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Edelweiss goes asset-light as it turns focus on retail lending

Mumbai, Jul 19 (PTI) In a drastic business overhaul, the Edelweiss Group will be completely exiting the wholesale credit business by 2022, shifting its focus solely to retail credit along with asset and wealth management verticals.

Since the IL&FS bankruptcy-induced liquidity crisis in the shadow banking sector in September 2018, the group has been reducing its wholesale loan book and it is down 43 per cent from peak in FY18. The group will be selling down Rs 3,000 crore more of wholesale loans by March and completely exiting by 2022, says group chairman and chief executive Rashesh Shah.

Wholesale lending has been the mainstay for the 25-year-old group for long, bust since IL&FS pulled down the whole industry, quantum of sticky loans, mostly extended to commercial realty, ballooned forcing it to re-align the focus now.

The group also reported its maiden losses in the March quarter 2020, booking a whopping Rs 2,245 crore in net losses as it made a Rs 900-crore additional one-time provision towards the pandemic taking the total provisions to Rs 2,549 crore.

With focus shifting away from wholesale credit, total income came also down to Rs 9,603 crore in FY20 from Rs 11,161 crore in FY19 when it had a net income of Rs 995 crore.

The group has three credit verticals — wholesale arm ECL Finance, housing finance arm EHFL and retail credit arm ERFL, which respectively netted interest income of Rs 1,191 crore, Rs 188 crore and Rs 115 crore, respectively.

Their respective credit loss stood at Rs 2,335 crore, Rs 41 crore, and Rs 73 crore and net profit of minus Rs 1,414 crore, Rs 2 crore and Rs 1 crore with gross NPAs of 3.8 per cent, 1.7 per cent and 2.4 per cent.

The group is also into asset reconstruction where it is the largest player fetching it a management fee of Rs 800 crore and wealth and asset management where it is a strong player with a steady fee income of Rs 1,095 crore in FY20.

Capital adequacy of these credit subsidiaries stood at 21 per cent for ECL, 28.6 per cent for housing arm and for retail credit at 29.4 per cent and that of ARC at a high 32.5 per cent and a group level liquidity of 24 per cent and as a result plans to borrow less this year. It plans to borrow only Rs 25,000 crore this fiscal, down from Rs 33,000 crore in FY20, and Rs 50,000 crore in FY19.

Edelweiss Retail Finance offers retail mortgage, SME and business loans, margin financing, agri and rural finance, and structured collateralised credit. It had a loan of book of Rs 4,326 crore in FY20, while the retail credit arm closed the year at Rs 1,391 crore of AUM.

Shah, however, did not elaborate on loan growth target for the current year as it shifts focus to SME-focused retail lending, given the pandemic and given the 25 per cent of customers in moratorium, though he expects normalcy to return from the third quarter.

As of March, outstanding wholesale loan came stood at Rs 10,000 crore, down 43 per cent from FY19 when it stood at Rs 19,100 crore.

"ECL Finance had a total loan book of Rs 19,100 crore in FY19, and is just about Rs 10,000 crore as of March 2020, having sold Rs 4,000 crore to global investors in the year and we are selling Rs 3,000 crore more before March 2021 and a complete exit by 2022," Shah told PTI recently.

"The objective is to have zero exposure to wholesale credit by 2022," said Shah, adding, however the group will do wholesale lending through the AMC business, which has assets under management of Rs 21,000 crore.

He is bullish on wealth and asset management as he sees them to be highly scalable and have the potential to fetch high fee income, which in FY20 stood at Rs 1,095 crore and an AUM of Rs 1,13,700 crore, making it the second largest standalone player.

These two businesses contributed Rs 491 crore in net income in FY20 on fee incomes of Rs 1,900 crore, he said, adding the AMC business has an AUM of Rs 50,800 crore.

And so is the ARC business, which is the industry leader and is profitable with steady management fee income of Rs 800 crore with an AUM of Rs 43,188 crore and a networth of Rs 2,035 crore and booked a net income of Rs 306 crore in FY20. It has recovered Rs 20,850 crore from over 350 accounts in the past three years.

Terming the pandemic as "an accelerator of change", Shah said, the group will use the crisis to shift faster to a capital-light model, which will involve collaborating with banks for co-lending, on-lending, loan origination and loan securitisation.

In the co-lending model, an NBFC takes only 20 per cent of the direct credit risk as the balance born by bank. It has already tied up with SBI, BoB, PNB and Central Bank for co-lending, he said, adding after the lockdowns, they will tap more banks.

Shah expects NBFCs as a whole to shrink by 10-20 per cent by March and sees lots of consolidation taking place to the leading players, becoming more capital efficient going forward.