

RATING RATIONALE

29 July 2022

Edelweiss Alternative Asset Advisors Ltd.

Brickwork Ratings assigns the ratings to Principal Protected Market Linked Debentures (PP-MLDs) of Edelweiss Alternative Asset Advisors Ltd.

Particulars

Instruments **	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Principal Protected Market Linked Debentures (PP-MLDs)	-	300.00	Long Term	-	BWR PP-MLD AA-/ Stable (Assigned)
Total	-	300.00	Rupees Three Hundred 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) assigns the ratings to the Principal Protected Market Linked Debentures (PP-MLDs) of **Edelweiss Alternative Asset Advisors Ltd.** as tabulated above.

The ultimate holding company for **Edelweiss Alternative Asset Advisors Ltd.** (Company/EAAA) is Edelweiss Financial Services Ltd (EFSL). 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 assignment 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.

At the group level, Edelweiss group has been focusing on reducing its wholesale portfolio. The wholesale loan book has de-grown from Rs.13,000 Crs as on 31 March 2020 to Rs.11,200 Crs as on 31 March 2021 and further to Rs.9,370 Crs as on 31 March 2022. The asset quality has moderated compared to the previous financial year (FY21) mainly due to improvement



collections and remains monitorable. Overall, the management target is also to further reduce its wholesale book and increase the retail lending footprint by moving towards the asset-light lending model through co-lending arrangements with banks.

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's businesses.

The group gradually was able to reduce its wholesale lending book on a QoQ basis by selling down its stressed assets to asset reconstruction companies (ARC)'s or other investors. Despite shrinkage of its loan book, the group's profitability has improved on account of generating healthy fee income from its non-credit business. Considering diversification of its product profile to improve its earnings coupled with the ability to raise capital and the continued group support, BWR continues the outlook as 'Stable'. Group support is expected to continue with the company along with strong operational, financial and managerial linkages.

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) to grow from Rs.18,500 Crs in FY15 to Rs.1,55,000 Crs in FY21. It further increased to ~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) has grown to Rs.1,11,500 Crs as at the end of Mar 2022 from Rs.29,100 Crs as at the end of Mar 2020 and Rs.55,000 Crs as at the end of Mar 2021. The asset management under alternative assets had a steady growth, at Rs.30,500 Crs as on 31 Mar 2022 from Rs.21,700 Crs as on 31 March 2020 and Rs.30,000 Crs as on 31 March 2021.

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 the group's key entities viz. ECL Finance stood at 31.7%, Edelweiss Housing Finance at 28.3% and Edelweiss Asset Reconstruction Company Ltd. at 42% as on 31 Mar 2022. EFSL's gearing on a consolidated basis reduced from



3.35 times as on 31 March 2020 to 2.8 times as on 31 Mar 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. 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 and to cover asset-side risks.

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. Mr. 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: 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.886 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.328 Crs, ~55% of accounts (Rs.182 crs) are from the retail segment and balance from the Wholesale segment (Rs.146 crs). Slippages of these accounts to NPA over the near term will be monitorable. GNPA as on 31 Mar 2022 stood at 2.76% and NNPA stood at 1.7% (excl. fully provided accounts) from 7.73% and 4.1% as at the end of FY21 at the consolidated level.

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 the previous year, attributable to shrinkage of the loan book. 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 (FY21: 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.

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).

Thus, the group's ability to limit the losses from its credit business and insurance business and continue to contribute healthy profits from its 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: The substantial 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.10,213 Crs.

COMPANY PROFILE

Edelweiss Alternative Asset Advisors Limited ("EAAA" / the "Company") was incorporated in Mumbai on May 14, 2008 as a Public Limited Company with the primary objective for providing investment advisory and management services. EAAA received its certificate of commencement of business on May 22, 2008 and its Registered Office is situated at Edelweiss House, Off C.S.T Road, Kalina, Mumbai – 400 098, Maharashtra. The Company is primarily engaged in the business of alternative asset advisory and advises either directly or through its Affiliates, private equity, mezzanine and credit fund style alternative asset products. The Company acts as the investment manager of the various Alternative Investment Funds registered with SEBI and also provides non-binding advisory services to certain offshore funds under the Edelweiss group. Edelweiss Securities and Investments Pvt Ltd ("ESIPL") holds 99.04% Equity shares of EAAA as of 30 Jun 2022. Edelweiss Financial Services Limited ("EFSL") is an ultimate holding Company of ESIPL and EAAA.

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 (EAAA Standalone)

Key Parameters	Units	FY21	FY22
Result Type		Audited	Audited
Income from operations	(Rs in Crs)	144	215
Net-Profit/(Loss)	(Rs in Crs)	15	49
Networth*	(Rs in Crs)	101	154
AUM	(Rs in Crs)	26,220	26,782

*incl. Compulsory convertible debentures of Rs.110 Crs

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)	4.7x	2.8x
Total loan portfolio- Credit	(Rs in Crs)	25,193	22,872
Gross Stage III asset	(%)	7.7%	2.5%

COMPLEXITY LEVELS OF THE INSTRUMENTS - PP-MLDs: Highly Complex

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 Instrument	Current Rating (2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2021	2020	2019
1	PP-MLDs	Long Term	300.00	BWR PP-MLD AA-/ Stable (Assigned)	-	-	-
Total			300.00	Rupees Three Hundred Crore 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 Alternative Asset Advisors Limited (EAAA)

ANNEXURE I - Details of Bank Facilities: N/A

ANNEXURE II

INSTRUMENT DETAILS (PPMLDs)

Instrument	Issue Date	Amount (Rs.in crs)*	Coupon Rate	Maturity Date	ISIN Particulars
PP-MLD	17 May 22	30.00	MLD	16 May 24	INE528L07016
PP-MLD	16 Jun 22	20.00	MLD	15 Jun 24	INE528L07024
PP-MLD	N/A	250.00	MLD	N/A	N/A
Total Rated PP-MLDs		300.00	(Rupees Three Hundred Crores Only).		

*outstanding/ proposed amount of PP-MLDs as on 25 Jul 2022

INSTRUMENT DETAILS (NCDs): N/A

ANNEXURE III

List of entities consolidated

Sr. No.	Name of Entity	% Ownership	Extent of consolidation	Rationale for consolidation
1	ECL Finance Limited	100%	Full	Subsidiary
2	Edelcap Securities Limited	100%	Full	Subsidiary
3	Edelweiss Asset Management Limited	100%	Full	Subsidiary
4	ECap Equities Limited	100%	Full	Subsidiary
5	Edelweiss Trusteeship Company Limited	100%	Full	Subsidiary
6	Edelweiss Housing Finance Limited	100%	Full	Subsidiary
7	Edelweiss Investment Adviser Limited	100%	Full	Subsidiary
8	EC Commodity Limited	100%	Full	Subsidiary
9	Edel Land Limited	100%	Full	Subsidiary
10	Edel Investments Limited	100%	Full	Subsidiary
11	Edelweiss Rural & Corporate Services Limited	100%	Full	Subsidiary
12	Edelweiss Comtrade Limited	100%	Full	Subsidiary

13	Edel Finance Company Limited	100%	Full	Subsidiary
14	Edelweiss Retail Finance Limited	100%	Full	Subsidiary
15	Edelweiss Multi Strategy Fund Advisors LLP	100%	Full	Subsidiary
16	Edelweiss Resolution Advisors LLP	100%	Full	Subsidiary
17	Edelweiss General Insurance Company Limited	100%	Full	Subsidiary
18	Edelweiss Securities and Investments Pvt Ltd	100%	Full	Subsidiary
19	EC International Limited	100%	Full	Subsidiary
20	EAAA LLC	100%	Full	Subsidiary
21	Edelweiss Alternative Asset Advisors Pte. Limited	100%	Full	Subsidiary
22	Edelweiss International (Singapore) Pte. Limited	100%	Full	Subsidiary
23	Aster Commodities DMCC	100%	Full	Subsidiary
24	Edelgive Foundation	100%	Full	Subsidiary
25	Edelweiss Alternative Asset Advisors Limited	99.05%	Full	Subsidiary
26	Edelweiss Gallagher Insurance Brokers Limited	70.00%	Full	Subsidiary
27	Edelweiss Private Equity Tech Fund	95.60%	Full	Subsidiary
28	Edelweiss Value and Growth Fund	70.05%	Full	Subsidiary
29	Edelweiss Asset Reconstruction Company Limited	59.84%	Full	Subsidiary
30	EW Special Opportunities Advisors LLC	67.00%	Full	Subsidiary
31	Edelweiss Tokio Life Insurance Company Limited	51.00%	Full	Subsidiary
32	Allium Finance Private Limited	70.00%	Full	Subsidiary
33	Edelweiss Global Wealth Management Limited	100.00%	Full	Subsidiary
34	Edelweiss Capital Services Limited	51.00%	Full	Subsidiary
35	India Credit Investments Fund - II	100.00%	Full	Subsidiary



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