

June 06, 2023

Barclays Investments & Loans (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	4,000.00	4,000.00	[ICRA]A1+; reaffirmed
Long-term equity linked debenture	1,589.60	1,589.60	PP-MLD[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	745.00	745.00	[ICRA]AAA (Stable); reaffirmed
Bank lines	150.00	150.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Total	6,484.60	6,484.60	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to draw comfort from Barclays Investments & Loans (India) Private Limited's (BILIL) strong parentage in the form of Barclays Bank PLC (BBPLC; rated A1/Stable/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa2). BBPLC is a global systemically important bank based in the United Kingdom (UK) with large capital market operations and a strong worldwide presence with total assets of £1.21 trillion as on March 31, 2023. It directly holds a 57.84% stake in BILIL while the rest is held by its wholly-owned subsidiary, Barclays Mauritius Overseas Holdings Limited, Mauritius.

BILIL serves as the only non-banking lending arm of the Barclays Group in India, with the underlying business of extending loans against securities (LAS). Given the ownership structure and the shared brand name, ICRA expects BBPLC to provide timely funding support to BILIL, if required. Further, ICRA takes comfort from BILIL's comfortable capitalisation profile, robust risk management systems that draw from the Group's global risk management policies, and adequate liquidity profile (on the back of well-matched asset and liability maturities). The Group has demonstrated its commitment towards BILIL in the form of regular capital infusions in the past and the company's recent performance has remained satisfactory in terms of internal capital generation.

ICRA notes that BILIL's scale of operations and profitability profile will remain constrained and susceptible to the performance of the domestic capital markets, given its presence only in the LAS segment. Weakening in the credit profile of BBPLC would be a key negative rating driver for the ratings of BILIL.

Key rating drivers and their description

Credit strengths

Strong parentage – ICRA's ratings for BILIL remain supported by the 100% ownership by BBPLC. Given its parentage and strategic importance to the Group, BILIL continues to enjoy strong operational, managerial and financial support from the Group. These include sharing common services (through Barclays Global Service Centre Private Limited) and resources for the treasury, credit, information technology (IT) systems, legal and risk management processes. Moreover, as a part of the Barclays Group, BILIL has access to the high and ultra-high-net-worth (HNW and UHNW) customer segments, which are a part of the company's key borrower groups.

During FY2009-FY2012, BILIL received capital support (Rs. 909 crore) from the parent and ICRA expects the same to continue, going forward as well, if required. The ratings remain supported by the Group's global presence in capital markets and banking operations as well as BILIL's adherence to global risk management systems and practices.

Comfortable capitalisation profile – BILIL's capitalisation profile remains comfortable with a CRAR of 33.14% as on December 31, 2022, although it has declined from the March 2021 level of 37.05% (Tier I – 36.28%) on account of the increase in the loan book. The increase in the loan book was driven by the surge in capital market activities. Also, the capital infusion of Rs. 3,000 crore in Barclays Bank PLC (India Operations) in FY2022 has increased the Group's capital market exposure limit, providing headroom for BILIL to grow its loan book. BILIL largely uses commercial paper (CP) borrowings and net worth to fund its LAS book. As LAS is repayable on demand, it results in the short tenure of the assets driving the matching of the assets and the liabilities. Furthermore, as per the regulatory requirements for liquidity coverage, the company keeps on-balance sheet liquidity in the form of cash and liquid investments for the upcoming month's CP maturity. As a result, the leverage increased to 2.59 times as on December 31, 2022 from 2.41 times as on March 31, 2022 (1.69 times as on March 31, 2021). Net of unencumbered cash/liquid investments, ICRA expects that the leverage is unlikely to go beyond 2.5 times in the near to medium term.

Based on the collections trend, BILIL typically collects 4-16% of its portfolio on a monthly basis and there have been no instances of default by its borrowers. With adequate liquid collateral, the loss upon default is likely to remain low, driving comfortable capitalisation levels for the company.

Lending against highly liquid securities mitigates credit risks, resulting in strong asset quality profile – After exiting the unsecured lending business in India in 2011, BILIL's focus has been on secured lending in the form of LAS (which started in June 2009). As on March 31, 2023, the company had a loan book outstanding of Rs. 2,606 crore (compared to Rs. 2,727 crore as on March 31, 2022 and Rs. 2,161 crore as on March 31, 2021) backed by equity shares, debt/equity mutual fund units, bonds and fixed deposits. The list of approved securities is finalised in consultation with the global operations. In line with domestic regulations, the loan-to-value (LTV) for LAS and equity mutual funds is capped at 50% while it is higher for debt instruments for better-rated liquid instruments. The loans have average tenures of less than one year and are callable on demand.

ICRA takes note of the company's strong risk management systems, which involve constant monitoring of the loan portfolio. This is depicted by the absence of instances of the company enforcing a security in the last 10 years because of the borrower failing to respond to a margin call¹.

Credit challenges

Small scale of operations; susceptible to volatility in capital markets – As mentioned earlier, given its LAS-focused portfolio, BILIL's loan book remains susceptible to volatility in the capital markets. Further, on the liability side, given the high dependence on CPs, market volatility could constrain funding availability and rollover of CPs. Such volatility could impact the borrowing levels and scale of operations. However, BILIL mitigates the same by keeping liquidity in the form of cash and liquid investments for the upcoming month's CP maturity a month in advance. As the company's focus is on providing LAS to HNWI and UHNWI individuals from the pool of Barclays Group customers, the scale of operations is expected to remain range-bound. Moreover, it faces constraints because of capital market exposure limits for the Group. The ability to maintain a sufficient scale of operations to absorb the fixed overheads will be a key driver of the profitability, going forward.

BILIL's top 10 and top 20 borrowers accounted for 29% and 50%, respectively, of its total advances as on April 30, 2023. On the liability side, the top 3 CP investors accounted for a significant portion of the total outstanding as on March 31, 2023, indicating high concentration.

Profitability moderates because of higher operating costs – With the improved scale of the loan book, BILIL's net interest income (NII) increased steadily in 9M FY2023 but was offset by the rising cost of CP borrowings, resulting in the compression of the net interest margins. Given the secured lending business and the shorter loan tenor, the average yield on loans remains modest, though this is offset by the competitive borrowing cost on CPs. With nil non-performing assets, credit costs were

¹ A margin call gets triggered when a decline in the (fair/market) value of a collateral on a particular day results in the LTV ratio breaching the maximum permissible limit; in such a scenario, the borrower is allowed a specific period to top up the deficit in the collateral value (either through cash or in the form of acceptable securities), failing which the company would enforce the security

negligible. BILIL hired more employees in FY2023 to expand its existing business and to provide marketing and servicing support to Group entities, which increased its operating costs, thereby resulting in a moderation in the net profit to Rs. 20 crore in 9M FY2023 (Rs. 60 crore in FY2022). BILIL's profitability profile will be susceptible to the performance of the domestic capital markets as it impacts the scale of its loan book.

Liquidity position: Adequate

BILIL has sizeable repayments of Rs. 1,200 crore (53% of borrowings as on April 30, 2023) during May 2023-July 2023 as short-term CPs constitute its entire borrowings. It had cash and liquid investments of ~Rs. 300 crore as on April 30, 2023, which was sufficient for CP repayments in May 2023. Further, the loans given by BILIL are repayable on demand, but the inflows from the loan book are estimated at Rs. 326-1,306 crore in a quarter on a behavioural basis. BILIL also has bank lines of Rs. 460 crore to bridge these gaps and it has demonstrated good ability to roll over the CPs.

Rating sensitivities

Positive factors – NA

Negative factors – The ratings could be placed on a Negative outlook or could be revised downwards in case of a deterioration in the credit profile of BBPLC or any weakening in the likelihood of financial support from the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Non-banking Finance Companies Impact of Implicit Support Expected from Parent or Group on an Entity's Credit Rating
Parent/Group support	Parent Company: Barclays Bank PLC ICRA expects BBPLC to be willing to extend financial support to BILIL, if needed, given the strategic importance that BILIL holds for the Barclays Group for meeting its diversification objectives. In ICRA's opinion, the shared name indicates strong likelihood of the Group/BBPLC providing financial support to BILIL to protect its reputation from the consequences of a group entity's distress
Consolidation/Standalone	Standalone

About the company

UK-based Barclays Bank PLC (BBPLC) is a global systemically important bank. It is the non-ring-fenced bank of the Barclays Group, accounting for around 77% of the Group's total assets as on December 31, 2021 following the transfer of the Group's retail and small business banking operations to Barclays Bank UK PLC on April 1, 2018. The bank houses the Group's corporate and investment banking activities along with other non-capital market activities including payments, wealth management, and international consumer and card activities. The bulk of the bank's operations is split between the Group's key markets of the UK and the United States (US) though it also has a presence in continental Europe and other major global financial centres. The CET-I capital ratio stood at 13.0% as on December 31, 2021 compared to 14.2% as on December 31, 2020. For CY/FY2021, the bank reported a net profit of £7.23 billion compared with £2.46 billion in CY2020.

In August 2006, BBPLC acquired a controlling stake and management control in Rank Investments and Credits (India) Limited. The stake has since increased to 100% (57.84% held by BBPLC and 42.16% held by Barclays Mauritius Overseas Holdings Limited, Mauritius, a wholly-owned subsidiary of BBPLC) after a capital infusion of Rs. 909 crore during FY2009 to FY2012. BILIL reported a net profit of Rs. 20 crore on total income of Rs. 174 crore in 9M FY2023 compared to Rs. 60 crore and Rs. 175 crore, respectively, in FY2022.

Key financial indicators (standalone)

	FY2021	FY2022	9M FY2023
Net interest income	76	86	62
Profit before tax	44	85	29
Profit after tax	31	60	20
Net advances	2,161	2,727	2,653
Total assets	2,434	3,287	3,555
Tier I	36.28%	31.25%	NA
CRAR	37.05%	31.55%	33.14%
Net interest margin / ATA	3.36%	3.01%	2.41%
PAT / ATA	1.36%	2.09%	0.78%
Return on net worth	3.47%	6.41%	2.74%
Gross NPAs	0.00%	0.00%	0.00%
Net NPAs	0.00%	0.00%	0.00%
Provision coverage excl. technical write-offs	-	-	-
Net NPA / Core equity capital	-	-	-

Source: BILIL, ICRA Research; All ratios as per ICRA's calculations

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2024)					Chronology of rating history for the past 3 years			
		Type	Amount rated	Amount outstanding as of June 5, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
			(Rs. crore)	(Rs. crore)	Jun- 06- 2023	Jun-07- 2022	Feb-01- 2022	Jan-18- 2022	Jun-04- 2021	May-29- 2020
1	Commercial paper	Short term	4,000.00	2,434.00^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Long-term equity linked debenture	Long term	1,589.60	- ^	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)
3	Non-convertible debenture	Long term	745.00	- ^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Bank lines	Long term	150.00	- ^	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: BILIL, ICRA Research; [^] Balance amount yet to be placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper	Very simple
Long-term equity linked debenture	Moderately complex
Non-convertible debenture	Very simple
Bank lines	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE704I14HF9	Commercial paper	May 24, 2023	7.40%	Aug 22, 2023	150.00	[ICRA]A1+
INE704I14HF9	Commercial paper	May 23, 2023	7.40%	Aug 22, 2023	100.00	[ICRA]A1+
INE704I14HE2	Commercial paper	May 17, 2023	7.60%	Nov 17, 2023	10.00	[ICRA]A1+
INE704I14HD4	Commercial paper	May 04, 2023	7.93%	Mar 11, 2024	75.00	[ICRA]A1+
INE704I14HD4	Commercial paper	May 02, 2023	7.93%	Mar 11, 2024	100.00	[ICRA]A1+
INE704I14GR6	Commercial paper	Apr 20, 2023	7.45%	Jul 20, 2023	100.00	[ICRA]A1+
INE704I14GZ9	Commercial paper	Mar 29, 2023	8.15%	Nov 24, 2023	8.00	[ICRA]A1+
INE704I14GW6	Commercial paper	Mar 29, 2023	8.00%	Jul 10, 2023	25.00	[ICRA]A1+
INE704I14HC6	Commercial paper	Mar 20, 2023	8.30%	Mar 18, 2024	180.00	[ICRA]A1+
INE704I14HB8	Commercial paper	Mar 13, 2023	8.25%	Jun 12, 2023	70.00	[ICRA]A1+
INE704I14HA0	Commercial paper	Mar 02, 2023	8.35%	Sep 05, 2023	200.00	[ICRA]A1+
INE704I14GZ9	Commercial paper	Feb 24, 2023	8.05%	Nov 24, 2023	12.00	[ICRA]A1+
INE704I14GX4	Commercial paper	Feb 02, 2023	7.90%	Aug 03, 2023	50.00	[ICRA]A1+
INE704I14GW6	Commercial paper	Jan 31, 2023	7.80%	Jul 10, 2023	20.00	[ICRA]A1+
INE704I14GV8	Commercial paper	Jan 27, 2023	8.35%	Jan 23, 2024	35.00	[ICRA]A1+
INE704I14GV8	Commercial paper	Jan 23, 2023	8.35%	Jan 23, 2024	30.00	[ICRA]A1+
INE704I14GU0	Commercial paper	Jan 13, 2023	8.35%	Jan 12, 2024	25.00	[ICRA]A1+
INE704I14GT2	Commercial paper	Dec 28, 2022	8.40%	Dec 28, 2023	150.00	[ICRA]A1+
INE704I14GS4	Commercial paper	Dec 23, 2022	8.40%	Dec 22, 2023	175.00	[ICRA]A1+
INE704I14GR6	Commercial paper	Dec 20, 2022	7.80%	Jul 20, 2023	25.00	[ICRA]A1+
INE704I14GQ8	Commercial paper	Dec 09, 2022	7.95%	Jun 07, 2023	100.00	[ICRA]A1+
INE704I14GQ8	Commercial paper	Dec 07, 2022	7.95%	Jun 07, 2023	100.00	[ICRA]A1+
INE704I14GO3	Commercial paper	Nov 29, 2022	8.08%	May 29, 2023	200.00	[ICRA]A1+
INE704I14GM7	Commercial paper	Nov 10, 2022	7.75%	Nov 10, 2023	100.00	[ICRA]A1+
INE704I14GJ3	Commercial paper	Oct 18, 2022	7.05%	May 30, 2023	25.00	[ICRA]A1+
INE704I14HG7	Commercial paper	May 31, 2023	7.60%	Feb 26, 2024	10.00	[ICRA]A1+
INE704I14GF1	Commercial paper	May 31, 2023	7.33%	Aug 29, 2023	100.00	[ICRA]A1+
INE704I14HH5	Commercial paper	2-Jun-23	7.35%	1-Sep-23	100.00	[ICRA]A1+
INE704I14HD4	Commercial paper	2-Jun-23	7.85%	11-Mar-24	159.00	[ICRA]A1+
Unplaced	Commercial paper	NA	NA	7-365 days	1,566.00	[ICRA]A1+
Unplaced	Bank lines	NA	NA	NA	150.00	[ICRA]AAA (Stable)/[ICRA]A1+
Unplaced	Long-term equity linked debenture	NA	NA	NA	1,589.60	PP-MLD[ICRA]AAA (Stable)
Unplaced	Non-convertible debenture	NA	NA	NA	745.00	[ICRA]AAA (Stable)

Source: BILIL; Commercial paper outstanding as on June 5, 2023

Annexure II: List of entities considered for limited consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: BILIL

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