

November 14, 2022

Credit Suisse Finance (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,200.00	1,200.00	[ICRA]A1+; reaffirmed
Total	1,200.00	1,200.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the short-term rating of Credit Suisse Finance (India) Private Limited (CSFIPL) continues to factor in its parentage in the form of Credit Suisse AG (CS; rated A3 (Negative) for its senior unsecured debt by Moody's). CS is held by Credit Suisse Group AG (CS Group; rated Baa2 (Negative) by Moody's), the ultimate holding company of CSFIPL. Apart from its ownership and the shared brand name, CSFIPL enjoys managerial and operational support from the Group and significant synergies with its Group company in India, i.e. Credit Suisse Securities (India) Private Limited (CSSIPL), by virtue of being a lending arm for its wealth management and investment banking business, as well as the branches of CS in India.

The Group announced its Q3 CY2022 results on October 27, 2022 along with its strategy of winding down its exposure and leverage in the non-strategic, low return and higher risk businesses. On the successful implementation of the plan, the Group intends to bring down the share of capital and asset allocation in the investment banking segment, which would also be supplemented by cost-cutting measures. Additionally, CS Group plans to raise CHF 4.0 billion (\$4.04¹ billion) from external investors as well as existing shareholders via a rights issue, although this will be subject to customary approvals. However, considering the long time frame and the costs involved in the implementation of the plan, which is expected to weigh down on the profitability in the interim, Moody's revised the senior unsecured debt of CS to A3 (Negative) from A2 (Negative) in November 2022 (revised to A2 (Negative) from A1 (Negative) in August 2022).

CS Group and CSFIPL share a common name, which, in ICRA's opinion, would require CS Group to provide financial support to the company to protect its reputation from the consequences of a Group entity's distress. However, ICRA will continue to monitor the developments at the Group level and could downgrade CSFIPL's rating if there is a significant deterioration in the credit profile of the Group or a dilution in CSFIPL's strategic role and importance to the Indian operations of the parent.

ICRA takes into consideration CSFIPL's strong capitalisation and high on-balance sheet liquidity. 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, though the same is somewhat mitigated by its strong risk management and monitoring processes. Additionally, the overall scale of operations remains modest with the loan book being lower than its net worth. On a forward-looking basis, the company remains important for the Group's growth plans in the region. To improve its scale of operations, CSFIPL may require additional borrowings, though its leverage level is not expected to exceed 1.0 times.

¹ 1 CHF = 1.0095 USD as on November 07, 2022

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being part of CS Group; strategic importance of Indian venture at Group level – CSFIPL is a wholly-owned subsidiary of CS. CS Group (ultimate holding company of the Group and holding company of CS) is a global banking and financial services group. The Group reported a net loss of \$1.78 billion in CY2021 on total consolidated assets of \$829 billion². The reported net loss increased to \$6.07 billion in 9M CY2022, while the consolidated assets degrew to \$711 billion as on September 30, 2022 from \$863 billion as on September 30, 2021. The weak performance was attributable to the losses/weaker performance in CS' investment banking division. The relatively weak performance during CY2021-9M CY2022 was largely attributable to a default by a US-based hedge fund on its margin call as well as a default in the supply chain financing segment, besides the decline in the underlying value of certain investments, high litigation expenses (including those on legacy defaults) and the weak performance of capital markets in key countries.

CSSIPL is the wealth advisory arm in India while CSFIPL offers lending services (against securities). Besides this, CS carries out banking operations in India through its Indian branch. 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 CS' bank branch in India. Going forward, India remains strategically important to the Group in terms of its footprint in the emerging markets. CSFIPL operates as a non-banking financial company (NBFC) arm with synergies from Group companies involved in the core wealth management business, drawing the advantage of access to the clientele. Besides being a wholly-owned subsidiary of CS, the presence of a shared brand name, operational and capital support and managerial oversight from CS support ICRA's opinion of CSFIPL's importance to the Group.

Strong capitalisation levels – The company's capitalisation profile remains strong with a net worth of Rs. 2,291 crore as on June 30, 2022 against a total loan book of Rs. 1,567 crore, and a cash and bank balance of Rs. 749 crore. The high capitalisation has ensured that the gearing has remained at a comfortable level. Additionally, the company has unutilised as well as backup lines of credit from CS' India Branch to take care of any adverse situation.

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 largely similar. The overall scale remained modest with assets (including investments) of Rs. 1,567 crore as on June 30, 2022 vis-à-vis Rs. 2,268 crore as on March 31, 2022 and Rs. 2,191 crore as on March 31, 2021. Given the regulatory limitations around capital market exposure, CSFIPL's scale of operations is likely to remain moderate. The company focuses on a select clientele within the Group and the top 20 exposures accounted for almost 82% of the total exposures as on March 31, 2022 (92% as on March 31, 2021). Given the recent emphasis on growing the private-banking-led lending, the concentration is expected to reduce.

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 loan-to-value (LTV) coverage is higher than the stipulated level, thereby ensuring greater security.

² 1 CHF = 1.0967 USD (exchange rate as on December 31, 2021)

Liquidity position: Strong

CSFIPL has a comfortable asset-liability profile with positive asset-liability gaps in the short as well as long term, as on June 30, 2022, because of the low leverage and hence limited repayments. Against debt of Rs. 49 crore as on June 30, 2022, the company had a cash and bank balance of Rs. 749 crore. In addition to this, it had a Rs. 350-crore unsecured credit line from CS Indian Branch as on June 30, 2022.

Rating sensitivities

Positive factors – NA

Negative factors – ICRA could downgrade the rating in case of a dilution in CSFIPL's strategic role and importance to the Indian operations of the parent or a significant deterioration in the credit profile of 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	Group companies: Credit Suisse AG, Credit Suisse Group AG 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 the Group to provide financial support to CSFIPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Credit Suisse Finance (India) Private Limited (CSFIPL) is a wholly-owned subsidiary of Credit Suisse AG, which 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. These segments are structured under 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 FY2022, CSFIPL reported a net profit of Rs. 102 crore on operating income of Rs. 165 crore.

Credit Suisse Group AG

Credit Suisse Group AG (CS Group) 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-HNWIs (UHNWIs) worldwide, as well as affluent and retail clients in Switzerland.

Credit Suisse AG

The banking business of CS Group is performed by Credit Suisse AG (CS) and its direct and indirect subsidiaries. CS is domiciled in Zurich, Switzerland. It is an integrated global bank operating through four divisions (Wealth Management, Investment Bank,

Swiss Bank, Asset Management) and five geographical regions, i.e. 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 CS Group and CS is fully aligned. The board of directors and the executive board consist of the same individuals.

As on September 30, 2022, CS Group's CET I ratio stood at 12.60% and the liquidity coverage ratio stood at 192%. For Q3 CY2022, the Group reported a loss of \$4.10 billion. The weak financial performance was due to past events of default by a US-based hedge fund on its margin call as well as a default in the supply chain financing segment at CS, which resulted in materially large losses for the ultimate holding company – CS Group.

Key financial indicators (standalone)

Credit Suisse Finance (India) Private Limited	FY2021	FY2022	Q1 FY2023*
Net interest income	139	153	32
Profit before tax	138	137	32
Profit after tax	102	102	23
Net advances	1,948	2,268	1,567
Investments	236	265	0
Total assets	2,241	2,537	2,353
Return on assets	4.29%	4.27%	4.14%
Return on net worth	4.84%	4.60%	4.09%
Gross gearing (times)	0.03	0.11	0.02
Tier I	103.85%	109.64%	NA
CRAR	103.89%	109.70%	NA
Gross NPA	0.00%	0.00%	0.00%
Net NPA	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's calculations

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)	FY2023	FY2022	FY2021	FY2020
					Nov 14, 2022	Dec 08, 2021	Feb 12, 2021	Jan 17, 2020
1	Commercial paper programme	Short term	1,200.00	25.00*	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

*As on November 07, 2022

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE996L14284	Commercial paper	Sep 19, 2022	6.70%	Dec 19, 2022	25	[ICRA] A1+
Unplaced	Commercial paper	NA	Unplaced	7-365 days	1,175.00	[ICRA] A1+

Source: Credit Suisse Finance (India) Private Limited

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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Branches



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