	Rupees Six Hundred & 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 **Nido Home Finance Limited (erstwhile Edelweiss Housing 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 [15 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

Nido Home is a housing finance company registered with the National Housing Bank. The company was incorporated in 2011 following the Group's strategy of creating a larger retail footprint. The Group provides home loans and loan against property through this entity. Over the last couple of years, the company has realigned its strategy to focus on low-ticket-sized home loans.

Nido Home belongs to the Edelweiss Group, which has a presence across various financial services businesses. These businesses include loans to corporates and individuals, mortgage finance, and small-ticket housing loans, alternative and domestic asset management, and life and general insurance. In addition, the BMU focuses on liquidity and asset-liability management.

STANDALONE PERFORMANCE OF NIDO HOME FINANCE LTD.:

On a standalone basis, revenue from operations increased from Rs. 441.05 crores in FY23 to Rs. 458.79 crores in FY24. PAT increased from Rs. 16.06 crores in FY 23 to Rs. 19.31 crores in FY 24

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 (Nido Home Finance Ltd. Standalone)

Key Indicators ELL (In crs)	Units	FY21 A	FY22 A	FY23 A	FY24 A
Operating Revenue	Rs in Crs	548.54	512.02	441.05	458.79
Net Loss / Profit	Rs in Crs	3.73	13.81	16.06	19.31
Debt	Rs in Crs	5612.65	3564.35	1796.58	1635.6
Networth	Rs in Crs	762.79	777.63	794.47	814.79

KEY FINANCIAL INDICATORS (EFSL Consolidated)

Key Parameters (In crs)	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

PP-MLDs: Highly Complex

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 II. 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]

Name of Facility/ Instrument	Current Rating (2024)			15 April 2024	Rating History for the past 3 years						
	Type	Amount (Rs.Crs)	Rating		2023	2022			2021		
NCDs	LT	50.00	BWR A+/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)	BWR AA-/Negative (Reaffirmation)	NA	10.10.2022			9.11.2021		
					-	LT	50	BWR AA-/ Negative (Reaffirmed and outlook revised)	LT	50	BWR AA-/ Negative (Reaffirmed)
NCDs	LT	500.00	BWR A+/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)	BWR AA-/Negative (Reaffirmation)	NA	10.10.2022			9.11.2021		
						LT	500	BWR AA-/ Negative (reaffirmed and outlook revised)	LT	300	BWR AA-/ Negative (Reaffirmed)
Perpetual Debts	LT	100.00	BWR A/ Rating Watch with Negative Implications (Downgrade; removal of negative outlook and placing on rating watch)	BWR A+/ Negative (Reaffirmation)	NA	10.10.2022			9.11.2021		
						LT	100	BWR A+ Negative (reaffirmed and outlook revised)	LT	100	BWR A+/ Stable (Reaffirmed)
NCDs	-	-		NA	NA	NA			9.11.2021		
					-				LT	200	Withdrawn
Total		650.00			Rupees Six 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](#)

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**ANNEXURE I -
Details of Bank Facilities:
Not Applicable**

**ANNEXURE II
INSTRUMENT DETAILS (NCDs)**

Instrument	Issue Date	Amount (Rs in Crs)	Maturity Date	Coupon Rate	ISIN	Complexity
LT-NCD	19-Jul-16	24.84	18-Jul-26	NA	INE530L07210	Simple
LT-NCD	19-Jul-16	349.20	18-Jul-26	NA	INE530L07228	Simple
LT-NCD	19-Jul-16	5.98	18-Jul-26	NA	INE530L07236	Simple
Sub Total		380.03				
Proposed NCD		119.97				
Total		500.00				
Proposed NCD		50.00				Highly Complex
Proposed Perpetual Debt		100.00				
Grand Total		650.00	Rupees Six Hundred and Fifty Crores Only			



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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