

## Continuous divestment in key subsidiaries continues

Edelweiss Financials reported a weak set of Q1FY21 numbers wherein the company reported a consolidated loss of ₹ 264 crore mainly due to impairment of ₹ 145 crore and muted performance in credit and insurance business. In credit business, the wholesale lending book de-grew 18% QoQ to ₹ 10953 crore. Advances de-growth led to dip in net revenue by 92% QoQ to ₹ 95 crore. Muted topline and higher provisions led to a loss worth ₹ 156 crore. In retail credit (~55% of overall loan book), EHFL growth was stable with loan book at ₹ 4490 crore, up 3.8% QoQ. ERFL loan growth came at ₹ 1312 crore, down 5% QoQ.

Amid Covid-19 ARC business reported healthy AUM growth of 53.5% QoQ at ₹ 66300 crore and recoveries at ₹ 470 crore. For AMC business, AUM was at ₹ 29400 crore with gross revenue at ₹ 25 crore (yield at 0.08%). Higher operating costs marred EAML's PAT growth and led it to come in at ₹ 2 crore. The company plans to grow its equity AUM to ~₹ 10000 crore within the next 12-18 months.

Wealth Management's AUM growth was healthy at ₹ 127300 crore, up 12% QoQ with PAT down 63% QoQ to ₹ 59 crore. Insurance business growth was subdued due to muted growth in premium income at ₹ 154 crore. A substantial portion of product mix consisted of traditional par and non-par policies while Ulip formed 25% of the overall product mix. Post the below deal, Edelweiss will hold only 41% of the wealth business.

**PAGAC Ecstasy Pte Ltd and its Affiliates has agreed to buy a 51% stake in the wealth management and capital market business from the company's subsidiary Edelweiss Global Wealth Management for a total consideration of ~₹ 2204 crore with post money value of ~₹ 4400 crore. Considering capital markets business valued at ₹ 600-700 crore, at wealth AUM of ₹127000 crore, the deal valuation is <4% of AUM, which appears lower than listed peers.** This transaction is expected to be completed within four to six months subject to regulatory approvals. Edelweiss intends to demerge the wealth management business within the next 12-18 months and list it in due course as a separate entity. This is short-term positive but as the core profit making low risk businesses of wealth and capital markets is out, it is valuation dilutive at the holding company level.

## Valuation & Outlook

Adequate capital adequacy and retail moratorium at 25% provide cushion to credit portfolio. Stake sale of wealth, capital markets, alternate assets have unlocked value and provided capital. This will also help in debt repayment and infusion in insurance subsidiaries. As a holding company structure is gradually changing with each stake sale, we expect earnings to remain volatile on consolidated basis in near future. Existing shareholders will receive shares of step-down companies under the current rejig of stakes but we believe this may take two to three years. We maintain **HOLD** rating with a target price of ₹ 77.

### Key Financial Summary

	FY16	FY17	FY18	FY19	FY20	CAGR (FY17-20)
Revenue from operation (₹crore)	2348	3383	4443	5275	2731	-7%
Net Profit (₹crore)	414	609	838	991	-1899	NA
EPS (₹)	5.0	7.3	10.1	11.4	-21.8	NA
P/E (x)	23.0	15.8	11.4	10.1	-5.3	
Book Value	44.4	51.5	72.9	83.8	59.6	
P/B (x)	2.6	2.2	1.6	1.4	1.9	
RoE (%)	12.1	15.2	15.0	14.3	-29.6	
RoA (%)	1.2	1.5	1.5	1.6	-3.5	

Source: Company, ICICI Direct Research



### Particulars

	Amount
Market Capitalisation	₹7478 crore
Networth	₹6129 crore
52 week H/L	134/30
Face Value	₹1
DII Holding (%)	4.3
FII Holding (%)	30.2
Promoter Holding (%)	32.9
Others (%)	32.7

### Key Highlights

- PAGAC Ecstasy Pte Ltd has agreed to buy 51% stake in wealth & capital market business for ~₹ 2204 crore
- Reported weak Q1FY21 results wherein muted performance in credit and insurance business led to loss of ₹ 264 crore
- Maintain HOLD recommendation with revised target price of ₹ 77

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**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY20	YoY	Q4FY20	QoQ	Comments
Interest Income	10,553	15,910	-34%	13,735	-23%	
Interest Expense	10,020	11,902	-16%	11,551	-13%	
Net Interest Income	533	4,008	-87%	2,183	-76%	Muted business growth, sell downs and decline in margins dented NII
Other Income	6,750	8,184	-18%	1,778	280%	
Net Revenue	7,284	12,192	-40%	3,961	84%	
Employee Expenses	3,084	3,762	-18%	3,669	-16%	
Total Expenses	5,972	6,852	-13%	8,853	-33%	Lower opex due to lockdown and reduction in size of operations
Insurance Business	4,915	3,585	37%	6,097	-19%	Insurance premium growth was subdued, capital infusion likely
PPP	184	5,206	-96%	-2,696	-107%	
Provisions	2,610	3,175	-18%	25,494	-90%	
PBT	-2,426	2,031	NA	-28,190	-91%	One time impairment on wholesale book was taken in Q4FY20 which are being sell down and do not expect higher provisions in them ahead.
Tax	211	686	-69%	-5,374	NA	
PAT	-2,637	1,345	NA	-22,816	NA	Higher provisions and subdued performance of credit and insurance business led to a loss

Source: Company, ICICI Direct Research

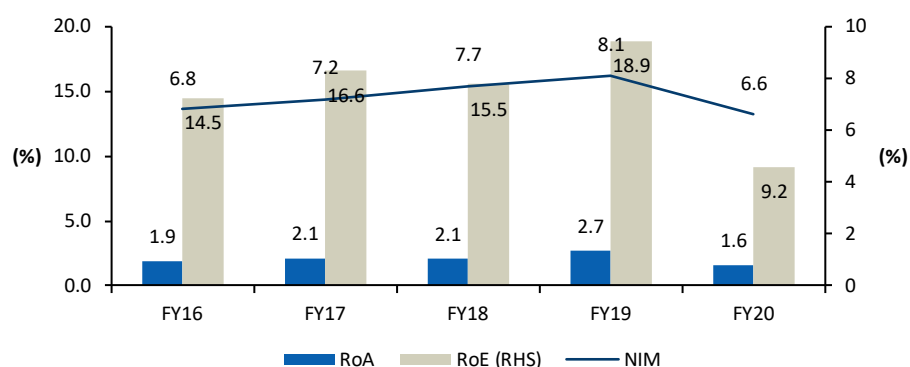
## Story in Charts

Exhibit 2: Segmental comparison based on broad parameters

	Corporate Credit	Retail Credit	Wealth Management	Asset Management	ARC	Life Insurance
Equity (₹crore)	3363	1243	1,260.00	159	2090	721
AUM (₹crore)	10953	5802	1,27,300	29400	66300	3000
Net Revenue (₹crore)	95	57	264.00	25	257	154
PAT (₹crore)	-156	11	59.00	2	43	-68
NIM %	2.3	4.5				

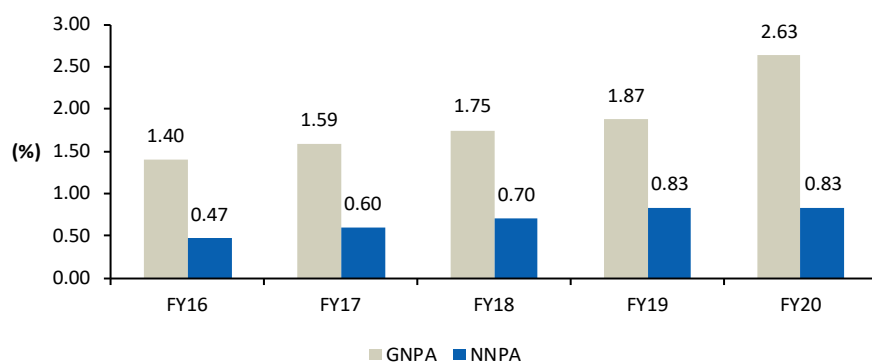
Source: Company, ICICI Direct Research

Exhibit 3: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 4: Asset quality trend



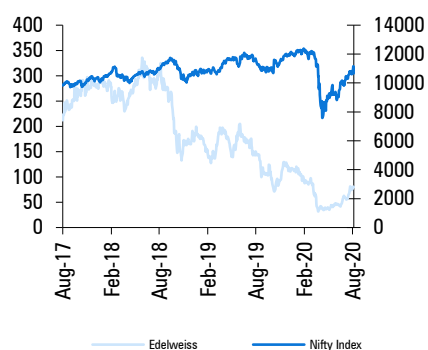
Source: Company, ICICI Direct Research

### Exhibit 5: Wholesale book to decline, going forward

₹ crore	FY18	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Credit Business</b>	<b>40589</b>	<b>41120</b>	<b>37812</b>	<b>35110</b>	<b>281830</b>	<b>210320</b>	<b>167550</b>
<b>Wholesale</b>	<b>19525</b>	<b>18055</b>	<b>16987</b>	<b>16178</b>	<b>139270</b>	<b>100500</b>	<b>109530</b>
<b>Retail Loans</b>	<b>21,064</b>	<b>23,065</b>	<b>20,825</b>	<b>18,932</b>	<b>1,42,560</b>	<b>1,09,820</b>	<b>58,020</b>
<b>ARC Asset</b>	<b>6,297</b>	<b>7,380</b>	<b>8,631</b>	<b>8,765</b>	<b>8,600</b>	<b>0</b>	<b>0</b>
Total Loan Book	46886	48500	46443	43875	290430	210320	167550
<b>Proportion (%)</b>							
<b>Credit Business</b>	<b>87</b>	<b>85</b>	<b>81</b>	<b>80</b>	<b>97</b>	<b>100</b>	<b>100</b>
Wholesale	42	37	37	37	48	48	65
Retail Loans	45	48	45	43	49	52	35
<b>ARC Asset</b>	<b>13</b>	<b>15</b>	<b>19</b>	<b>20</b>	<b>3</b>	<b>0</b>	<b>0</b>
Total Loan Book	100	100	100	100	100	100	100

Source: Company, ICICI Direct Research

### Exhibit 6: Price Chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement ₹ crore				
	FY17	FY18	FY19	FY20
Net Interest Income- Credit	2,135	2,305	3,142	1,654
Income from non credit bus	1,061	1,330	1,310	1,078
Other operating Revenue	19	81	82	0
Net Revenues	3,383	4,443	5,275	2,731
Operating Expenses	2,084	2,530	3,144	2,904
Operating Profit	1,299	1,913	2,131	-172
Provisioning	319	616	512	2,449
PBT (ex- insurance)	980	1,297	1,618	-2,621
Gain/(loss) from insurance	-37	53	-157	-127
PBT	943	1,350	1,740	-2,457
Tax	395	512	699	-413
Consol PAT (ex-minority int)	548	838	1,040	-2,044
Minority Interest	-31	-27	49	-145
Consol PAT	609	838	991	-1,899

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
	FY17	FY18	FY19	FY20
<b>Valuation</b>				
No of equity Shares	84	92	92	94
EPS (₹)	7.3	10.1	11.4	-21.8
BV (₹)	51.5	72.9	83.8	59.6
P/E (x)	15.4	11.1	9.9	-5.1
P/BV (x)	2.2	1.5	1.3	1.9
<b>Margin</b>				
NIM (%)	7.2	7.7	8.1	6.6
<b>Quality &amp; Efficiency</b>				
GNPA (%)	1.6	1.7	1.9	2.6
NNPA (%)	0.6	0.7	0.8	0.8
ROA (%)	1.5	1.5	1.6	-3.5
ROE (%)	15.2	15.0	14.3	-29.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
	FY17	FY18	FY19	FY20
Share capital	83	87	89	89
Reserves and surplus	4,242	6,796	7,588	6,040
<b>Shareholders' Equity</b>	4,325	6,883	7,677	6,129
ex-insurance	3,952	6,328	7,143	6,129
Minority interest	963	2,719	3,298	1,078
<b>Borrowings</b>	33,379	48,031	45,217	34,080
Other liabilities	6,161	7,630	10,612	10,994
<b>Total liabilities</b>	44,823	63,487	64,544	52,280
Fixed assets	738	577	548	1,501
Cash and bank balances	2,618	4,562	6,455	8,610
<b>Investments</b>	6,878	7,887	8,799	8,267
<b>Loans</b>	27,608	38,439	38,408	28,361
Other assets	6,982	12,022	10,333	5,542
<b>Total assets</b>	44,823	63,487	64,544	52,280

Source: Company, ICICI Direct Research

Exhibit 10: Key ratio (%)				
	FY17	FY18	FY19	FY20
Total Asset	21.2	41.6	1.7	-19.0
Advances	37.9	39.2	-0.1	-26.2
Borrowing	39.3	43.9	-5.9	-24.6
Total Income	44.1	31.3	18.7	-48.2
Total Expense	25.4	21.4	24.3	-7.7
Net Profit	47.0	37.6	18.2	NA
EPS	44.9	39.3	12.4	NA
Book Value	16.1	41.4	14.9	-28.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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