February 10, 2023

Deutsche Investments 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	2,200	2,200	[ICRA]A1+; Reaffirmed
Total	**2,200**	**2,200**	

**Instrument details are provided in Annexure I*

Rationale

The rating is underpinned by Deutsche Investments India Private Limited's (DIIPL) parentage in the form of Deutsche Bank AG (DBAG; rated A1/ Baa1/ P-1 by Moody's Investors Service) and the expectation that the parent will extend timely support, thereby ensuring the timely repayment of DIIPL's debt obligations, if required. Any significant change in the credit profile of DBAG or a reduction in the Group's support to DIIPL could warrant a rating change for the company. ICRA takes comfort from the shared brand name and the operational and management support and the risk oversight received from the parent.

The rating also factors in DIIPL's adequate capitalisation for the current scale of operations with a gearing of 1.0x and a net worth of Rs. 912 crore as on September 30, 2022, and the comfortable asset quality indicators with nil gross non-performing advances (GNPAs) as on September 30, 2022. While there have been some slippages in the company's structured finance book, ICRA notes that DIIPL has created adequate provisions against such positions in this book. As for liquidity, given the short-term nature of the assets, the company's asset liability management (ALM) profile is adequate with positive cumulative mismatches across all buckets. The liquidity profile is further supported by the financial flexibility enjoyed by the company by virtue of being a part of the Deutsche Bank Group and the expectation of timely support from the Group, if required.

ICRA notes DIIPL's small scale of operations with a portfolio of about Rs. 1,702 crore as on December 31, 2022 along with the relatively high credit concentration, given the wholesale nature of the business. ICRA has also taken note of the limited, albeit improving, diversity in DIIPL's borrowing profile with commercial papers (CPs) accounting for about 68% of the borrowings as on September 30, 2022, followed by inter-corporate deposits (ICDs) via parent support from Deutsche India Holdings Private Limited at about 29%, while non-convertible debentures (NCDs) accounted for the remaining 3%. The rating also factors in DIIPL's muted profitability indicators, which are constrained by the modest scale of operations. Going forward, the company's ability to increase the business volumes profitably while maintaining a prudent capitalisation profile and keeping its asset quality intact would be a key monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage with operational and management support – DIIPL benefits from being a part of DBAG and gets operational and management support from the parent. The operational synergies with the parent also enable the company to have risk management systems in line with the Group's global risk management parameters, thereby providing strength to its credit appraisal process. Further, the shared brand name with the parent supports DIIPL's financial flexibility and ICRA expects support from the parent to be forthcoming as and when required.

Adequate capitalisation levels for current scale of operations – DIIPL has adequate capitalisation levels for the current scale of operations, with a net worth of Rs. 912.2 crore and a gearing of 1.0x as on September 30, 2022. ICRA notes that the company intends to grow its loan book and maintain a conservative gearing over the near to medium term. Also, given its importance to the Deutsche Bank Group, ICRA expects DIIPL to receive timely capital support from the Group for its growth plans while maintaining prudent capitalisation levels.

Comfortable asset quality indicators – DIIPL's reported asset quality indicators are comfortable with nil GNPAs as on September 30, 2022. While there have been some slippages in the company's structured finance book, ICRA notes that DIIPL has created adequate provisions against such positions in this book. At the same time, there have not been any fresh slippages in the loan book over the last six years and ICRA expects DIIPL to maintain a comfortable asset quality, going forward as well.

Credit challenges

Small scale of operations; highly susceptible to volatility in capital markets – DIIPL's portfolio has remained range-bound at Rs. 1,300-2,000 crore over the past few years till FY2022. The portfolio (excluding structured finance exposures) stood at Rs. 1,873.8 crore as on March 31, 2022 and declined to Rs. 1,164.7 crore as on September 30, 2022, with high systemic interest rates impacting demand to some extent. However, business volumes picked up subsequently and the company reported a portfolio of Rs. 1,702.2 crore as on December 31, 2022. DIIPL's portfolio growth has been muted over the years, given the challenges in the operating environment and its cautious growth strategy. In terms of the portfolio mix, loan against shares/equity mutual funds comprised 93.2% of the overall portfolio as on September 30, 2022, while loans against debt securities comprised the remaining 6.8%. Consequently, the loan book remains susceptible to capital market volatility.

Overall, the scale of operations is expected to remain range-bound, given the focus on the loans against share segment for high-net-worth individuals (HNIs) and the risk guardrails set by the company. This, in turn, is likely to keep the profitability indicators modest, given the high fixed overheads. Going forward, DIIPL's ability to scale up its business operations while keeping its asset quality intact will be a key monitorable.

Relatively high credit concentration – DIIPL gives short-tenured loans to HNIs, backed by liquid collateral like listed shares and debt/equity mutual funds. Given the wholesale nature of the loans, the company's credit concentration is relatively high making the portfolio vulnerable to asset quality related shocks. As on September 30, 2022, the top 25 advances accounted for 89.4% of the total portfolio and 114.1% of the total net worth (87.9% and 182.0%, respectively, as on March 31, 2022). However, ICRA notes that most of the loans are given to HNIs who have an existing track record with the company and the loans are secured by liquid collateral in the form of listed shares, mutual funds, bonds, etc. This is likely to keep the ultimate losses low in case of defaults.

Liquidity position: Adequate

The company's liquidity profile remains adequate, with positive cumulative mismatches across all its buckets as per the ALM profile as on December 31, 2022, supported by its low gearing and short-tenured loan book. The availability of sanctioned and unutilised bank lines of Rs. 500 crore from DBAG, callable on demand, further supports the liquidity position. Expected inflows from performing advances stood at Rs. 1,705 crore, as per the ALM profile as on December 31, 2022 while liquid investments and sanctioned but unutilised bank lines stood at Rs. 1,066.4 crore (including the lines from DBAG), as on January 27, 2023, against scheduled debt repayments of Rs. 1,680.0 crore over the next six months. Further, being a part of the Deutsche Bank Group and given the shared brand name, DIIPL enjoys good financial flexibility and ICRA expects support from the parent to be forthcoming, if required, to support the company's liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on a significant deterioration in the credit profile of the parent or lower-than-expected support from the parent group. Also, any significant deterioration in the company's asset quality and profitability metrics would remain a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[ICRA's Credit Rating Methodology for Non-banking Finance Companies](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent/Group support	Deutsche Bank AG The rating is underpinned by DIIPL's parentage in the form of DBAG and the expectation of timely support from the parent, if required
Consolidation/Standalone	Standalone

About the company

Deutsche Investments India Private Limited (DIIPL) is held by Deutsche India Holdings Private Limited (19.05%) and Deutsche Asia Pacific Holdings Pte. Ltd (80.95%). Both entities are ultimately owned by DBAG. On August 02, 2007, DIIPL was registered with the Reserve Bank of India as a non-banking financial company (NBFC) under Category B (i.e. NBFC not accepting public deposits).

DIIPL's board of directors comprises senior management personnel from the Deutsche Bank Group. The company also has strong strategic and operational linkages with the Group with its risk management policies, systems, and processes being in line with Deutsche Bank's global policies. Moreover, DIIPL leverages its parent's relationships with other banks and financial institutions to source funds and has funding lines from Deutsche Bank India as well.

DIIPL provides loans against shares and against debt/equity mutual funds. The company reported a profit after tax (PAT) of Rs. 18.9 crore in FY2022 on a total gross asset base of Rs. 2,432.5 crore as on March 31, 2022 compared to a PAT of Rs. 25.1 crore in FY2021 on a total gross asset base of Rs. 2,415.6 crore as on March 31, 2021. In H1 FY2023, the company reported a PAT of Rs. 8.5 crore on a total gross asset base of Rs. 1,890.6 crore. Its net worth stood at Rs. 912.2 crore as on September 30, 2022 based on provisional financials. The company reported nil GNPAs as on September 30, 2022 and March 31, 2022 (GNPA of 0.6% and nil net NPA as on March 31, 2021).

Key financial indicators

	FY2020	FY2021	FY2022	H1 FY2023
Total income	189.8	119.4	149.5	66.9
Profit after tax	42.1	25.1	18.9	8.5
Net worth	914.1	903.0	904.8	912.2
Gross loan book	1,285.7	1,935.3	1,880.8	1,171.9
Total assets	1,689.5	2,415.6	2,432.5	1,890.6
Return on average total assets	2.3%	1.2%	0.8%	0.8%
Return on average net worth	4.6%	2.8%	2.1%	1.9%
CRAR	64.5%	43.5%	45.0%	71.3%
Reported gearing (times)	0.8	1.6	1.6	1.0
Gross NPAs	0.9%	0.6%	0.0%	0.0%
Net NPAs	0.0%	0.0%	0.0%	0.0%
Net NPA/Net worth	0.0%	0.0%	0.0%	0.0%

Source: DIIPL, ICRA Research; Amount in Rs. crore; All figures and 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)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Feb 10, 2023	Feb 11, 2022	Feb 25, 2021	Jan 29, 2020
1	**Commercial paper programme**	Short term	2,200	1,400	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	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: Click Here

Annexure I: Instrument details (as on February 02, 2023)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE144H14FC1	Commercial paper	Feb-08-2022	6.00	Feb-07-2023	100	[ICRA]A1+
INE144H14FF4	Commercial paper	Feb-25-2022	6.00	Feb-24-2023	300	[ICRA]A1+
INE144H14FH0	Commercial paper	Nov-09-2022	7.70	Feb-08-2023	100	[ICRA]A1+
INE144H14FI8	Commercial paper	Dec-16-2022	7.40	Mar-17-2023	400	[ICRA]A1+
INE144H14FJ6	Commercial paper	Jan-24-2023	8.45	Jul-24-2023	400	[ICRA]A1+
INE144H14FK4	Commercial paper	Jan-31-2023	7.80	May-02-2023	100	[ICRA]A1+
NA	Commercial paper*	NA	NA	7-365 days	800	[ICRA]A1+

*Source: DIIPL, ICRA Research; * Yet to be placed*

Annexure II: 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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