

June 07, 2022

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	4,000.00	4,000.00	[ICRA]A1+; reaffirmed
Long-term equity linked debenture programme	1,589.60	1,589.60	PP-MLD[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture programme	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-1

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 baa3). BBPLC is a global systemically important bank based in the United Kingdom (UK) with large capital market operations and a strong global presence with total assets of £1.06 trillion as on December 31, 2021. BBPLC 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) and ICRA expects support from the parent, 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 32.13% as on December 31, 2021, 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 recent capital infusion of Rs. 3,000 crore in Barclays Bank PLC (India Operations) 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 the 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 2.37 times as on December 31, 2021 from 1.69 times as on March 31, 2021. Net of unencumbered cash/liquid investments, we expect 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; robust risk management systems aid 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, 2022, the company had a loan book outstanding of Rs. 2,727 crore (compared to Rs. 2,162 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, and in line with the 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 NIL instances of the company enforcing a security in the last 10 years because of the borrower failing to respond to a margin call¹. Also, despite the heightened volatility in the capital markets in Q4 FY2022 (amid concerns regarding the omicron variant of Covid-19 and the Russia-Ukraine war), there were no instances of forced liquidation by BILIL.

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 segment is on providing LAS to HNW and UHNW 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 25% and 45%, respectively, of its total advances as on March 31, 2022. On the liability side, the top 3 CP investors accounted for ~59% of the total issuances as on March 31, 2022, indicating high concentration.

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

Profitability could moderate in coming years because of increase in operating costs – With the improved scale of the loan book and competitive funding rates, BILIL's net interest income (NII) increased steadily in 9M FY2022 and FY2021. 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, the credit costs were negligible. However, BILIL made an impairment provision of Rs. 23 crore in FY2021 on its investment in an associate company, Barclays Securities (India) Private Limited (BSIPL; rated [ICRA]A1+), thereby impacting the overall profitability. The company reported a net profit of Rs. 43 crore in 9M FY2022 (Rs. 31 crore in FY2021) supported by higher NII on the back of the increasing loan book.

While BILIL's profitability profile will be susceptible to the performance of the domestic capital markets as it impacts the scale of its loan book, higher on-balance sheet liquidity and the recent uptick in funding costs as monetary conditions tighten will also pressurise NII growth. This, coupled with BILIL's proposal to hire more employees to expand its existing business as well as provide marketing and servicing support to Group entities, will put upward pressure on the operating costs. All these factors could moderate BILIL's profitability in the coming year.

Liquidity position: Adequate

BILIL has sizeable repayments of Rs. 1,460 crore (60% of borrowings as on April 30, 2022) during May 2022-July 2022 as short-term CPs constitute its entire borrowings. It had cash and liquid investments of ~Rs. 615 crore as on April 30, 2022, which was sufficient for CP repayments in May 2022. Further, the loans given by BILIL are repayable on demand, but on a behavioural basis, the inflows from the loan book are estimated at Rs. 312-1,250 crore in a quarter. Notwithstanding this, there were negative cumulative gaps in the near-term buckets as on December 31, 2021. BILIL 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 Rating Methodology for NBFCs Impact of Parent or Group Support on an Issuer'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. The Barclays Group and BILIL share a 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 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. 43.31 crore on a total income of Rs. 125.08 crore in 9M FY2022 compared to Rs. 30.87 crore and Rs. 136.13 crore, respectively, in FY2021.

Key financial indicators

	FY2020	FY2021	9M FY2022
Net interest income	76.92	76.35	66.67
Profit before tax	78.00	44.39	67.58
Profit after tax	163.81	30.87	43.31
Net advances	1,482.06	2,161.48	2,631.95
Total assets	2,115.30	2,433.51	3,200.51
% CET-I	48.39%	36.28%	-
% Tier I	48.39%	36.28%	-
% CRAR	48.99%	37.05%	32.13%
% Net interest margin	3.87%	3.36%	3.35%
% PAT / ATA	8.25%	1.36%	2.18%
% Return on net worth	20.69%	3.47%	6.28%
% 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	-	-	-

Note: Amount in Rs. crore; All calculations are as per ICRA; **Source:** BILIL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020	
				June 07, 2022	February 01, 2022	January 18, 2022	June 04, 2021			
1 Commercial paper programme	ST	4,000.00	2,450.00^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Long-term equity linked debenture programme	LT	1,589.60	Yet to be 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)
3 Non-convertible debenture programme	LT	745.00	Yet to be issued	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

4	Bank lines	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+
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^ Data as on April 30, 2022; ST – Short term; LT – Long term

Complexity level of the rated instrument

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

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank lines	Yet to be issued	NA	NA	150	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Long-term equity linked debenture	Yet to be issued	NA	NA	1,589.60	PP-MLD[ICRA]AAA (Stable)
NA	Non-convertible debenture	Yet to be issued	NA	NA	745	[ICRA]AAA(Stable)
INE704I14FC0	Commercial paper	Feb 1, 2022	4.30	May 2, 2022	250	[ICRA]A1+
INE704I14EW1	Commercial paper	Nov 17, 2021	4.90	May 17, 2022	200	[ICRA]A1+
INE704I14EW1	Commercial paper	Dec 3, 2021	4.75	May 17, 2022	50	[ICRA]A1+
INE704I14FG1	Commercial paper	Mar 16, 2022	4.15	May 30, 2022	25	[ICRA]A1+
INE704I14FA4	Commercial paper	Jan 5, 2022	4.80	Jun 8, 2022	100	[ICRA]A1+
INE704I14FA4	Commercial paper	Jan 6, 2022	4.80	Jun 8, 2022	135	[ICRA]A1+
INE704I14FA4	Commercial paper	Jan 14, 2022	4.85	Jun 8, 2022	300	[ICRA]A1+
INE704I14FA4	Commercial paper	Mar 9, 2022	4.50	Jun 8, 2022	60	[ICRA]A1+
INE704I14FH9	Commercial paper	Mar 21, 2022	4.40	Jun 20, 2022	50	[ICRA]A1+
INE704I14FM9	Commercial paper	Apr 27, 2022	4.55	Jun 29, 2022	40	[ICRA]A1+
INE704I14FF3	Commercial paper	Feb 4, 2022	4.95	Jul 15, 2022	50	[ICRA]A1+
INE704I14FD8	Commercial paper	Feb 1, 2022	5.10	Jul 29, 2022	200	[ICRA]A1+
INE704I14FL1	Commercial paper	Apr 18, 2022	4.95	Aug 19, 2022	100	[ICRA]A1+
INE704I14FE6	Commercial paper	Feb 3, 2022	5.05	Aug 26, 2022	100	[ICRA]A1+
INE704I14FE6	Commercial paper	Apr 5, 2022	4.85	Aug 26, 2022	100	[ICRA]A1+
INE704I14FB2	Commercial paper	Jan 28, 2022	5.10	Sep7, 2022	80	[ICRA]A1+
INE704I14FB2	Commercial paper	Jan 31, 2022	5.10	Sep 7, 2022	150	[ICRA]A1+
INE704I14FI7	Commercial paper	Mar 28, 2022	4.99	Sep 16, 2022	75	[ICRA]A1+
INE704I14FJ5	Commercial paper	Apr 8, 2022	4.90	Oct 4, 2022	200	[ICRA]A1+
INE704I14EY7	Commercial paper	Nov 23, 2021	4.95	Oct 14, 2022	15	[ICRA]A1+
INE704I14EY7	Commercial paper	Apr 27, 2022	4.95	Oct 14, 2022	20	[ICRA]A1+
INE704I14FN7	Commercial paper	Apr 29, 2022	5.10	Oct 28, 2022	50	[ICRA]A1+
INE704I14FK3	Commercial paper	Apr 13, 2022	5.15	Nov 10, 2022	100	[ICRA]A1+
NA	Commercial paper	Yet to be placed	-	7-365 days	1,550	[ICRA] A1+

Source: BILIL

Commercial paper outstanding as on April 30, 2022

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

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Branches



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