February 22, 2024

Julius Baer Capital (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 (CP) programme	3,500.00	4,000.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	**3,500.00**	**4,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to factor in the strong parentage of Julius Baer Capital (India) Private Limited (JBCIL), which is a part of Julius Baer Group (the Group), the shared brand name and the demonstrated track record of support from the Group. JBCIL is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (JBWA), which is wholly owned by Julius Baer Group Limited (JBGL; rated Baa1/Negative by Moody's Investors Service[1]). Bank Julius Baer & Co Limited (BJB; rated A3/Negative by Moody's) is the main operating entity of the Group. The rating also considers the established track record of the Group in wealth management with global assets under management (AUM) of CHF[2] 427 billion as of December 2023. Within the Group, JBWA operates as the wealth management arm in India with a 4-5% share[3] of the global AUM and provides JBCIL with access to the Group's clientele. The rating also factors in the company's adequate liquidity profile.

While reaffirming the rating, ICRA has taken note of JBCIL's moderate scale of operations and its dependency on capital markets and the consequent risk profile of the asset class, given the nature of the underlying security. Despite its exposure to volatile capital markets, the company has continued to report healthy asset quality with nil gross non-performing assets (GNPAs) since inception. While the increase in borrowing costs in FY2023 and 9M FY2024, amid rising systemic interest rates, resulted in a moderation in the net interest margin, the overall performance remained adequate with a return on assets (RoA) and a return on equity (RoE) of 1.6% and 7.7% respectively, in 9M FY2024 (1.8% and 7.2%, respectively, in FY2023 compared to 2.0% and 8.1%, respectively, in FY2022). ICRA notes that JBCIL's foray into the bond trading business, on behalf of its clients, supports its revenue and overall profitability.

The recent scale-up in the lending business was largely debt funded, leading to a rise in the financial leverage. While the capital infusion of ~Rs. 162 crore in FY2022 and healthy internal accruals have supported JBCIL's capitalisation profile to some extent, the financial leverage increased to 4.5 times as of December 31, 2023 from 3.0 times as of March 31, 2023 as well as March 31, 2022. Given the likely capital infusion of CHF 30 million (~Rs. 270 crore) from JBGL in Q4 FY2024, ICRA expects the capitalisation level to remain comfortable. In this regard, it is noted that the company plans to maintain a capital-to-risk weighted assets ratio (CRAR) of more than 18% at all times. Considering the short-term nature of the loan against shares (LAS) product[4], the borrowing profile remains dominated by commercial paper (CP). Notwithstanding this, the liquidity position remains adequate with no negative cumulative mismatches across all the maturity buckets.

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[1]Moody's had revised the outlook on the long term rating of JBGL to Baa1 (Negative) from Baa1 (Positive) and downgraded the long term deposit rating of BJB to A1 (Negative) from Aa3 (Stable) in December 2023

[2] Swiss franc

[3] 4.4% as of December 2022

[4] ~10% the loan book is static in nature while the churn is faster for the remaining 90%

Key rating drivers and their description

Credit strengths

Strong parentage – JBCIL is a wholly-owned subsidiary of JBWA, which is wholly owned by JBGL. While JBWA is the wealth advisory arm of the Group's Indian operations (onshore and offshore), accounting for 4-5% of the global AUM of CHF 427 billion as of December 2023 in India (resident clients only), JBCIL offers lending services (against capital market assets) to the clients. In addition to resident clients, the Group manages the wealth of non-residents in other currencies. Hence, the country remains strategically important to the Group in terms of its footprint in emerging markets. The shared brand name, capital commitment, and managerial oversight from JBGL also support ICRA's opinion about JBCIL's importance to the Group. While the capital infusion of ~Rs. 162 crore in FY2022 and healthy internal accruals have supported JBCIL's capitalisation profile to some extent, the financial leverage increased to 4.5 times as of December 31, 2023 from 3.0 times as of March 31, 2023 as well as March 31, 2022.

JBWA has an established presence and track record in the wealth management business in India with a managed AUM of ~CHF 18 billion (resident clients only) as on March 31, 2023. JBCIL shares significant operational synergies with JBWA as the lending arm of an established wealth management/private banking practice. The association with the parent provides the company with access to a clientele with a long and demonstrated relationship in the wealth management space while its lending business complements JBWA's product portfolio.

Comfortable capitalisation – JBCIL's management plans to maintain a CRAR of more than 17.5% at all times. In this regard, its capitalisation profile has been characterised by average gearing of 2.8 times and a CRAR of 28.2% over the last five years. Although the capital infusion of ~Rs. 162 crore in FY2022 and healthy internal accruals supported JBCIL's capitalisation profile, the financial leverage increased to 4.5 times as of December 31, 2023 from 3.0 times as of March 31, 2023 as well as March 31, 2022. The CRAR stood at 19.0% as of December 31, 2023. The recent ramp-up in the lending business has, however, been sharp and was primarily debt funded. This, coupled with the change in the company's dividend policy, led to a rise in its financial leverage. Nevertheless, the proposed capital infusion of CHF 30 million (~Rs. 270 crore) from JBGL in Q4 FY2024 is likely to keep the capitalisation level comfortable while supporting the near-term growth plans.

Credit challenges

Moderate scale of operations – JBCIL is in the Group's capital market lending business and its clients are primarily sourced from the parent's wealth management business. As the company's focus remains towards offering LAS to high-net-worth individuals (HNIs), the growth in the scale of operations depends significantly on the performance and referrals from the wealth management business {hosted under JBWA (parent)}. Further, the growth in the loan book is driven by the overall investor sentiment in the capital markets. Thus, while the loan book increased at a compound annual growth rate of 26% during March 31, 2019 to March 31, 2022, muted capital market sentiment impacted growth in FY2023. The loan book remained moderately flat at Rs. 2,467 crore as of March 31, 2023 compared to Rs. 2,335 crore as of March 31, 2022. Subsequently, improved capital market sentiment supported growth in 9M FY2024 and the loan book stood at Rs. 3,538 crore as of December 31, 2023. ICRA also takes cognisance of the increase in the borrowing cost FY2023 onwards due to the tightening of the monetary policy. This resulted in a moderation in the net interest margin, limiting the profitability during this period. Nonetheless, JBCIL's foray into the bond trading business, on behalf of its clients, supported the revenue and overall profitability in the last 20 months.

JBCIL's top 10 and top 20 borrowers accounted for 29% and 47%, respectively, of its total advances as on March 31, 2023. On the liability side, the top 3 CP investors accounted for a significant portion of the total outstanding as on March 31, 2023, indicating high concentration.

High dependence on capital markets – Any adverse event in the capital markets could lead to an erosion in the value of the underlying collateral stocks and would result in loan recall/squaring-off of positions. This would adversely affect the company's top line. Further, volatility in the capital markets limits the funding requirements of customers, leading to fluctuations in the scale of operations and the borrowing and leverage levels. The recent foray into the bond trading business, wherein JBCIL holds the bonds in its book for 2-5 days, further increases its exposure to capital markets.

However, ICRA notes the adequacy of JBCIL's systems and processes, which is reflected by its healthy asset quality since inception. The company has an independent risk management function, which oversees the implementation of its risk-taking strategy and ensures adherence to its policies across businesses. JBCIL typically provides a loan of up to 48% of the approved equity collateral value against the statutory requirement of 50%. This provides it with some headroom in case of any fluctuation in stock valuation. The collateral value is monitored on a real-time basis with margin calls issued to the clients if the loan-to-value (LTV) exceeds the agreed threshold. ICRA notes that the trades undertaken in the bond trading business are only against confirmed orders and JBCIL's average holding period remains short (2-5 days), protecting it from market volatility risk to some extent.

Liquidity position: Adequate

JBCIL largely offers LAS, a short-term loan product, which is repayable on demand. Hence, despite short-term CPs constituting almost the entire share of its borrowings, the cumulative gaps remained positive across all the maturity buckets as per the asset-liability maturity (ALM) profile as of December 31, 2023. The company had a free cash and bank balance of ~Rs. 212 crore and drawable but unutilised lines of Rs. 178 crore, as of December 31, 2023, against CPs outstanding of ~Rs. 3,035 crore. Further, healthy collections from the LAS book and the company's demonstrated ability to raise funds provide comfort.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material deterioration in the credit profile of the ultimate parent (JBGL) or any weakening in the likelihood of financial support from the ultimate parent will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Ultimate parent: JBGL Immediate parent: JBWA The rating factors in the strong parentage of JBCIL, as it is a part of Julius Baer Group. JBCIL is a wholly-owned subsidiary of JBWA which, in turn, is wholly owned by JBGL (rated Baa1/Negative by Moody's).
Consolidation/Standalone	Standalone

About the company

Julius Baer Capital (India) Private Limited (JBCIL), registered as a systemically important, non-deposit taking non-banking financial company (NBFC-ND-SI) with the Reserve Bank of India (RBI), provides finance against capital market securities (equity shares, bonds and mutual funds) and complements the wealth management business of Julius Baer Wealth Advisors (India) Private Limited (JBWA). As on December 31, 2023, JBCIL's loan book stood at Rs. 3,538 crore.

JBCIL is a wholly-owned subsidiary of JBWA, which is ultimately held by Zurich-based Julius Baer Group Limited (JBGL). JBWA provides wealth management/advisory services to HNIs, ultra HNIs and their individual-centric commercial entities. It also has a presence in the equity broking business and received a portfolio management services (PMS) licence from the Securities and Exchange Board of India (SEBI) in July 2020. JBWA's AUM was ~CHF 18 billion as of March 31, 2023.

JBGL offers various financial services including structured finance products, investment advisory services, Lombard financing as well as security and foreign exchange trading services. It has a presence in Europe, Asia and South America. JBGL's AUM was CHF 427 billion as of December 31, 2023.

Key financial indicators (audited)

JBCIL	Mar-22/FY2022	Mar-23/FY2023	Dec-23/9M FY2024
Total income	159	218	216
Profit after tax	43	47	40
Total managed assets*	2,506	2,705	3,816
Return on managed assets*	2.0%	1.8%	1.6%
Gross gearing (times)*	3.0	3.0	4.5
Gross NPA	0.0%	0.0%	0.0%
CRAR	26.4%	26.7%	19.0%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Net worth and total assets adjusted for goodwill of Rs. 33.05 crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)						Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Feb 22, 2024	Dec 6, 2023	Jun 26, 2023	Jun 15, 2022	Aug 2, 2021	Nov 3, 2020
1	**CP programme**	Short term	4,000	3,178	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

** As of January 31, 2024*

Complexity level of the rated instruments

Instrument	Complexity Indicator
CP programme	Very Simple*

**Subject to change based on terms of issuance*

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE824H14KU0	CP programme	Feb 27, 2023	7.95	Feb 26, 2024	10	[ICRA]A1+
INE824H14KV8	CP programme	Mar 01, 2023	7.90	Feb 28, 2024	5	[ICRA]A1+
INE824H14MO9	CP programme	Sep 14, 2023	7.75	Mar 12, 2024	31	[ICRA]A1+
INE824H14MU6	CP programme	Oct 16, 2023	8.20	Oct 15, 2024	5	[ICRA]A1+
INE824H14MV4	CP programme	Oct 17, 2023	8.20	Oct 16, 2024	3	[ICRA]A1+
INE824H14MZ5	CP programme	Oct 27, 2023	7.90	Apr 25, 2024	27	[ICRA]A1+
INE824H14NB4	CP programme	Oct 31, 2023	8.00	Apr 30, 2024	10	[ICRA]A1+
INE824H14NC2	CP programme	Nov 09, 2023	8.10	May 09, 2024	10	[ICRA]A1+
INE824H14ND0	CP programme	Nov 16, 2023	8.70	Nov 14, 2024	50	[ICRA]A1+
INE824H14NE8	CP programme	Nov 17, 2023	8.22	Feb 16, 2024	200	[ICRA]A1+
INE824H14NF5	CP programme	Nov 17, 2023	8.00	May 17, 2024	5	[ICRA]A1+
INE824H14NG3	CP programme	Nov 22, 2023	8.25	Feb 21, 2024	250	[ICRA]A1+
INE824H14NH1	CP programme	Nov 28, 2023	8.25	Feb 27, 2024	250	[ICRA]A1+
INE824H14KV8	CP programme	Nov 29, 2023	8.25	Feb 28, 2024	150	[ICRA]A1+
INE824H14NI9	CP programme	Dec 05, 2023	8.30	Mar 05, 2024	200	[ICRA]A1+
INE824H14NJ7	CP programme	Dec 06, 2023	8.30	Mar 06, 2024	100	[ICRA]A1+
INE824H14NK5	CP programme	Dec 07, 2023	8.30	Mar 07, 2024	75	[ICRA]A1+
INE824H14MO9	CP programme	Dec 12, 2023	8.30	Mar 12, 2024	250	[ICRA]A1+
INE824H14NM1	CP programme	Dec 13, 2023	8.32	Mar 13, 2024	250	[ICRA]A1+
INE824H14NN9	CP programme	Dec 19, 2023	8.45	Mar 19, 2024	275	[ICRA]A1+
INE824H14NN9	CP programme	Dec 20, 2023	8.43	Mar 19, 2024	25	[ICRA]A1+
INE824H14NO7	CP programme	Dec 20, 2023	8.43	Mar 21, 2024	5	[ICRA]A1+
INE824H14NP4	CP programme	Dec 22, 2023	8.38	Mar 22, 2024	200	[ICRA]A1+
INE824H14NL3	CP programme	Dec 22, 2023	8.05	Jun 21, 2024	21	[ICRA]A1+
INE824H14NQ2	CP programme	Jan 08, 2024	8.15	Feb 08, 2024	150	[ICRA]A1+
INE824H14NR0	CP programme	Jan 11, 2024	8.75	Apr 10, 2024	150	[ICRA]A1+
INE824H14NS8	CP programme	Jan 12, 2024	8.75	Apr 12, 2024	50	[ICRA]A1+
INE824H14NT6	CP programme	Jan 12, 2024	8.60	Apr 03, 2024	4	[ICRA]A1+
INE824H14NU4	CP programme	Jan 16, 2024	8.55	Jan 15, 2025	27	[ICRA]A1+
INE824H14NV2	CP programme	Jan 16, 2024	8.60	Apr 16, 2024	10	[ICRA]A1+
INE824H14NV2	CP programme	Jan 17, 2024	8.40	Apr 16, 2024	10	[ICRA]A1+
INE824H14NW0	CP programme	Jan 25, 2024	8.45	Jul 24, 2024	5	[ICRA]A1+
INE824H14MZ5	CP programme	Jan 25, 2024	8.35	Apr 25, 2024	5	[ICRA]A1+
INE824H14NY6	CP programme	Jan 29, 2024	9.15	Apr 29, 2024	100	[ICRA]A1+
INE824H14NB4	CP programme	Jan 30, 2024	9.11	Apr 30, 2024	238	[ICRA]A1+
INE824H14NZ3	CP programme	Jul 30, 2024	8.60	Jan 30, 2025	21	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	7-365 days	823	[ICRA]A1+

Source: Company; As of Jan 31, 2024

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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