

May 29, 2020

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 programme	2,500.00	2,500.00	[ICRA]A1+; Reaffirmed
Long-term equity-linked debenture programme	1,589.60	1,589.60	PP-MLD[ICRA]AAA (Stable); Reaffirmed
Non-convertible debenture (NCD) programme	745.00	745.00	[ICRA]AAA(Stable); Reaffirmed
Bank lines	150.00	150.00	[ICRA]AAA(Stable)/ [ICRA]A1+; Reaffirmed
Total	4,984.60	4,984.60	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account Barclays Bank PLC's (BBPLC; rated A1/ Stable/P-1 with BCA of baa3 by Moody's Investors Service) ownership of Barclays Investments & Loans (India) Private Limited (BILIL) and the expectation that BBPLC would provide timely funding support to BILIL, if required, to service its debt obligations. BBPLC holds a 57.84% stake while its wholly-owned subsidiary, Barclays Overseas Holdings Limited, Mauritius holds a 42.16% stake in BILIL. ICRA would continue to monitor the impact of international developments on BBPLC, which will remain important for determining the ratings of the Indian operations of the Barclays Group. Further, ICRA takes comfort from the shared brand name of Barclays, BILIL's comfortable capitalisation profile, robust risk management systems that draw from the Group's global risk management policies, and the 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 capital infusions at regular intervals in the past and the company's recent performance has remained satisfactory in terms of internal capital generation.

ICRA takes note of the susceptibility of BILIL's scale of operations, asset quality profile and profitability to the volatility in the capital markets, given its underlying business of extending loans against securities (LAS). Considering the recent volatility in the capital markets, the scale of operations could decline in the near term and could adversely impact the company's profitability. However, this will be offset by the expansion of the net interest margin (NIM), driven by better funding costs and relatively lower competition.

Key rating drivers and their description

Credit strengths

Strong parentage – ICRA's ratings for BILIL remain supported by the 100% ownership by BBPLC (57.84% directly and 42.16% through its wholly-owned subsidiary – Barclays Overseas Holdings Limited, Mauritius). Given the parentage and the strategic importance of BILIL to the Group/parent, the company continues to enjoy strong operational, managerial and financial support from the bank. These include sharing common services (through Barclays Global Service Centre Private Limited) and resources for the treasury, credit, IT systems, legal and risk management processes. Moreover, being a part of a strong group provides BILIL with access to a diverse base of funding sources as well as to the high and ultra-high net worth (HNW and UHNW) customer segment to cater to their funding requirements. Having provided

capital support to BILIL in the past (as depicted by the infusion of Rs. 909 crore capital during FY2009-2012), ICRA expects strong parent support, going forward as well, in case required. Moreover, the ratings remain supported by the Group's global presence in the 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 as depicted by its capitalisation metrics – CRAR of 40.70% (Tier I – 40.09%) – as on March 31, 2019 compared to 35.24% (Tier I – 34.84%) as on March 31, 2018. The improvement was supported by modest internal accruals and a lower scale of operations (thus lower risk weights), as depicted by the moderation in the leverage level to 1.6 times as on March 31, 2019 from 2.1 times as on March 31, 2018.

As the company's focus segment is providing LAS to HNW and UHNW individuals, the scale of operations is expected to remain range-bound. Further, volatility in the capital markets limits the funding requirements of customers, leading to volatility in the scale of operations and the borrowing and leverage levels. BILIL largely uses commercial paper (CP) borrowings to fund its LAS book, given the short tenure of its advances.

As per ICRA's estimates, the leverage level remained largely stable at ~1.5 times (basis CP outstanding of Rs. 1,331 crore and net worth of Rs. 868 crore) as on December 31, 2019. Moreover, the reported CRAR was higher at 44.02% (Tier I of 43.22%) as on December 31, 2019. Given the recent volatility in the capital markets because of the uncertainty regarding the unfolding impact of the Covid-19 pandemic, client activity in capital markets has reduced and the company has since moderated its exposure level to mitigate the overall portfolio risk. Thus, in the near-to-medium-term, the leverage levels may remain low, given the limited prospects of a sizeable increase in the scale of operations.

Lending against highly liquid securities mitigates credit risks; strong risk management systems aid strong asset quality profile – After exiting the unsecured lending business gradually, BILIL's focus has been on secured lending in the form of LAS (which started in June 2009). As on December 31, 2019, the company had an outstanding book of Rs. 1,913 crore (compared to Rs. 1,677 crore as on March 31, 2019), backed by equity shares, debt/equity mutual fund units, bonds and fixed deposits. In line with its internal norms, the collateral is in the form of liquid securities from the list of approved securities for each asset type such that the security cover (loan-to-value (LTV)) is within acceptable levels. In line with the regulations, the 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. While there were limited instances of margin calls¹ in FY2019 and 9M FY2020, the asset quality profile remained robust with NIL non-performing assets as the borrowers topped up the collateral on receiving margin calls or squared-off their positions.

ICRA takes note of the company's strong risk management systems, which involve constant monitoring of the loan portfolio. This is depicted by the NIL instances of the company enforcing a security in the last nine years because of the borrower failing to respond to a margin call. During the heightened volatility in the capital markets in March 2020 (on account of the lockdown amid concerns of further downside risk of the pandemic), there were no instances of forced liquidation by BILIL.

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

Credit challenges

Small scale of operations; susceptible to volatility in capital markets – As mentioned earlier, given its LAS-focused portfolio, BILIL remains susceptible to volatility in the capital markets, in line with recent trends, which results in limited growth opportunities. Moreover, with the company (largely) catering to a captive client base comprising HNW and UHNW individuals, the scope of growing within LAS becomes limited. Therefore, the ability to maintain a sufficient scale of operations (to absorb the fixed overheads and report profitable operations), especially in the current environment, will remain a challenge for the company.

Modest profitability profile – In absolute terms, BILIL's net interest income (NII) remained steady at Rs. 65.2 crore in FY2019 compared to Rs. 63.4 crore in FY2018. The marginal increase in the NII and the lower asset base (average total assets (ATA) were lower in FY2019 compared to FY2018) resulted in improved NIMs² of 3.3% in FY2019 compared to 2.8% in FY2018. Given the secured lending business in which the company is engaged and the shorter loan tenor, the average yield on loans remains modest. This is, however, offset by the competitive borrowing cost of funds, given the short-tenor funding. Moreover, with a concentrated loan book and operational linkages with the parent, the operating expenses have remained largely contained with operating expenses/ATA remaining stable at 0.5% in FY2019 (0.4% in FY2018). Despite the movement in the loan book, the company's asset quality remained comfortable with NIL gross non-performing assets as on March 31, 2019, necessitating NIL credit costs. BILIL reported a net profit of Rs. 42.6 crore (return on net worth or RoNW of 6.2%) in FY2019, similar to FY2018 (RoNW of 6.6%). As per ICRA's estimates, the company reported a net profit of Rs. 159 crore in 9M FY2020, which was significantly higher than past levels, supported by the write-back of the advance tax paid by the company in earlier years. With profitable operations during the last many years, BILIL has the visibility to set off this advance tax against future profits and hence recognised the tax paid in earlier years as an asset.

However, given the limited scope for increasing the business, ICRA notes that BILIL's profitability profile will remain constrained and susceptible to the performance of the domestic capital markets.

Liquidity position: Adequate

The company largely offers LAS, a short-term loan product, which is repayable on demand. Hence, despite short-term CPs constituting almost the entire share of its borrowings, the cumulative gaps remained positive across all the maturity buckets as per the structural liquidity statement as of December 31, 2019. Moreover, BILIL has demonstrated good ability to roll over the CPs. It also maintains back-up lines of Rs. 400 crore from BBPLC (parent) and other banks which can be used to repay the CP maturities during the upcoming 2-3 months. The company had a cash and bank balance of ~Rs. 359 crore as on May 26, 2020 against CP maturities of Rs. 635 crore during May 26, 2020 - August 30, 2020.

Rating sensitivities

Positive triggers – NA

Negative triggers – 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.

² NIM = NII/ATA

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: Barclays Bank PLC Barclays Investments & Loans (India) Private Limited 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. The Barclays Group and BILIL share a common name, which, in ICRA's opinion, is reflective of the 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 globally systemic important bank. It is the non-ring-fenced bank of the Barclays Group, accounting for around 80% of the Group's total assets 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 are split between the Group's key markets of the UK and the US though it also has a presence in continental Europe and other major global financial centres. The CET-I capital ratio stood at 13.1% as on March 31, 2020 compared to 13.8% as on December 31, 2019. For CY2019, the bank reported a net profit of £2.5 billion (RoE of 5.3%) compared with £1.6 billion in CY2018.

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, 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. 42.6 crore in FY2019 on a total income of Rs. 159 crore, similar to a net profit of Rs. 42.6 crore in FY2018 on a total income of Rs. 179 crore.

Key financial indicators (audited) – Standalone

	FY2018	FY2019
Net Interest Income	63.4	65.2
Non-interest Income	1.4	1.4
Operating Income	64.8	66.6
Profit before Tax (PBT)	55.1	56.2
Profit after Tax (PAT)	42.6	42.6
Loans & Advances	1,825.0	1,676.7
Net Worth	667.3	709.9
Total Borrowings	1,410.8	1,144.7
Total Assets	2,079.3	1,856.5
Net Interest Margins / ATA	2.8%	3.3%
Cost-to-Income Ratio	14.5%	15.1%
Operating Expenses / ATA	0.4%	0.5%
PAT / ATA	1.9%	2.2%
PAT / Average Net Worth	6.6%	6.2%
CRAR	35.2%	40.7%

Amounts in Rs. crore; All ratios are as per ICRA's calculations

Source: BILIL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Type	Rated Amount	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years					
				Amount Outstanding	29-May-20	FY2020 05-Apr-19	FY2019 11-Apr-18	FY2018 13-Mar-18	02-Feb-18	29-Jun-17	06-Apr-17	
1	Bank Lines Programme (CC/OD facility)	LT/ST	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+	[ICRA]AAA (Stable)/ [ICRA]A1+ Assigned	
2	Non-convertible Debenture Programme	LT	745.00	Not issued	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Long-term Equity Linked Debentures Programme	LT	1,589.60	Not issued	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)	PP-MLD [ICRA]AAA (Stable)	
4	Commercial Paper Programme	ST	2,500.00	865.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ Amount enhanced	[ICRA]A1+	

*This is as on May 29, 2020
Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Sr No	ISI N	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
1	N A	Bank lines programme (CC/OD facility)	NA	NA	NA	150.00	[ICRA]AAA(Stable) / [ICRA]A1+
2	N A	Non-convertible debenture*	NA	NA	NA	745.00	[ICRA]AAA(Stable)
3	N A	Long-term equity linked debentures programme	NA	NA	NA	1,589.60	PP-MLD[ICRA]AAA (Stable)
4	N A	Commercial paper programme	NA	NA	7-365 days	2,500.00	[ICRA]A1+

*Not issued
Source: BILIL

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