

December 08, 2021

## Credit Suisse Finance (India) Private Limited: Rating reaffirmed; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	600.00	1,200.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>600.00</b>	<b>1,200.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating continues to draw comfort from the strength of Credit Suisse AG (rated A1 (Stable)/P-1, BCA Baa2 by Moody's), the holding company, which, in turn, is held by Credit Suisse Group AG (rated BCA Baa1 by Moody's), the ultimate holding company of Credit Suisse Finance (India) Private Limited (CSFIPL). CSFIPL shares strong operational linkages with its parent and Group companies operating in India, which are engaged in institutional broking, wealth management and investment banking operations, as well as the foreign bank branch in India. Apart from the shared brand name, the company enjoys managerial support from the Group. CSFIPL shares significant operational synergies with its Group company, Credit Suisse Securities (India) Private Limited (CSSIPL), in India by virtue of being a lending arm for its wealth management and investment banking business.

The rating also takes into account the recent default by a US-based hedge fund on its margin call as well as a default reported in the supply chain financing segment at Credit Suisse AG, which together resulted in materially large losses for the ultimate holding company. The increased strain on the financial profile of Credit Suisse AG led to a revision in the rating outlook by Moody's to Negative from Stable in April 2021 followed by a revision in the long-term rating on the baseline credit assessment (BCA) to Baa2 from Baa1 and the senior unsecured debt to A1 (Stable) from Aa3 (Negative) in July 2021. ICRA notes that while the defaults may have led to a financial and reputational impact on Credit Suisse AG, there was no material impact on the Indian operations of the Group, including CSFIPL. Further, steps were taken by Credit Suisse AG to enhance governance and risk management practices resulting from investigations undertaken following the defaults.

ICRA expects Credit Suisse Group AG to be willing to extend financial support to CSFIPL, if needed, given the company's importance to Credit Suisse Group AG for meeting its diversification objectives. Credit Suisse Group AG and CSFIPL share a common name, which, in ICRA's opinion, would require Credit Suisse Group AG to provide financial support to the company to protect its reputation from the consequences of a Group entity's distress. However, ICRA could downgrade the rating in case there is a dilution in CSFIPL's strategic role and importance to the Indian operations of the parent or a deterioration in the credit profile of the parent.

ICRA takes into consideration the strong capitalisation with comfortable gearing (debt/net worth) of 0.25 times as on September 30, 2021 (0.03 times as on March 31, 2021). The rating also takes note of the company's dependence on capital markets, which could lead to volatility in its business volume and income. This also exposes CSFIPL to the risks of the underlying security pledged against the loans given by it, which are mitigated to a certain extent by its strong risk management and monitoring processes. Additionally, the overall scale of operations remains modest, however growing. On a forward-looking basis, the company remains important for the Group's growth plans in the region. Given its business plan, CSFIPL's leverage level is expected to increase over the next one year, though it is not expected to exceed 1 time.

## Key rating drivers and their description

### Credit strengths

**Strong parentage by virtue of being a part of Credit Suisse Group; strategic importance of Indian venture at Group level –** CSFIPL is a wholly-owned subsidiary of CS. Credit Suisse Group AG (ultimate holding company of the Group and holding company of CS) is a global banking and financial services group, which reported a net profit of \$3 billion on total consolidated assets of \$897 billion<sup>1</sup> as on December 31, 2020. While Group company, CSSIPL, is the wealth advisory arm in India, CSFIPL offers lending services (against capital market assets). Besides this, CS carries out banking operations in India through its Indian branch. Going forward, India remains strategically important to the Group in terms of its footprint in the emerging markets. Besides being a wholly-owned subsidiary, the presence of a shared brand name, operational and capital support and managerial oversight from Credit Suisse AG supports ICRA's opinion of CSFIPL's importance to the Group.

**Operates as NBFC arm with synergies from Group companies involved in core wealth management business –** The Group has an established presence and track record in the wealth management business in India operating under CSSIPL, as well as support and oversight from the bank's branch in India. CSFIPL is the primarily the lending arm of the Group and thus draws the advantage of access to the clientele.

**Lending against liquid collateral comprising mix of securities –** The company primarily provides finance against the security of capital market instruments (equity stocks, bonds and mutual funds) and operates through two business verticals, i.e. private banking and investment banking. Funding under investment banking remains strategic with the collateral comprising single scrips, which may either be listed or unlisted. Funding under the private banking segment is against a bouquet of securities as collateral, in adherence to the internal guidelines about the portfolio composition (number of securities and composition in the portfolio). In the private banking segment, the company typically provides a loan maintaining a maximum loan-to-value (LTV) of 40-50% of the approved equity collateral value (after providing for the requisite haircut), against the statutory requirement of 50%. This provides it with headroom against fluctuations in stock valuation. Furthermore, the collateral for the loan is callable on demand and thus the portfolio can be liquidated on short notice if required.

**Strong collateral monitoring systems –** The price of the underlying collateral for all loans is monitored on a daily basis by the company with margin calls issued to clients in case the LTV exceeds the agreed threshold. The clients are required to top up their collateral within 2 days of the issuance of the margin call, failing which a portion of the collateral is liquidated to make the LTV compliant with the internal benchmarks. The monitoring of the value of the collateral is done on a daily basis. All loans sanctioned by CSFIPL in the private banking business are contractually callable on demand. On the other hand, loans under the investment banking division have prefixed or scheduled repayment dates. Over the past 2-3 fiscals, there has been only a single instance of a margin call in September 2018, wherein the shares were sold with the consent of the borrower.

**Strong capitalisation and comfortable liquidity position with sufficient backup lines –** The company's capitalisation profile remains strong with a net worth of Rs. 2,217 crore as on September 30, 2021 against a total loan book of Rs. 1,730 crore, investment in corporate bonds of Rs. 250 crore and cash and bank balance of Rs. 758 crore. The high capitalisation has ensured that the gearing has remained at comfortable levels, with the same at 0.25 times as on September 30, 2021. Additionally, the company has unutilised as well as backup lines of credit to take care of any adverse situation. The leverage level is expected to increase, given its business plan, though the same is not expected to exceed 1 time.

### Credit challenges

**Operation scale remains modest with concentrated loan book –** CSFIPL's book comprises investment banking clients, primarily sourced from its Group company – CSSIPL (the Group's wealth management business in India), as well as private banking clients. The share of both divisions in total advances remains more or less equal. While these divisions have

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<sup>1</sup> 1 CHF = 1.1126 USD; Exchange rate as on December 31, 2020

contributed to the steady growth in the loan book over the years, the overall scale remained modest at Rs. 1,980 crore as on September 30, 2021 (vis-à-vis Rs. 2,184 crore as on March 31, 2021 and Rs. 2,086 crore as on March 31, 2020), including advances of Rs. 1,730<sup>2</sup> crore (Rs. 1,948 crore as on March 31, 2021 and Rs. 1,187 crore as on March 31, 2019) and investments of Rs. 250 crore (Rs. 236 crore as on March 31, 2021 and Rs. 838 crore as on March 31, 2020). Given the regulatory limitations around capital market exposure, CSFIPL is expected to continue to grow at a moderate pace. The company focuses on a select clientele within the Group and the top 20 exposures accounted for almost 92% of the total exposures as on March 31, 2021 (88% as on March 31, 2020). Given the recent emphasis on growing the Private Banking led lending, the concentration is expected to reduce.

The state-wise concentration remains high with ~86% of the advances of the company originating from two states, viz. Maharashtra (47%) and Gujarat (39%), as on June 30, 2021.

**Exposure to volatility in capital markets** – Any adverse event in the capital markets could lead to the erosion in the value of the underlying collateral stocks and would result in loan call-backs/squaring-off of positions, which would adversely affect the company's income or asset quality. However, CSFIPL has adequate risk mitigation policies with continuous monitoring of the same on an ongoing basis. It ensures that the LTV coverage is higher than the stipulated level, thereby ensuring greater security.

## Liquidity position: Strong

CSFIPL has a comfortable asset-liability profile with positive asset-liability gaps in the short as well as the long term, as on June 30, 2021, because of the low leverage and hence limited repayments. Against debt of Rs. 544 crore as on September 30, 2021, the company had a cash and bank balance of Rs. 758 crore. In addition to this, it had a Rs. 260-crore unsecured credit line from CS (Indian Branches) as on September 30, 2021.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – ICRA could downgrade the rating in case there is a dilution in CSFIPL's strategic role and importance to the Indian operations of the parent or a deterioration in the credit profile of the parent.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	<b>Group companies: Credit Suisse AG, Credit Suisse Group AG</b> ICRA expects CSFIPL's parent, Credit Suisse AG, which is held by Credit Suisse Group AG, to be willing to extend financial support to CSFIPL, if needed, given the company's high strategic importance for meeting its diversification objectives. Credit Suisse Group AG and CSFIPL share a common name, which, in ICRA's opinion, would persuade Credit Suisse Group AG to provide financial support to CSFIPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

<sup>2</sup> Advances and investments are net of ECL

## About the company

Credit Suisse Finance (India) Private Limited (CSFIPL) is a wholly-owned subsidiary of Credit Suisse AG, which, in turn, is wholly owned by Credit Suisse Group AG. The key business segments include promoter financing, acquisition financing, loans against shares, margin financing, and debt syndication all of which are structured under its two main verticals – investment banking and private banking. While CSFIPL offers lending services in India to its clients (both investment banking and private banking), its Group company, Credit Suisse Securities (India) Private Limited (CSSIPL), is engaged in institutional broking and wealth management and helps source clients for its lending arm as well. Besides this, the Group's banking operations are housed under its Indian branch – Credit Suisse AG.

In H1 FY2022, CSFIPL reported a net profit of Rs. 51 crore on an operating income of Rs. 86 crore compared with a net profit of Rs. 102 crore on an operating income of Rs. 153 crore in FY2021.

### Credit Suisse Group AG

Credit Suisse Group AG is a global banking and financial services group and the holding company of the Switzerland-based bank – Credit Suisse AG. It provides private banking, asset and wealth management, and investment banking services to corporate, institutional and government clients, high-net-worth individuals (HNWIs) and ultra-high-net-worth individuals (UHNWIs) worldwide, as well as affluent and retail clients in Switzerland.

### Credit Suisse AG

The banking business of Credit Suisse Group AG is performed by Credit Suisse AG and its direct and indirect subsidiaries. Credit Suisse AG is domiciled in Zurich, Switzerland. It is an integrated global bank operating through four divisions – Wealth Management, Investment Bank, Swiss Bank, Asset Management and four geographic regions – Switzerland, Europe, Middle East and Africa (EMEA), Asia-Pacific (APAC) and Americas. The regional management layer is designed to ensure the targeted and efficient coordination of cross-divisional activities in the regions and an adequate internal control environment. The governance of Credit Suisse Group AG and Credit Suisse AG is fully aligned. The board of directors as well as the executive board comprise the same individuals.

## Key financial indicators (standalone)

Credit Suisse Finance (India) Private Limited	FY2019	FY2020	FY2021	H1 FY2022*
Net interest income	175	169	139	78
Profit before tax	160	144	138	69
Profit after tax	112	107	102	51
Net advances	1,189	1,187	1,948	1,730
Investments	632	838	236	250
Total assets	2,272	2,525	2,241	2,771
Return on assets (%)	5.06%	4.47%	4.29%	3.71%
Return on net worth (%)	5.88%	5.34%	4.84%	4.64%
Gross gearing (times)	0.16	0.22	0.03	0.25
Tier I (%)	98.86%	106.90%	103.85%	-
CRAR (%)	99.02%	107.60%	103.89%	86.05%
Gross NPA (%)	0.00%	0.00%	0.00%	0.00%
Net NPA (%)	0.00%	0.00%	0.00%	0.00%

Source: Credit Suisse Finance (India) Private Limited, ICRA Research; Amount in Rs. crore

\* Provisional numbers; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2022	FY2021	FY2020	FY2019
					Dec-8-2021	Feb-12-2021	Jan-17-2020	Dec-06-2018
1	Commercial Paper Programme	Short Term	1,200.00	555.00*	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+; assigned

\*As on November 25, 2021

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	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 instruments 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: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE996L14201	Commercial Paper	Jul-27-2021	4.50%	Mar-15-2022	100.00	[ICRA] A1+
INE996L14219	Commercial Paper	Aug-04-2021	4.75%	May-25-2022	25.00	[ICRA] A1+
INE996L14227	Commercial Paper	Sep-14-2021	4.65%	May-16-2022	75.00	[ICRA] A1+
INE996L14235	Commercial Paper	Sep-22-2021	4.20%	Feb-25-2022	50.00	[ICRA] A1+
INE996L14235	Commercial Paper	Sep-22-2021	4.20%	Feb-25-2022	50.00	[ICRA] A1+
INE996L14243	Commercial Paper	Sep-24-2021	3.80%	Dec-23-2021	50.00	[ICRA] A1+
INE996L14268	Commercial Paper	Sep-27-2021	4.75%	Jun-07-2022	105.00	[ICRA] A1+
INE996L14250	Commercial Paper	Sep-27-2021	4.00%	Jan-27-2022	100.00	[ICRA] A1+
NA	Commercial Paper	NA	Unplaced	7-365 days	645.00	[ICRA] A1+

Source: Credit Suisse Finance (India) Private Limited

## Annexure-2: List of entities considered for consolidated analysis – Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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### Branches



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