



Rating Rationale

ECL Finance Limited

5 July 2019

Brickwork Ratings reaffirms ratings and changes outlook to negative from stable for the debt issues of ₹. 1950.00 Crores of ECL Finance Limited

Particulars

Instrument	Previous Amt (₹ Cr)	Previous Amt (₹ Cr)	Utilisation (₹ Cr)	Tenure	Previous Rating* (March 2019)	Review Rating*
Subordinated Tier II – NCD	100	100	70	Long Term	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Stable	BWR AA+ (Pronounced as BWR Double A Plus) (Outlook :Negative)
Secured NCD	500	500	Nil			
Secured NCD	150	150	Nil			
Subordinated Debt	400	400	400			
Secured NCD	200	200	138			
Secured NCD	150	150	150			
PP-MLD	150	150	90	Long Term	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures) (Outlook:Stable)	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures) (Outlook:Negative)
Perpetual Debt	300	300	300	Long Term	BWR AA (Pronounced as BWR Double A) Outlook – Stable	BWR AA (Pronounced as BWR Double A) (Outlook:Negative)
Total	1950	1950	INR. One Thousand Nine Hundred and Fifty Crore Only)			

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

Rating Reaffirmed



BWR has principally relied upon the audited financials up to FY19, publicly available information and information / clarification provided by the company. For arriving at the ratings, BWR has combined the business and financial risk profiles of all companies of the Edelweiss group because of their strong operational and financial integration.

Change in outlook:

The outlook has been revised to negative because of increased risk in the corporate lending portfolio of the group, with high exposure to real estate and structured credit assets, given the weak external environment especially pertaining to the real estate sector. The company has exposure to certain entities, which have a weak credit profile, and any delays in recoveries or defaults in these accounts may impact the financial profile of the company. Although the Group has demonstrated its ability to maintain adequate reported asset quality, a prolonged slowdown in the real estate industry coupled with the liquidity crunch in the overall market could have an adverse impact on the same, going forward. The risks are, however, partly mitigated by the collateral cover maintained for such exposures coupled with the recent capital equity infusion by CDPQ in ECL Finance, flagship NBFC of the group, which would help reduce the overall leverage and provide some cushion to absorb losses, if any, on the lending book. The company has wholesale exposure of 26% and structured loans exposure of 15% of total loan portfolio. The Group's healthy liquidity profile, at a consolidated level, and the shift in focus towards a more granular retail portfolio would help de-risk the portfolio and also provide comfort.

Rationale / Description of Key rating drivers / Rating Sensitivities

The rating has factored, inter alia, Group's experienced and professional management, diversified business with significant growth due to expansion of operations, stable asset quality, and comfortable capitalization which improves further with recent equity infusion by CDPQ, established broking business and financial flexibility. The rating is however, constrained by high corporate lending with concentration to real estate, the unseasoned nature of loan portfolio in the retail segment, competition from Banks and NBFCs, in general and other inherent risks associated with capital market and lending business.

Description of Key Rating Drivers

- **Reputation of Edelweiss Group:** Edelweiss Group is a diversified financial services player engaged in credit, capital markets and other advisory businesses. The diversification in revenue streams has reduced the Group's exposure to cyclical movements in domestic capital markets. On a consolidated basis during FY19, EFSL's total income from operations increased to Rs. 10886 Crs from Rs. 8920 Crs in FY2018, registering a 22% growth supported by a healthy growth in investment banking and asset reconstruction Fees and commission income. With the scaling up of the credit business, net interest income continues to be the key revenue driver contributing 30% of the operating income in FY2019.
- **Experienced and qualified management:** The entire group is being managed by experienced and qualified professionals. Mr. Rashesh Shah is the Chairman and CEO of EFSL. Mr. Venkat Ramaswamy is the Executive Director. Besides the, Board of Directors of EFSL consists of two



other Executive Directors, two Non-Executive Director and Seven Independent Directors. The Company also has a well qualified and experienced professionals looking after credit, risk, marketing, audit and other support functions.

- **Satisfactory Asset Quality:** Edelweiss Group portfolio has satisfactory asset quality with Gross NPA of 1.87% and Net NPA of 0.83% as on 31 March 2019. However, the company is exposed to the external risks in the current environment with 41% of its portfolio being corporate loans, out of which 26% is real estate exposure and 15% is in structured credit. The stated intention of the company to shift its focus to building a more granular retail portfolio will be a monitorable.
- **Comfortable Capitalisation:** As on 31 March 2019 EFSL had a total CRAR of 18% and Tier I CRAR of 14.50%. Gearing is comfortable at 5.19 times gross level and 4.40 times net level, excluding treasury assets as on 31 March 2019. The CRAR and gearing is set to improve further with the infusion of Rs.1,039.50 crore equity by CDPQ Private Equity Asia Pte Limited (as the "Investor"), a wholly owned subsidiary of Caisse de dépôt et placement du Québec (CDPQ), in ECLF on May 07, 2019.
- **High Competition:** NBFC sector is seeing increased competition, which results in margins getting reduced and profitability getting affected.

Rating Outlook: Negative

BWR believes the **ECL Finance Limited** business risk profile has risk over the medium term. The 'Negative' outlook indicates a likelihood of rating change over the medium term. The rating outlook may be revised to 'Stable' in case the asset quality of corporate loan book does not worsen ensuring maintaining the current profitability.

Analytical Approach

For arriving at its ratings, BWR has consolidated the financial profile of Edelweiss group entities (complete list of entities provided in annexure) and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

Registered as a non deposit taking non banking financial company (NBFC) with the Reserve Bank of India, ECL Finance is the primary wholesale lending company for the Edelweiss group. The company is currently engaged in carrying out group's financing activities like structured collateralized corporate loans, real estate financing, loans against shares and initial public offering (IPO) funding.

Edelweiss Financial Services Ltd. (EFSL) is the flagship company of Edelweiss Group which offers a large range of products and services spanning across varied asset classes and diversified consumer segments like Credit, Advisory and Insurance through its Subsidiaries and Associate Companies.



Edelweiss Financial Services Ltd. (ESFL), previously known as Edelweiss Capital Limited, was incorporated in 1995 by Mr. Rashesh Shah and Mr. Venkat Ramaswamy, focusing on financial services in India, is the parent company of Edelweiss Group. EFSL is registered as a Category I Merchant Banker with SEBI. The company on a standalone basis is primarily engaged in investment banking services and provides development, managerial and financial support to the Edelweiss group entities. EFSL is listed on NSE and BSE. Promoters hold around 33% in the company as on March 31, 2019. In addition, management and employees trust hold another 13.7% of the shares of EFSL.

Company Financial Performance

As per FY19 audited financials, ECLF reported net profit of Rs.565.88 Crs (P.Y. Rs. 470.53 Crs) on Total income of Rs. 4017.46 Crs (P.Y. Rs. 3272.35 Crs).

Rs. CR	Type	FY17	FY18	FY19
		Aud	Aud Ind AS	Aud Ind AS
Total Income	Rs in Crs	2495.04	3272.35	4017.46
PAT	Rs in Crs	390.32	470.53	565.88
TNW	Rs in Crs	2357.33	2901.18	3849.45
Total Debt	Rs in Crs	15074.65	19238.10	18144.69
GNPA (%)	%	1.85%	1.85%	1.67
NNPA (%)	%	0.64%	0.75%	0.62

Financial Performance Edelweiss Financial Services Limited

During FY19, on a consolidated basis, EFSL has earned a net profit of Rs. 995 Crs (P.Y Rs. 863 Crs) in FY18 on total income from operations of Rs. 10886 Crs (P.Y Rs. 8920 Crs).

Particulars Rs. Crs	Type	Consolidated			Standalone		
		FY17	FY18 IndAS	FY19 Ind AS	FY17	FY18 Ind AS	FY19 Ind AS
Total Operating Income	Rs in Crs	6634	8920	10886	450	440	320
PAT	Rs in Crs	609	863	995	129	103	138
TNW	Rs in Crs	5228	7826	8715	1715	3354	3351
Total Debt	Rs in Crs	33379	48031	45217	736	135	437
GNPA (%)	%	1.59	1.75	1.87	-	-	-
NNPA (%)	%	0.60	0.70	0.83	-	-	-
Total CRAR (%)	%	18.08	17.04	18.00	-	-	-

Rating History for the last three years

Sn	Instrument	Current Rating (2019)				Rating History		
		Type	Amount (₹ Crs)	Ratings July 2019	Rating 30 March 2019	2018	2017	2016
1	Subordinated Tier II – NCD	Long Term	100	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Negative	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Stable	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Stable	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Stable	BWR AA+ (Pronounced as BWR Double A Plus) Outlook :Stable
2	Secured NCD		500					
3	Secured NCD		150					
4	Subordinated Debt		400					
5	Secured NCD		200					
6	Secured NCD		150					
7	PP-MLD	Long Term	150	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures (Outlook:Negative))	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures (Outlook:Stable))	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures (Outlook:Stable))	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures (Outlook:Stable))	BWR PP-MLD AA+ (Pronounced as BWR Principal Protected Market Linked Debentures (Outlook:Stable))
8	Perpetual Debt	Long Term	300	BWR AA (Pronounced as BWR Double A) Outlook Negative	BWR AA (Pronounced as BWR Double A) Outlook – Stable	BWR AA (Pronounced as BWR Double A) Outlook – Stable	BWR AA (Pronounced as BWR Double A) Outlook – Stable	BWR AA (Pronounced as BWR Double A) Outlook – Stable
Total			1950	₹ One Thousand Nine Hundred and Fifty Crore Only				

Annexure I: List of entities getting consolidated in Edelweiss Financial Services Limited

S n	Company Name	Proportion of ownership interest as at March 31 2019
	Subsidiaries	
1	Edelweiss Securities Limited	100.00%
2	Edelweiss Finance & Investments Limited	100.00%
3	ECL Finance Limited	100.00%
4	Edelweiss Global Wealth Management Limited	100.00%
5	Edelweiss Insurance Brokers Limited	100.00%
6	Edelweiss Trustee Services Limited	100.00%
7	Edelcap Securities Limited	100.00%
8	Edelweiss Asset Management Limited	100.00%
9	ECap Equities Limited	100.00%
10	Edelweiss Broking Limited	100.00%
11	Edelweiss Trusteeship Company Limited	100.00%
12	Edelweiss Housing Finance Limited	100.00%
13	Edelweiss Investment Adviser Limited	100.00%
14	EC Commodity Limited	100.00%
15	Edel Land Limited	100.00%
16	Edelweiss Custodial Services Limited	100.00%
17	Edel Investments Limited	100.00%
18	Edelweiss Rural & Corporate Services Limited (Formerly known as Edelweiss Commodities Services Limited)	100.00%
19	Edelweiss Comtrade Limited	100.00%
20	Edel Finance Company Limited	100.00%
21	Edelweiss Retail Finance Limited	100.00%

2		
2	Edelweiss Multi Strategy Fund Advisors LLP	100.00%
2	Edelweiss Resolution Advisors LLP (formerly known as Edelweiss	
3	Wealth Advisor LLP)	100.00%
2		
4	Edelweiss Holdings Limited	100.00%
2		
5	Edelweiss General Insurance Company Limited	100.00%
2		
6	Edelweiss Finvest Private Limited	100.00%
2		
7	Edelweiss Securities (IFSC) Limited	100.00%
2		
8	Alternative Investments Market Advisors Private Limited	100.00%
2	Edelweiss Securities Trading Management Private Limited (formerly	
9	known as Dahlia Commodities Services Private Limited)	100.00%
3	Edelweiss Securities and Investment Private Limited (formerly known	
0	as Magnolia Commodities Services Private Limited)	100.00%
3		
1	Edelweiss Securities (Hong Kong) Private Limited	100.00%
3		
2	EC Global Limited	100.00%
3		
3	EC International Limited	100.00%
3		
4	EAAA LLC	100.00%
3		
5	EFSL International Limited	100.00%
3		
6	Edelweiss Capital (Singapore) Ptc. Limited	100.00%
3		
7	Edelweiss Alternative Asset Advisors Pte. Limited	100.00%
3		
8	Edelweiss International (Singapore) Pte. Limited	100.00%
3		
9	Edelweiss Investment Advisors Private Limited	100.00%
4		
0	Aster Commodities DMCC	100.00%
4		
1	Edelweiss Financial Services (UK) Limited	100.00%
4		
2	Edelweiss Financial Services Inc.	100.00%
4		
3	Edelweiss Alternative Asset Advisors Limited	95.00%

4		
4	EW Clover Scheme – 1	100.00%
4		
5	Edelvalue Partners	100.00%
4		
6	Edelgive Foundation	100.00%
4		
7	Lichen Metals Private Limited	100.00%
4		
8	EW India Special Asset Advisors LLC	90.00%
4		
9	Edelweiss Private Equity Tech Fund	88.90%
5		
0	Edelweiss Value and Growth Fund	88.90%
5		
1	Edelweiss Asset Reconstruction Company Limited	74.80%
5		
2	EW Special Opportunities Advisor LLC	67.00%
5		
3	Edelweiss Tokio Life Insurance Company Limited	51.00%
5		
4	Allium Finance Private Limited	70.00%
5		
5	Retra Ventures Private Limited	70.00%
5		
6	Edelweiss India Capital Management (Up to October 12, 2018)	0.00%
5		
7	Cross Border Synergy Pte. Limited (formerly known as Edelweiss Commodities Pte. Limited) (upto December 06, 2017)	0.00%
5		
8	Edelweiss Tarim Urunleri Anonim Sirketi (Up to February 27, 2018)	0.00%
5		
9	EW SBI Crossover Advisors LLC (Up to July 27, 2017)	0.00%
	Associates	
1	Allium Finance Private Limited	-
2	Aeon Credit Services India Private Limited (Upto August 22, 2017)	-

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Principal Protected Market Linked Debentures](#)



- [Group Support](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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