

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. 146bn. 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, agency and insurance businesses contribute 58%, 21% and 17%, respectively to the total revenue. With time, company has reduced its dependence on the highly volatile agency business and has scaled up its credit business.

Investment Thesis

- 1) **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 requirements of its clientele.
- 2) **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) agency and c) insurance.
- 3) **Multiple growth levers:** We believe that all the segments EDEL operates in, hold immense growth potential. Historically, EDEL's consolidated revenue and net profit have grown at an impressive pace of 36% and 35% CAGR, respectively (FY14-19). We forecast overall revenue of the company to grow at 18% CAGR over FY19-FY24. Basis expected turnaround of insurance operations coupled with high operating leverage across other businesses, we expect the PAT to grow at a CAGR of 24% over the next 5 years.
- 4) **Ability to withstand headwinds in the sector** - As a fallout of IL&FS default and subsequent tightening of liquidity in the market, majority of the NBFCs have faced business headwinds over the past 1 year. Management of EDEL has taken a prudent step of prioritizing balance sheet strength over short term growth. Its focus on diversification across all its business segments has enabled the company to be better equipped to deal with the challenges at sectoral level.

From : 15-02-17
To : 31-05-2019
Performance : 81%
Recommendation : OPEN



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. We believe, EDEL holds a huge potential to deliver healthy returns and should be able to achieve their guided growth over the medium term.

