

Edelweiss Financial Services

Refer to important disclosures at the end of this report

Uncertain times ahead

CMP: Rs 58
as of (July 6, 2020)

TP: Rs 64 (▼)
12 months

Rating: HOLD (■)

Upside: 10.6 %



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- EDEL reported weak Q4 results, with AUM falling for the fourth straight quarter). AUM declined 47.1% YoY and 32.2% QoQ to Rs191bn amid tight liquidity conditions and economic headwinds. Management intends to gradually run down its wholesale book. Accordingly, we expect AUMs to remain under pressure for the foreseeable future.
- The company has improved its overall borrowing profile with a decline in CPs and rise in NCD/banks. Management has highlighted its plan to collapse the holding company and issue direct equity in the various companies of Edelweiss group by issuing fresh equity of Rs10-15bn in EGIA. We await to hear more from the management regarding the revised structure.
- Gross NPAs deteriorated sequentially to 3.8% from 2.8% in Q3. The company has made provisions of Rs26bn in Q4 on account of revision in the ECL model, additional impairment to facilitate sell downs and a one-time Covid-19 provision. Management has been prudent in providing, though we believe asset quality may not be as bad as it may appear.
- We remain cautious given the current economic risks and the tight liquidity scenario. We maintain Hold with a TP of Rs64, corresponding to ~0.9x FY23E P/B on a consolidated basis. We are UW in NBFC-EAP.

Tight liquidity and adverse macro pressurize margins and trigger elevated credit costs; watchful of value unlocking: In Q4, EDEL's loan book dropped by ~47.1% yoy/32.2% sequentially to Rs191bn (excluding the distressed credit) as consolidation in the loan book continued amid tight liquidity conditions and headwinds in its developer finance segment.

Management has highlighted its plan of collapsing the holding company and issuing direct equity in the various companies of Edelweiss group. Management plans to issue equity of Rs10-15bn in EGIA and another Rs10-15bn in ECL Finance, if necessary. Management also plans to bring down the wholesale book to nil and focus on retail, capital markets, asset management, ARC and insurance. We await to hear more from the management regarding the revised structure.

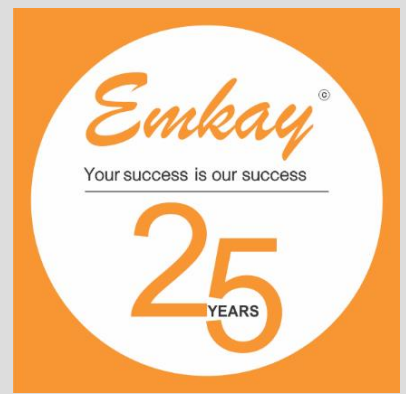
Outlook; maintain Hold/UW: EDEL's positive factors associated with growing focus on retail lending and strong performance of its wealth and asset management businesses were offset in part by credit and concentration risks in the group's wholesale lending segment and risks associated with the distressed assets business. We maintain Hold with a TP of Rs64, corresponding to ~0.9x FY23E P/B on a consolidated basis. We have an UW stance in NBFC-EAP. Key risks: Uncertainty of the wholesale book and the revival of retail credit demand.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 6\)](#)

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	63.1	64.7	66.8
RoA (%)	1.6	(3.5)	(0.1)	0.7	0.8
RoE (%)	14.3	(29.6)	(0.5)	4.1	4.8
PE (x)	5.2	(2.5)	(178.2)	20.4	16.7
P/ABV	0.7	0.9	0.9	0.9	0.9

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(109)/(19)
Target Price change (%)	(29.4)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(0.3)	2.8
Consensus	6.4	9.6
Mean Consensus TP (12M)	Rs 79	

Stock Details

Bloomberg Code	EDEL IN
Face Value (Rs)	1
Shares outstanding (mn)	935
52 Week H/L	177 / 30
M Cap (Rs bn/USD bn)	54 / 0.73
Daily Avg Volume (nos.)	23,57,619
Daily Avg Turnover (US\$ mn)	1.5

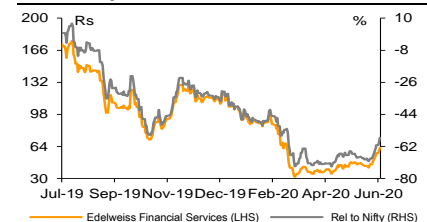
Shareholding Pattern Mar '20

Promoters	32.9%
FIIs	31.1%
DIIIs	4.6%
Public and Others	31.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	26	38	(48)	(66)
Rel. to Nifty	19	3	(42)	(63)

Relative price chart



Source: Bloomberg

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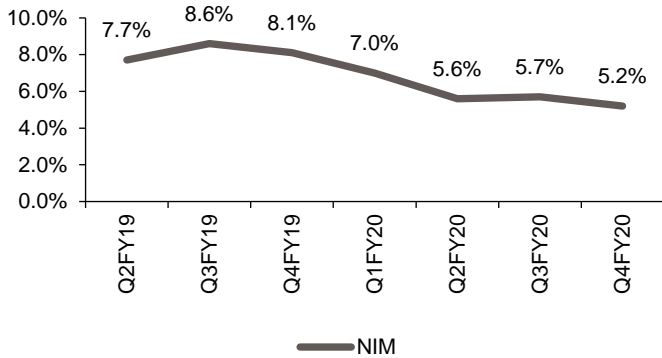
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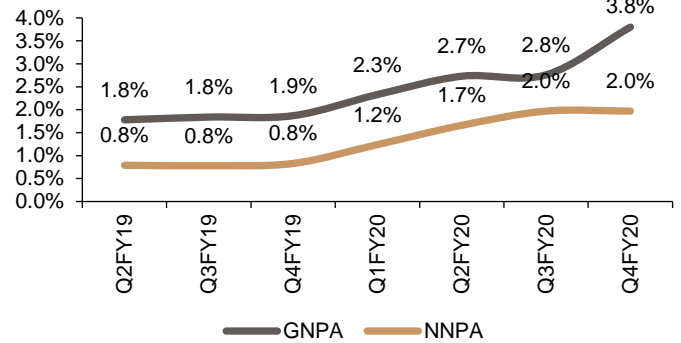
Story in Charts

Exhibit 1: NIMs have compressed to 5.2%



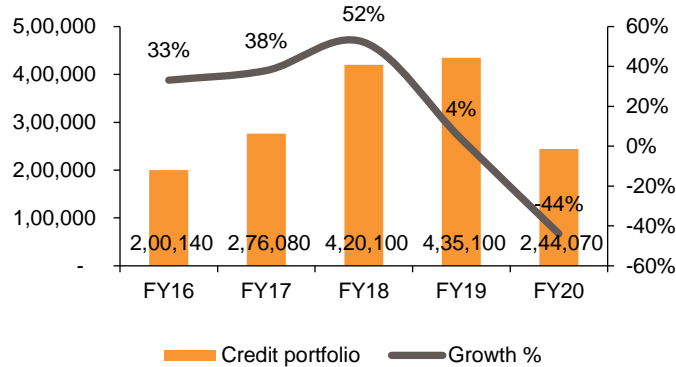
Source: Company, Emkay Research

Exhibit 2: Asset quality continues to deteriorate



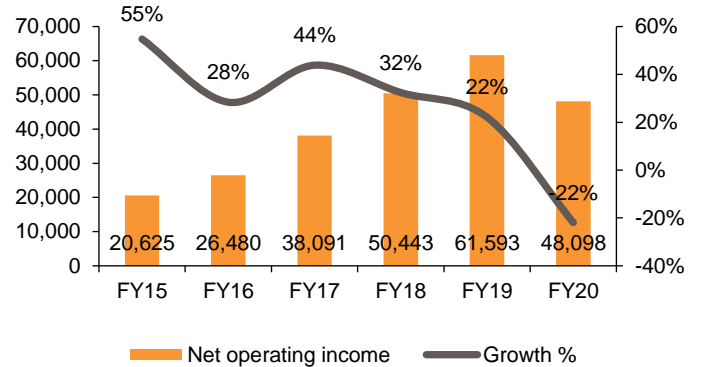
Source: Company, Emkay Research

Exhibit 3: Credit portfolio comes off by 44% yoy



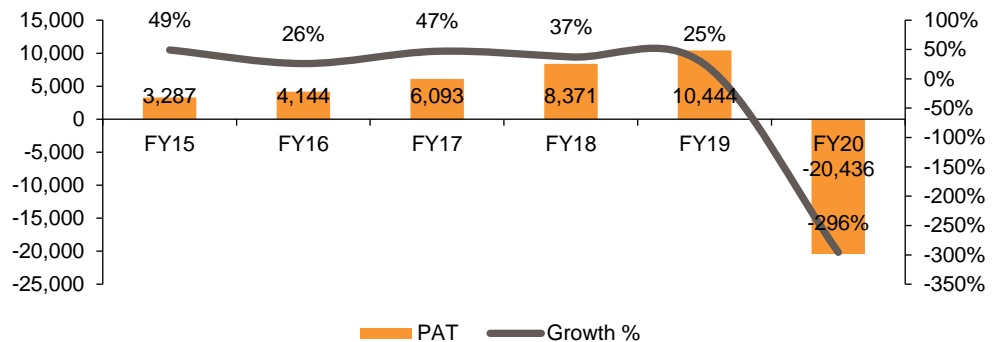
Source: Company, Emkay Research

Exhibit 4: Liquidity troubles dragging down operations



Source: Company, Emkay Research

Exhibit 5: Accelerated provisioning drags company into a Rs204bn loss



Source: Company, Emkay Research

Exhibit 6: Quarterly results

Particulars (Rs m)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues	30,412	25,820	24,052	26,496	19,659	-35.4%	-25.8%	1,08,815	96,028	-11.8%
Operating expenses	13,154	11,886	10,961	13,518	36,297	175.9%	168.5%	44,197	72,662	64.4%
Cons. C/I Ratio (%)	43.3%	46.0%	45.6%	51.0%	184.6%			40.6%	75.7%	
Employee expenses	4,359	3,762	3,321	3,322	3,669	-15.8%	10.5%	16,500	16,396	-0.6%
Other expenses	8,795	8,125	7,640	10,197	32,628	271.0%	220.0%	28,464	30,967	8.8%
Operating Profit	17,258	13,934	13,091	12,977	-16,638	-196.4%	-228.2%	64,617	23,366	-63.8%
Interest expenses	12,210	11,902	12,015	12,462	11,551	-5.4%	-7.3%	47,222	47,930	1.5%
Profit before tax	5,048	2,031	1,077	515	-28,190	-658.5%	-5573.7%	17,395	-24,565	-241.2%
Tax	1,593	686	397	162	-5,374	-437.3%	-3421.4%	6,993	-4,129	-159.0%
Tax rate (%)	31.6%	33.8%	36.9%	31.4%	19.1%			40.2%	16.8%	
Add: Share of profits from Associates	0	0	0	0	0			42	-3	
Less: Minority Interest	139	25	168	186	364			0	0	
Profit after tax	3,315	1,320	512	167	-23,180	-799.2%	-13971.7%	10,444	-20,439	-295.7%

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	50%	0.5x FY22E Book Value
Franchise business	90%	22,671	20,404	36%	7x FY22E PAT
Life Insurance	51%	15,700	8,007	14%	1x FY22E Embedded Value
Total value			57,146	100%	
O/s no of shares (mn)			890		
Value per share			64		

Source: Company, Emkay Research

Exhibit 8: Revision in estimates

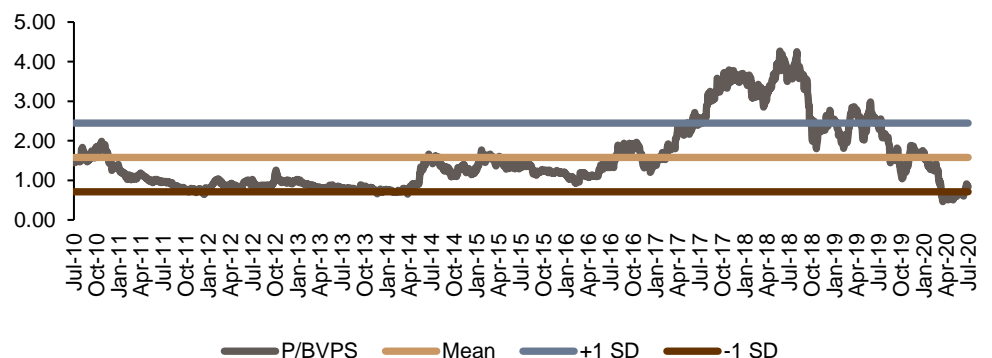
Rs mn	FY21E			FY22E			FY23E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net op. income	57,488	38,534	-33.0%	61,477	43,996	-28.4%	48,412
Pre-tax profits	4,534	-386	-108.5%	3,974	3,367	-15.3%	4,128
PAT	3,402	-290	-108.5%	3,418	2,525	-26.1%	3,096
EPS (Rs)	3.6	-0.3	-109.1%	3.5	2.8	-18.9%	3.5
BV (Rs)	84.4	68.6	-18.7%	85.9	71.3	-17.0%	74.7

Source: Company, Emkay Research

Exhibit 9: Key assumptions

(in %)	FY20	FY21E	FY22E	FY23E
Loans 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 0.8x 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	890	890	890	890
Reserves	86,262	71,181	70,806	73,246	76,256
Net worth	87,150	72,071	71,696	74,135	77,146
Borrowings	4,61,477	3,66,574	1,87,867	1,88,092	1,99,940
Total liabilities	6,41,535	5,42,803	3,73,874	3,86,197	4,12,290
Cash and bank	64,554	86,096	49,551	56,463	60,671
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	3,73,874	3,86,197	4,12,290

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	68.6	71.3	74.7
ABVPS	79.3	64.8	63.1	64.7	66.8
DPS	0.3	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	5.2	(2.5)	(178.2)	20.4	16.7
P/BV	0.7	0.8	0.8	0.8	0.8
P/ABV	0.7	0.9	0.9	0.9	0.9
Dividend Yield (%)	0.5	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)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	18,146	13,585	11,881	13,934	7,803
NIM(%)	8.1	7.0	5.6	5.7	5.7
PPOP	5,048	2,031	1,077	515	(28,190)
PAT	3,315	1,320	512	167	(23,180)
EPS (Rs)	3.73	1.49	0.58	0.19	(26.08)

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-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

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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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	7.72	7.66	-1%	-7	100.00
Bajaj Finance	1.27	1.27	1%	1	16.47
Cholamandalam Investment	0.13	0.13	-4%	-1	1.65
Edelweiss Financial Services	0.06	0.00	-100%	-6	0.00
HDFC	5.67	5.76	2%	9	74.57
L&T Finance Holdings	0.07	0.00	-100%	-7	0.00
LIC Housing Finance	0.15	0.15	1%	0	1.90
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.09	0.06	-34%	-3	0.81
Nippon Life	0.08	0.08	1%	0	1.10
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.20	0.21	1%	0	2.66
Cash	0.00	0.07	NA	7	0.8

Source: Emkay Research

* Not under coverage: Equal Weight

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

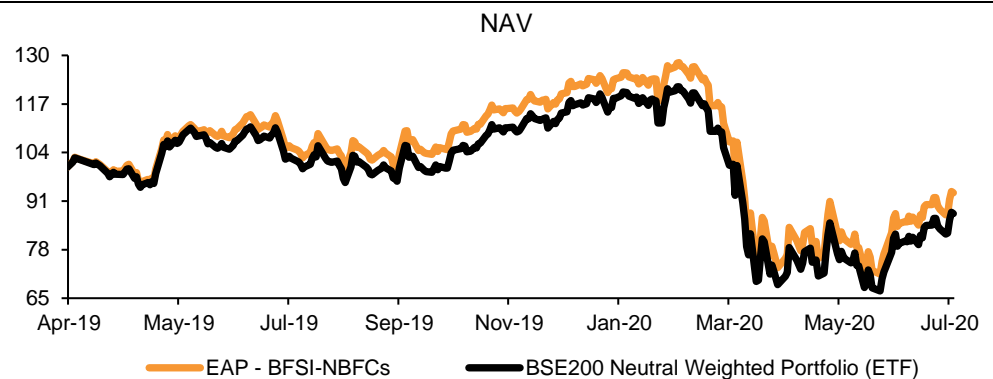
Sector portfolio NAV

	Base					Latest
	01-Apr-19	01-Oct-19	03-Jan-20	01-Apr-20	03-Jun-20	03-Jul-20
EAP - BFSI-NBFCs	100.0	104.8	123.8	77.1	87.6	93.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.2	118.8	72.2	82.2	87.6

*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: 07 Jul 2020 03:26:16 (SGT)

Dissemination Date: 07 Jul 2020 03:27:16 (SGT)

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