

Edelweiss Financial Services

Refer to important disclosures at the end of this report

NBFC pain overshadows wealth management deal

CMP: Rs 84
as of (August 28, 2020)

TP: Rs 95 (▲)
12 months

Rating: HOLD (■)

Upside: 13.3 %

- EDEL reported weak Q1 results, with AUM falling for the fifth straight quarter. AUM declined 60.7% YoY and 12.3% QoQ to Rs168bn amid tight liquidity conditions and economic headwinds. Management intends to gradually run down its wholesale book. Accordingly, we expect AUMs to remain under pressure till Q4.
- The company has improved its overall borrowing profile with a decline in CPs and rise in NCD/banks. EDEL has entered into an agreement with PAG, which will acquire a 51% stake in EWM (the wealth management and capital markets business) at a post-money valuation of Rs44bn. Before the transaction, EWM will acquire 51% equity of ESL (capital markets business) for Rs1.4bn. The plan is to demerge and list EWM in due course. This deal values the franchise business at a 33% premium to our valuation.
- Net NPAs deteriorated sequentially to 2.1% from 2.0% in Q4 despite elevated credit costs. The aggressive provisioning by management has put PAT under pressure for the second consecutive quarter, with the company reporting a PAT of -Rs2.8bn vs. Rs1.3bn in Q1FY20.
- Though the deal has happened at a decent valuation, we believe that the primary issuance will only help growth of the wealth management/securities business and continue to keep the NBFC business in deep waters due to its liquidity and asset quality challenges. We remain cautious on the credit business given the current economic risks and the tight liquidity scenario. We maintain Hold with a TP of Rs95, corresponding to ~1.3x FY23E P/B on a consolidated basis (we have upgraded our valuation of the wealth management business on the basis of the deal value). We remain UW in NBFC-EAP.

Tight liquidity and adverse macro pressurize margins and elevate credit costs; watchful of value unlocking: In Q1, EDEL's loan book dropped by ~60.7% yoy/12.3% sequentially to Rs168bn (excluding the distressed credit) as consolidation in the loan book continued amid tight liquidity conditions and headwinds in its developer finance segment.

Management has entered into an agreement with PAG, which will acquire a 51% stake in EWM (the wealth management and capital markets business) at a post-money valuation of Rs44bn. The board has also accorded its in-principle approval to explore various alternatives to transfer, hive-off, demerge, sell etc., whole or part of the asset management businesses of the Group, comprising of asset reconstruction, PMS, AIF and mutual fund businesses housed under various subsidiaries.

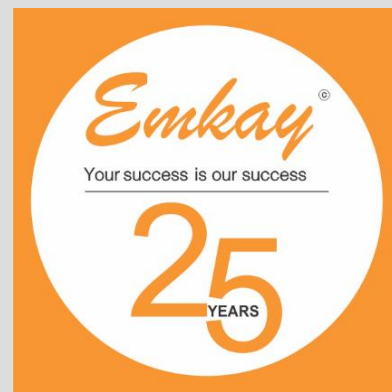
Outlook; maintain Hold/UW: EDEL's positive factors associated with growing focus on retail lending and decent performance of its wealth and asset management businesses were offset in part by credit and concentration risks in the group's wholesale lending segment and risks associated with the distressed assets business. We maintain Hold with a TP of Rs95, corresponding to ~0.3x FY23E P/B on a consolidated basis. We have an UW stance in NBFC-EAP. Key risks: Unexpected revival of the real estate industry.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 7\)](#)

Financial Snapshot (Consolidated)

| (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------|--------|----------|---------|--------|--------|
| Net income | 61,593 | 48,098 | 38,534 | 43,996 | 48,412 |
| Net profit | 10,444 | (20,436) | (290) | 2,525 | 3,096 |
| EPS (Rs) | 11.1 | (23.0) | (0.3) | 2.8 | 3.5 |
| ABV (Rs) | 79.3 | 64.8 | 63.2 | 64.8 | 66.9 |
| RoA (%) | 1.6 | (3.5) | (0.1) | 0.7 | 0.8 |
| RoE (%) | 14.3 | (29.6) | (0.5) | 4.1 | 4.8 |
| PE (x) | 7.6 | (3.6) | (257.2) | 29.5 | 24.1 |
| P/ABV | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 |

Source: Company, Emkay Research



Change in Estimates

| | |
|-------------------------|------|
| EPS Chg FY21E/FY22E (%) | -/- |
| Target Price change (%) | 48.4 |
| Target Period (Months) | 12 |
| Previous Reco | HOLD |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY21E | FY22E |
| Emkay | (0.3) | 2.8 |
| Consensus | 5.5 | 9.0 |
| Mean Consensus TP (12M) | Rs 78 | |

Stock Details

| | |
|------------------------------|-----------|
| Bloomberg Code | EDEL IN |
| Face Value (Rs) | 1 |
| Shares outstanding (mn) | 935 |
| 52 Week H/L | 135 / 30 |
| M Cap (Rs bn/USD bn) | 78 / 1.06 |
| Daily Avg Volume (nos.) | 26,86,019 |
| Daily Avg Turnover (US\$ mn) | 2.3 |

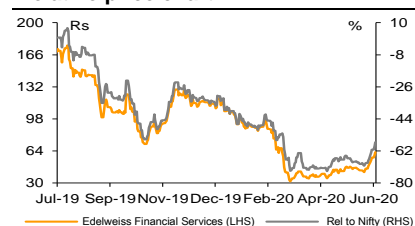
Shareholding Pattern Jun '20

| | |
|-------------------|-------|
| Promoters | 32.9% |
| FIIIs | 30.2% |
| DIIIs | 4.3% |
| Public and Others | 32.7% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------------|----|----|-----|------|
| Absolute | 8 | 79 | (9) | (28) |
| Rel. to Nifty | 4 | 44 | (8) | (31) |

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Jignesh Shial

jignesh.shial@emkayglobal.com
+91 22 6624 2468

Anand Dama

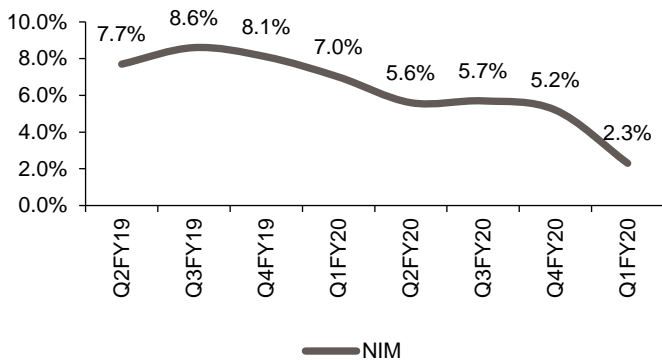
anand.dama@emkayglobal.com
+91 22 6624 2480

Parth Sanghvi

parth.sanghvi@emkayglobal.com
+91 22 6624 2431

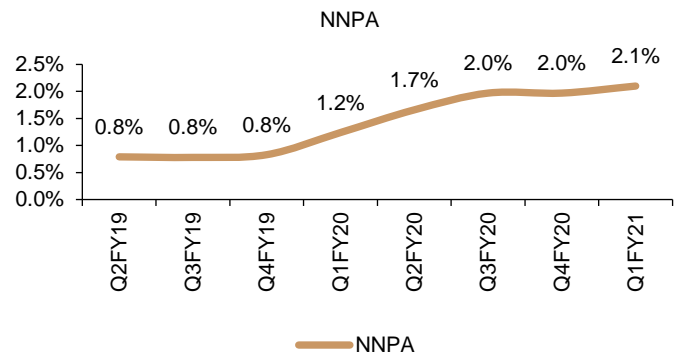
Story in Charts

Exhibit 1: NIMs have compressed to 2.3%



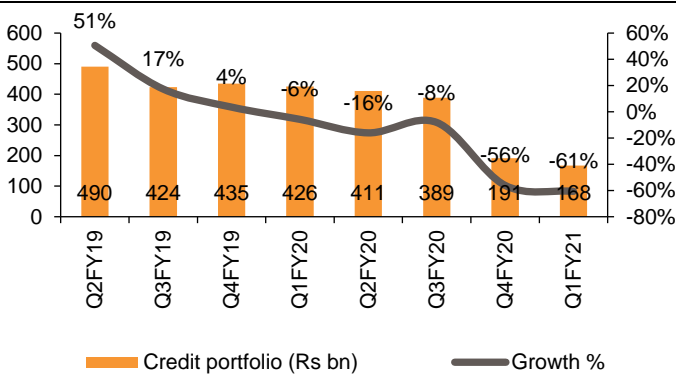
Source: Company, Emkay Research

Exhibit 2: Despite high credit costs, NNPA remain elevated



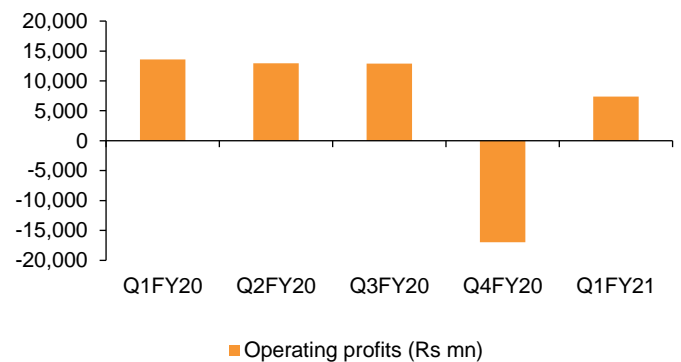
Source: Company, Emkay Research

Exhibit 3: Run-down of credit portfolio continues



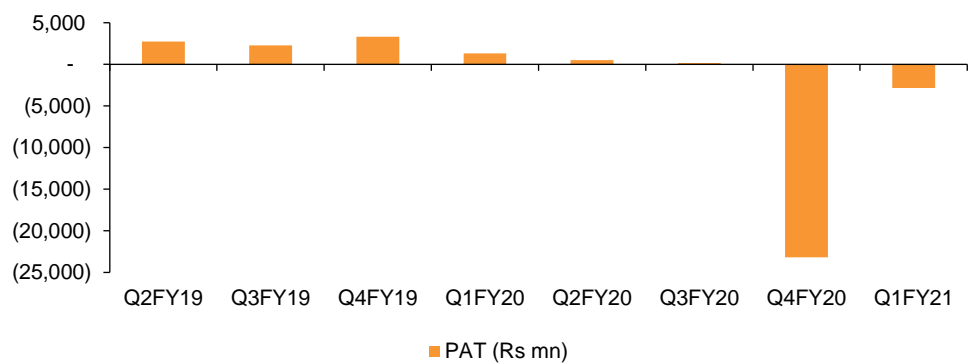
Source: Company, Emkay Research

Exhibit 4: Operating profits return to profits after aggressive provisioning in Q4



Source: Company, Emkay Research

Exhibit 5: High credit costs continue to affect bottom-line



Source: Company, Emkay Research

Exhibit 6: Quarterly results

| Particulars (Rs m) | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | YoY (%) | QoQ (%) | FY20 | FY21E | YoY (%) |
|---------------------------------------|---------------|---------------|---------------|----------------|---------------|----------------|----------------|----------------|---------------|---------------|
| Revenues | 25,820 | 24,052 | 26,496 | 19,659 | 19,197 | -25.7% | -2.3% | 96,028 | 64,870 | -32.4% |
| Operating expenses | 11,886 | 10,961 | 13,518 | 36,297 | 11,603 | -2.4% | -68.0% | 72,662 | 38,920 | -46.4% |
| Cons. C/I Ratio (%) | 46.0% | 45.6% | 51.0% | 184.6% | 60.4% | | | 75.7% | 60.0% | |
| Employee expenses | 3,762 | 3,321 | 3,322 | 3,669 | 3,084 | -18.0% | -15.9% | 14,073 | 13,369 | -5.0% |
| Other expenses | 8,125 | 7,640 | 10,197 | 32,628 | 8,519 | 4.9% | -73.9% | 67,109 | 25,551 | -61.9% |
| Operating Profit | 13,934 | 13,091 | 12,977 | -16,638 | 7,594 | -45.5% | -145.6% | 23,366 | 25,950 | 11.1% |
| Interest expenses | 11,902 | 12,015 | 12,462 | 11,551 | 10,020 | -15.8% | -13.3% | 47,930 | 26,336 | -45.1% |
| Profit before tax | 2,031 | 1,077 | 515 | -28,190 | -2,426 | -219.4% | -91.4% | -24,565 | -386 | -98.4% |
| Tax | 686 | 397 | 162 | -5,374 | 211 | -69.3% | -103.9% | -4,129 | -97 | -97.7% |
| Tax rate (%) | 33.8% | 36.9% | 31.4% | 19.1% | -8.7% | | | 16.8% | 25.0% | |
| Add: Share of profits from Associates | 0 | 0 | 0 | 0 | 0 | | | -3 | 2 | |
| Less: Minority Interest | 25 | 168 | 186 | 364 | 186 | | | 0 | 0 | |
| Profit after tax | 1,320 | 512 | 167 | -23,180 | -2,823 | -313.8% | -87.8% | -20,439 | -288 | -98.6% |

Source: Company, Emkay Research

Exhibit 7: SOTP FY22E basis

| Business | Stake (%) | Value (Rs m) | Value of EDEL Stake (Rs m) | % contribution | Valuation basis |
|------------------------|-----------|--------------|----------------------------|----------------|------------------------|
| Credit business | 80% | 35,918 | 28,735 | 34% | 0.5x FY22E Book Value |
| Franchise business | 90% | 52,900 | 47,610 | 56% | 14x FY22E PAT |
| Life Insurance | 51% | 15,700 | 8,007 | 9% | 1x FY19 Embedded Value |
| Total value | | | 84,351 | 100% | |
| O/s no of shares (mn) | | | 888 | | |
| Value per share | | | 95 | | |

Source: Company, Emkay Research

Exhibit 8: Revision in estimates

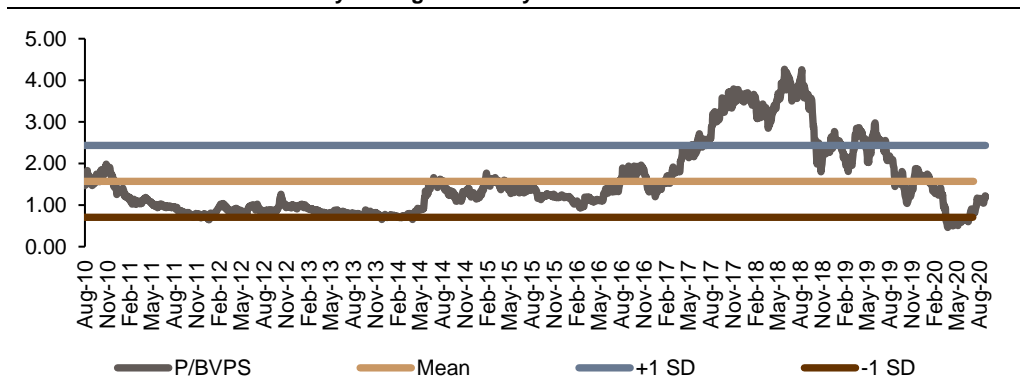
| Rs mn | FY21E | | | FY22E | | | FY23E | | |
|-----------------|---------|---------|----------|---------|---------|----------|---------|---------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | Earlier | Revised | % change |
| Net op. income | 38,534 | 38,534 | 0.0% | 43,996 | 43,996 | 0.0% | 48,412 | 48,412 | 0.0% |
| Pre-tax profits | -386 | -386 | 0.0% | 3,367 | 3,367 | 0.0% | 4,128 | 4,128 | 0.0% |
| PAT | -290 | -290 | 0.0% | 2,525 | 2,525 | 0.0% | 3,096 | 3,096 | 0.0% |
| EPS (Rs) | -0.3 | -0.3 | 0.0% | 2.8 | 2.8 | 0.0% | 3.5 | 3 | 0.0% |
| BV (Rs) | 69 | 69 | 0.0% | 71 | 71 | 0.0% | 75 | 75 | 0.0% |

Source: Company, Emkay Research

Exhibit 9: Key assumptions

| (in %) | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|--------|--------|-------|-------|
| Loan growth | -26.2% | -49.9% | -3.9% | 7.5% |
| Borrowing growth | -20.6% | -48.8% | 0.1% | 6.3% |
| Yield on average loans | 17.4% | 13.0% | 12.5% | 13.2% |
| Cost of average int. liabilities | 11.6% | 9.5% | 9.1% | 9.0% |

Source: Emkay Research

Exhibit 10: The stock is currently trading at 1.2x 1-year forward P/B

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------|---------------|----------------|---------------|---------------|---------------|
| Net income | 61,593 | 48,098 | 38,534 | 43,996 | 48,412 |
| Operating expenses | 39,370 | 37,047 | 35,919 | 38,793 | 42,417 |
| Pre provision profit | 22,223 | 11,051 | 2,615 | 5,204 | 5,996 |
| Provisions | 4,828 | 35,615 | 3,001 | 1,837 | 1,868 |
| Profit before tax | 17,395 | (24,565) | (386) | 3,367 | 4,128 |
| Tax | 6,993 | (4,129) | (97) | 842 | 1,032 |
| Tax rate | 40 | 17 | 25 | 25 | 25 |
| Profit after tax | 10,444 | (20,436) | (290) | 2,525 | 3,096 |

Balance Sheet

| Y/E Year End (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity | 888 | 888 | 1,026 | 1,026 | 1,026 |
| Reserves | 86,262 | 71,181 | 70,806 | 73,246 | 76,256 |
| Net worth | 87,150 | 72,069 | 71,833 | 74,272 | 77,283 |
| Borrowings | 4,61,477 | 3,66,574 | 1,87,867 | 1,88,092 | 1,99,940 |
| Total liabilities | 6,41,535 | 5,42,802 | 3,74,011 | 3,86,334 | 4,12,427 |
| Cash and bank | 64,554 | 86,096 | 49,688 | 56,600 | 60,808 |
| Investments | 89,931 | 87,988 | 96,787 | 1,04,530 | 1,12,892 |
| Loans | 4,56,858 | 3,22,420 | 1,78,921 | 1,74,159 | 1,85,129 |
| Others | 30,191 | 46,300 | 48,615 | 51,045 | 53,598 |
| Total assets | 6,41,535 | 5,42,803 | 3,74,011 | 3,86,334 | 4,12,427 |

Key Ratios (%)

| Y/E Year End | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------|------|--------|-------|-------|-------|
| NIM | 4.2 | 3.3 | (0.2) | 1.3 | 2.0 |
| RoA | 1.6 | (3.5) | (0.1) | 0.7 | 0.8 |
| RoAE | 14.3 | (29.6) | (0.5) | 4.1 | 4.8 |
| GNPA (%) | 1.9 | 3.4 | 8.1 | 10.1 | 11.3 |
| NNPA (%) | 0.8 | 1.9 | 4.9 | 6.2 | 6.9 |

| Per Share Data (Rs) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------|------|--------|-------|-------|-------|
| EPS | 11.1 | (23.0) | (0.3) | 2.8 | 3.5 |
| BVPS | 81.5 | 69.0 | 68.7 | 71.5 | 74.9 |
| ABVPS | 79.3 | 64.8 | 63.2 | 64.8 | 66.9 |
| DPS | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |

| Valuations (x) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------|------|-------|---------|-------|-------|
| PER | 7.6 | (3.6) | (257.2) | 29.5 | 24.1 |
| P/BV | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 |
| P/ABV | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 |
| Dividend Yield (%) | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Emkay Research

| Growth (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| NII | 53.7 | (38.0) | (102.9) | (724.1) | 52.2 |
| PPOP | 12.5 | (50.3) | (76.3) | 99.0 | 15.2 |
| PAT | 24.8 | (295.7) | (98.6) | (972.1) | 22.6 |
| Loans | (3.3) | (29.4) | (44.5) | (2.7) | 6.3 |

| Quarterly (Rs mn) | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| NII | 13,585 | 11,881 | 13,934 | 7,803 | 9,961 |
| NIM(%) | 7.0 | 5.6 | 5.7 | 5.2 | 2.3 |
| PPOP | 2,031 | 1,077 | 515 | (28,190) | (2,426) |
| PAT | 1,345 | 681 | 353 | (22,816) | (2,637) |
| EPS (Rs) | 1.49 | 0.58 | 0.19 | (26.08) | (2.75) |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 33.0 | 32.9 | 32.9 | 32.9 | 32.9 |
| FIIIs | 29.2 | 30.2 | 30.0 | 30.4 | 31.1 |
| DIIIs | 3.7 | 4.6 | 4.9 | 4.7 | 4.6 |
| Public and Others | 34.2 | 32.2 | 32.2 | 32.0 | 31.5 |

Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-----|-----------------|------------|---------------|
| 16-Jun-20 | 43 | 86 | 12m | Hold | Jignesh Shial |
| 14-May-20 | 42 | 86 | 12m | Hold | Jignesh Shial |
| 08-Mar-20 | 77 | 91 | 12m | Hold | Jignesh Shial |
| 17-Feb-20 | 85 | 91 | 12m | Hold | Jignesh Shial |
| 16-Feb-20 | 89 | 135 | 12m | Hold | Jignesh Shial |
| 19-Nov-19 | 123 | 135 | 12m | Hold | Jignesh Shial |
| 13-Nov-19 | 122 | 135 | 12m | Hold | Jignesh Shial |
| 13-Nov-19 | 122 | 135 | 12m | Hold | Jignesh Shial |
| 23-Sep-19 | 123 | 135 | 12m | Hold | Jignesh Shial |
| 28-Aug-19 | 119 | 146 | 12m | Hold | Jignesh Shial |
| 14-Aug-19 | 144 | 146 | 12m | Hold | Jignesh Shial |
| 25-May-19 | 183 | 166 | 12m | Hold | Jignesh Shial |
| 15-May-19 | 156 | 166 | 12m | Hold | Jignesh Shial |
| 08-Mar-19 | 163 | 190 | 12m | Hold | Jignesh Shial |
| 15-Feb-19 | 141 | 190 | 12m | Accumulate | Jignesh Shial |
| 25-Jan-19 | 159 | 190 | 12m | Accumulate | Jignesh Shial |
| 29-Oct-18 | 148 | 211 | 12m | Buy | Jignesh Shial |
| 26-Sep-18 | 212 | 286 | 12m | Buy | Jignesh Shial |
| 24-Sep-18 | 216 | 325 | 12m | Buy | Jignesh Shial |
| 29-May-18 | 339 | 361 | 12m | Buy | Jignesh Shial |
| 04-May-18 | 292 | 361 | 12m | Buy | Jignesh Shial |
| 10-Apr-18 | 264 | 354 | 12m | Buy | Jignesh Shial |
| 07-Nov-17 | 279 | 368 | 12m | Buy | Umang Shah |
| 04-Aug-17 | 225 | 280 | 12m | Buy | Umang Shah |

Source: Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

Contact Details

jignesh.shial@emkayglobal.com
+91 22 6624 2468

Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

| Company Name | BSE200 Weight | EAP Weight | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|------------------------------|---------------|-------------|------------|-------------|-------------------------|
| BFSI-NBFCs | 7.54 | 7.48 | -1% | -6 | 100.00 |
| Bajaj Finance | 1.42 | 1.48 | 5% | 6 | 19.64 |
| Cholamandalam Investment | 0.15 | 0.15 | 0% | 0 | 1.94 |
| Edelweiss Financial Services | 0.07 | 0.00 | -100% | -7 | 0.00 |
| HDFC | 5.28 | 5.35 | 1% | 7 | 70.90 |
| L&T Finance Holdings | 0.07 | 0.00 | -100% | -7 | 0.00 |
| LIC Housing Finance | 0.15 | 0.15 | 5% | 1 | 2.02 |
| Magma Fincorp | 0.00 | 0.00 | NA | 0 | 0.00 |
| Mahindra Finance | 0.13 | 0.07 | -44% | -6 | 0.99 |
| Nippon Life | 0.07 | 0.07 | 5% | 0 | 0.98 |
| Shriram City Union Finance | 0.00 | 0.00 | NA | 0 | 0.00 |
| Shriram Transport Finance | 0.21 | 0.21 | -4% | -1 | 2.72 |
| Cash | 0.00 | 0.06 | NA | 6 | 0.8 |

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

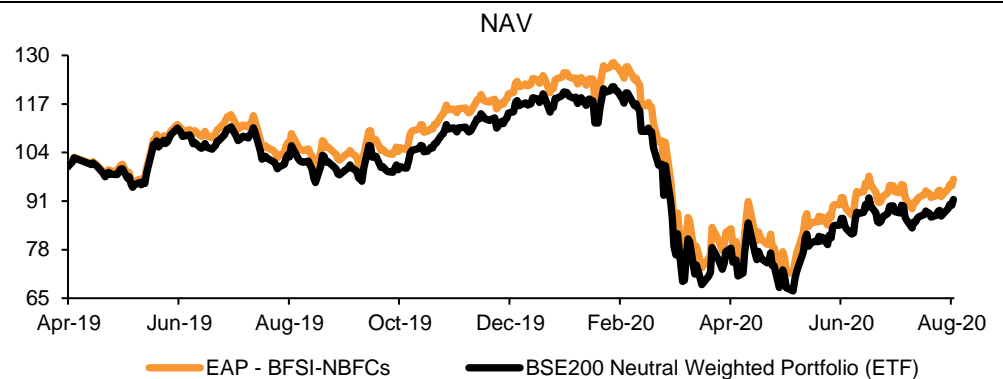
Sector portfolio NAV

| | Base | | | | | Latest |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| | 01-Apr-19 | 26-Nov-19 | 27-Feb-20 | 29-May-20 | 28-Jul-20 | 27-Aug-20 |
| EAP - BFSI-NBFCs | 100.0 | 118.2 | 122.0 | 78.3 | 95.4 | 96.8 |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0 | 113.0 | 115.1 | 73.3 | 89.9 | 91.4 |

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY | Over 15% |
| HOLD | Between -5% to 15% |
| SELL | Below -5% |

Completed Date: 28 Aug 2020 21:43:49 (SGT)

Dissemination Date: 28 Aug 2020 21:44:49 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com