

December 07, 2022

Barclays Bank PLC (India Operations): [ICRA]A1+ assigned to certificates of deposit; rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificates of deposit	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Certificates of deposit	-	4,000.00	[ICRA]A1+; assigned
Total	6,000.00	10,000.00	

*Instrument details are provided in Annexure I

Rationale

The assigned rating continues to draw comfort from the strength of Barclays Bank PLC (BBPLC; rated A1/Negative/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa3), which is a global systemically important bank based in the United Kingdom (UK) with a strong global presence and total assets of £1.39 trillion as on September 30, 2022. The rating remains supported by the strong operational linkages between the Indian branches and the head office (HO) in the UK, depicted by the significant integration of the systems and processes of the Indian branches with the HO.

The capitalisation profile of the Indian branches remains comfortable with the Tier I and the capital-to-risk weighted assets ratio (CRAR) at 20.81% and 22.39%, respectively, as on June 30, 2022. This had expanded following the meaningfully large capital infusion by the HO in relation to the existing capital base in FY2022.

However, given the limited focus on retail operations in India, the deposit franchise of the Indian branches is characterised by high depositor concentration with these liabilities having a short tenure. As a result, the fund-based operations remain limited with loans and advances being lower than the net worth. The liquidity of the Indian branches remains strong supported by the short tenure of the advances, excess holding of Government securities (G-Secs), and the cash balances with the Reserve Bank of India (RBI); this, however, results in a modest earnings profile. In addition, the Indian branches can avail funding support from the HO for any liquidity requirements.

ICRA also notes that the Indian branches have maintained satisfactory asset quality metrics with limited slippages as the lending relationships are driven by global operations. ICRA will continue to closely monitor the developments at BBPLC as these will remain key determinants of the rating of its Indian branches.

Key rating drivers and their description

Credit strengths

Indian branches of BBPLC – ICRA draws comfort from the strong global presence of BBPLC. The risk management policies and processes followed by the Indian branches are in line with those followed by the HO, thereby depicting the strong integration of the Indian branch operations with the HO. ICRA would continue to monitor the developments at BBPLC, which will remain important determinants of the rating of the bank's Indian operations. While the Indian banking operations accounted for an estimated 0.38% of BBPLC's total assets of £1.06 trillion as on December 31, 2021, they provide corporate and investment banking products including risk management solutions. Apart from banking operations, the other Indian entities of the Barclays Group offer various other capital market and wealth management services to corporates, high-net-worth individuals, and overseas investors.

Capitalisation metrics remain comfortable – The capitalisation metrics of the Indian operations remained comfortable with a Tier I and CRAR of 20.81% and 22.39%, respectively, as on June 30, 2022, compared to 14.23% and 15.44% on March 31, 2021. The capitalisation profile was also supported by the infusion of ~Rs. 3,000 crore in August 2021 by BBPLC, which was largely extended by the HO to support the future growth of the Indian operations (including Group entities) and to meet the regulatory requirements of the exposure limits taken by the Indian branches to the HO, which is governed by the large exposure framework.

As BBPLC is a global systemically important bank, it needs to maintain an additional 1.5% capital above the minimum stipulated capital level (required minimum CET of 9.50% as on September 30, 2022). This requirement applies to the Indian operations as well. Against the regulatory requirement, BBPLC reported a CET of 13.3% as on September 30, 2022, on a consolidated basis, compared to 12.9% as on December 31, 2021, for the global operations. Going forward, ICRA expects the capitalisation profile of the Indian operations to remain comfortable, supported by steady internal accruals.

Profitability remains modest, given limited scale of operations – The Indian operations are characterised by off-balance sheet derivative exposures with its corresponding mark-to-market (MTM) positions accounting for 15% of the total assets (with a similar amount on the liability side) as on March 31, 2022 (24% as on March 31, 2021). The level of advances remains limited in relation to the net worth. The share of advances stood at ~21% of the total assets as on March 31, 2022 (~18% as on March 31, 2021). The share of liquid assets (largely G-Secs, balances with the RBI and overseas sovereign investments) was high at ~64% of the total assets as on March 31, 2022 compared to ~50% as on March 31, 2021. Other on-balance sheet assets, representing the gross on derivative contracts,

The net interest margins of the Indian operations remained flat at 2.16% of the average total assets (ATA) in FY2022 (2.12% in FY2021) because of surplus liquidity. The Indian branches support their clients in cross-border transactions including derivatives exposures on which it earns fee income, which also supports the operating profitability. Driven by an increase in fee-based income and higher net worth, the bank's internal capital generation was higher with a return on assets (RoA) of 1.66% in FY2022 against 0.61% in FY2021.

Globally, BBPLC reported a net profit of £3.99 billion for 9M CY2022, translating into a return on tangible equity (RoTE) of 10.9% against £5.13 billion and 14.5% in 9M CY2021. The decrease in the net profit in 9M CY2022 was largely on account of litigation and conduct charges of £1.52 billion in 9M CY2022 (£0.31 billion in 9M CY2021).

Asset quality metrics remain satisfactory – BBPLC's customers in India mainly include corporate entities, which have a better risk profile and have global tie-ups at the group level. Accordingly, gross slippages were limited to Rs. 57 crore or 0.71% of opening standard advances in FY2022, compared to 0.49% in FY2021. The bank's gross non-performing advances (NPAs) and net NPAs were satisfactory at 1.32% and Nil, respectively, as on March 31, 2022 (3.24% and 0.38%, respectively, as on March 31, 2021). Furthermore, the standard restructured book was low at Rs. 10 crore as on March 31, 2022. Even though the bank has seen limited slippages amid the challenging environment, the asset quality profile will remain susceptible to any lumpy slippages, given the high concentration of the loan book.

Likewise, BBPLC reported a non-performing loan (NPL) ratio (NPLs as a proportion of gross loans) of 1.90% as of June 30, 2022 against 2.25% as on December 31, 2021.

Credit challenges

High concentration of Indian operations – Given the short tenure of the liabilities, the loan portfolio of BBPLC's Indian operations is largely focused on shorter-tenor bill discounting and working capital loans, which accounted for 61% of the outstanding loan book as on March 31, 2022 (84% as of March 31, 2021). The net advances were flat with ~3% YoY growth and stood at Rs. 8,324 crore as on March 31, 2022. The overall advances increased to Rs. 9,156 crore as on August 31, 2022. The tenor of assets booked by the Indian branches is a function of the liability base and its profile. The Indian operations also have high contingent liabilities, which stood at Rs. 11.29 lakh crore as on March 31, 2022 (Rs. 8.82 lakh crore as on March 31, 2021). The contingent liabilities are mainly on account of the currency and interest rate derivatives and forward exchange contracts and reflect the notional amount in the underlying contracts. As these contracts are counter-hedged with other branches of BBPLC as well as with other counterparties, the net exposure is lower.

Deposit profile remains wholesale in nature – As on March 31, 2022, BBPLC's Indian operations had a presence via three branches (excluding one service branch) with a focus on wholesale lending. Given the limited retail presence, the deposit base remains concentrated with a low share of current account and savings account (CASA) deposits and a high share of bulk deposits, which stood at ~70% of total deposits as on August 31, 2022. This results in high deposit concentration with the top 20 depositors accounting for ~65% of the total deposits as on March 31, 2022 (60% as on March 31, 2021). Given the high share of wholesale deposits, the deposit levels can fluctuate substantially due to the limited predictability of such flows. Thus, the branches operate in short-tenor advances to prevent any gaps in asset and liability maturities with a limited share of term loans.

Liquidity position: Strong

With the overall net worth exceeding the advances outstanding, the liquidity position of the Indian branches remains strong with positive gaps across all the <1-year maturity buckets as per the structural liquidity statement (SLS) as on August 31, 2022. The liquid assets (cash, G-Secs and other liquid investments) of the Indian branches are estimated at ~64% of the total assets as on August 31, 2022. Moreover, the Indian operations can avail liquidity support of up to 50% of the Tier I capital from the HO in case of urgent requirement, which can increase further to 100% with the internal approval of the Asset Liability Committee.

Rating sensitivities

Positive factors – NA

Negative factors – A material deterioration in the credit profile of BBPLC will lead to a downgrade in the credit rating of the Indian branches.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks
Parent/Group support	ICRA expects the Indian branches to be supported by the HO – BBPLC; the HO will extend financial support to the Indian branches, if needed, as they are an integral part of BBPLC
Consolidation/Standalone	Standalone for Indian branches

About the company

UK-based Barclays Bank PLC (BBPLC) is a global systemically important bank that is a part of the Barclays Group. It accounted for around 81% of the Group's total assets as on September 30, 2022. 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 its 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 13.3% as on September 30, 2022 compared to 12.9% as on December 31, 2021. For 9M CY2022, the bank reported a net profit of £4.63 billion compared with £4.17 billion in 9M CY2021.

The Indian branches commenced commercial banking operations in FY2006 and retail banking operations in FY2007. As on March 31, 2022, the bank had a presence in India via three branches (excluding one service branch). It also has investment banking operations in India. It sold its retail assets in FY2013 following the Group's decision to exit its retail business in India in December 2011. BBPLC's Indian operations reported a net profit of Rs. 696 crore in FY2022 on an asset base of Rs. 40,146 crore as on March 31, 2022 compared to a net profit of Rs. 258 crore in FY2021 on a total asset base of Rs. 43,872 crore as on March 31, 2021.

Key financial indicators (standalone)

Barclays Bank PLC (India Operations)	FY2020	FY2021	FY2022
Net interest income	920	890	905
Profit before tax	566	847	1,287
Profit after tax	283	258	696
Net advances (Rs. lakh crore)	0.10	0.08	0.08
Total assets (Rs. lakh crore)	0.40	0.44	0.40
CET I	14.87%	14.23%	23.33%
Tier I	14.87%	14.23%	23.33%
CRAR	15.67%	15.44%	25.04%
Net interest margin / ATA	2.29%	2.12%	2.16%
PAT / ATA	0.70%	0.61%	1.66%
Return on net worth	4.25%	3.74%	6.31%
Gross NPAs	3.19%	3.24%	1.32%
Net NPAs	0.00%	0.38%	0.00%
Provision coverage excl. technical write-offs	100.00%	88.69%	100.00%
Net NPA / Core equity capital	-	0.47%	-

Source: Barclays Bank PLC (India Operations), ICRA Research; All ratios as per ICRA's calculations

Amount in Rs. crore unless mentioned otherwise

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
			Amount rated	Amount outstanding as of Dec 05, 2022	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
			(Rs. crore)	(Rs. crore)	Dec-07-2022	Jun-07-2022	Jun-04-2021	Mar-26-2021	May-29-2020	Apr-05-2019
1	Certificates of deposit	Short term	6,000.00	100.00 [^]	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Certificates of deposit	Short term	4,000.00	- [^]	[ICRA]A1+; assigned					

[^] As on December 05, 2022; Balance amount yet to be placed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Certificates of deposit	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:

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Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE083J16355	Certificates of deposit	Nov 22, 2022	6.90%	Jan 12, 2023	100.00	[ICRA]A1+
Unplaced	Certificates of deposit	NA	NA	7-365 days	5,900.00	[ICRA]A1+
Unplaced	Certificates of deposit	NA	NA	7-365 days	4,000.00	[ICRA]A1+; assigned

Source: Barclays Bank PLC (India Operations); CD outstanding as on December 02, 2022

Annexure II: List of entities considered for limited consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Barclays Bank PLC (India Operations)

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Branches



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