Edelweiss
Ideas create, values protect

From	:	15-02-2017
To	:	31-05-2018
Performance	:	191%
Recommendation	:	OPEN

Background & Business

Edelweiss Financial Services Ltd. (EDEL), founded in 1996 by Mr. Rashesh Shah and Mr.Venkat Ramaswamy, is one of the leading financial services companies in India with current market capitalization of Rs.298.8bn. After starting out as a boutique investment banking firm, EDEL, over the past two decades, has transformed itself into a diversified financial services company with presence in Credit, Non Credit (Agency) and Insurance businesses. Currently, its credit and non-credit businesses contribute 51% and 26% to the total revenue, respectively. With time, it has reduced its dependence on the highly volatile agency business and has scaled up its credit business.

Investment Thesis

a) **Strong business USP:** From being a fledgling organization incorporated in 1996, EDEL has emerged as a formidable player in the financial services space over the last two decades. We largely credit the success to its visionary management that has strategically and methodically steered the organization to emerge as a one-stop financial services firm catering to varied financial services requirement of its clientele.

b) **Diversified revenue streams:** From the onset, EDEL has focused on building a robust business model that can offer nonlinear growth opportunities. While focusing on rapid portfolio expansion through aggressive customer acquisition and use of technology, the company has created a synergistic business model that offers high degree of cross-selling opportunities across key verticals of – a) credit, b) non-credit and c) Insurance.

c) **Multiple growth levers :** We believe that all the segments in which EDEL is present, hold immense growth potential. Historically, EDEL's consolidated revenue and net profit has grown at an impressive pace of 36.8% and 37.9% CAGR, respectively over the past five years (FY13-18). We forecast overall revenue of the Company to grow at 27% CAGR over FY18 FY23, supported by strong growth both in the credit and non-credit businesses. Also, we expect the insurance business to break even at net profit level by FY23. With the turnaround of insurance operations coupled with high operating leverage across other businesses, we expect the PAT to grow at a CAGR of 34.1% over the next 5 years.

d) **Strong balance sheet to aid credit growth:** According to regulatory requirements, NBFCs are required to maintain minimum capital adequacy ratio (CAR) of 15%. With CAR ratio at 17.0% as of FY18, EDEL is well funded to sustain high growth for the next two-three years.

Outlook

EDEL with its multi-line business model, pan India reach, strong brand equity, healthy balance sheet and high asset quality, stands to benefit immensely as economic and consequently as capital market activity picks up in coming years. Further, EDEL has harbored aspirations of transitioning into a full-fledged bank, any positive development on this front can act as an upside trigger in the foreseeable future. We believe EDEL holds a huge potential to deliver healthy returns and should be able to achieve their guided growth over the medium term.

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