November 18, 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	4,800.00	5,500.00	[ICRA]A1+; reaffirmed and assigned
Total	**4,800.00**	**5,500.00**	

**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), as a part of Julius Baer Group (the Group), benefitting from the shared brand name and the demonstrated track record of support from the Group. Bank Julius Baer & Co Limited (BJB; rated A3/Negative by Moody's) is the main operating entity of the Group. It is held by Julius Baer Group Limited (JBGL; rated Baa1/Negative by Moody's[1]), which is the ultimate holding company of the Group.

JBCIL is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (JBWA), which is itself wholly owned by JBGL. The rating also considers the established track record of the Group in wealth management, with global assets under management (AUM) of CHF[2] 474 billion as of June 2024. Within the Group, JBWA operates as the wealth management arm in India, managing a 5-6% share of the global AUM and providing JBCIL with access to the Group's clientele. The rating also reflects JBCIL's adequate capitalisation as well as liquidity.

While reaffirming the rating, ICRA has taken note of JBCIL's moderate but growing scale of operations and its dependency on capital markets due to its presence in lending against listed securities (LAS) segment, which inherently carries a higher risk profile due to the nature of the collateral. 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. After witnessing a compression in FY2023 and FY2024, amid rising systemic interest rates and a corresponding increase in borrowing costs, the company's net interest margin (NIM) stabilised in H1 FY2025. The profitability is characterised by an annualised return on average assets (RoA) of 1.6% in H1 FY2025 compared to 1.5% in FY2024 and 1.8% in FY2023, with a 4-year average of 1.9% during FY2019-FY2022. ICRA notes that JBCIL's foray into the bond warehousing business, on behalf of its clients, also supports its revenue profile.

JBCIL's capitalisation is characterised by a net worth of Rs. 1,000 crore[3] and a capital-to-risk weighted assets ratio (CRAR) of 19.7% as on September 30, 2024. The capital infusion of Rs. 280 crore (CHF 30 million) in Q4 FY2024 augured well for the company's capitalisation. Following the capital raise, JBCIL's financial leverage eased to 3.1 times as on March 31, 2024 from 4.5 times as on December 31, 2023. However, as the incremental scale-up in the lending business is largely debt-funded, the leverage inched up to 4.3 times as on September 30, 2024; a further rise in the same cannot be ruled out. Herein, ICRA notes the management's stated intent of operating at a CRAR of at least 17% and they have accordingly initiated discussions with the ultimate parent for a capital infusion. These discussions are expected to be accelerated if the CRAR falls below 17% in the interim. Considering the short-term nature of the LAS product[4], the borrowing profile remains dominated by commercial paper (CP). Despite this, JBCIL's liquidity position remains adequate with no negative cumulative mismatches across all maturity buckets.

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[1] BJB's rating downgrade to A3 Negative from A2 Stable and the revision in the outlook for JBGL to Negative from Stable were on account of the concentration risk in the lending business in Europe (as reported by JBGL in its financials for Q4 CY2023) and the corresponding provisioning, resulting in a moderation in the profitability

[2] Swiss franc

[3] Adjusted for goodwill of Rs. 33 crore

[4] On an annual basis, ~10% of 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 by virtue of being a part of Julius Baer Group – JBCIL is a wholly-owned subsidiary of JBWA, which is fully owned by JBGL. While JBWA serves as the wealth advisory arm of the Group's Indian operations (onshore and offshore), accounting for 5-6% of the Group's global AUM of CHF 474 billion as of June 2024 (resident clients only), JBCIL offers lending services (against securities) to its clients. In addition to its resident clients, the Group manages the wealth of non-residents in other currencies, underscoring India's strategic importance to the Group in terms of its footprint in emerging markets. The shared brand name, timely capital infusions and managerial oversight from JBGL also support ICRA's opinion about JBCIL's importance to the Group.

JBWA has an established presence and track record in the wealth management business in India with client assets of Rs 2,89,986 crore as on September 30, 2024. JBCIL shares operational synergies with JBWA as the lending arm of an established wealth management/private banking practice. The association with the parent entity 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.

Adequate capitalisation – JBCIL's capitalisation remains adequate, characterised by a net worth of Rs. 1,000 crore[5] and a CRAR of 19.7% as on September 30, 2024. The capital infusion of Rs. 280 crore (CHF 30 million) in Q4 FY2024 augured well for JBCIL's capitalisation with the financial leverage easing to 3.1 times as on March 31, 2024 from 4.5 times as on December 31, 2023. However, as the incremental scale-up in the lending business was largely debt-funded, the leverage inched up to 4.3 times as on September 30, 2024; a further rise in the same cannot be ruled out. Herein, ICRA notes the management's stated intent of operating at a CRAR of at least 17% and they have accordingly initiated discussions with the ultimate parent for a capital infusion. These discussions are expected to be accelerated if the CRAR falls below 17% in the interim.

ICRA also notes that JBCIL has started paying dividends, which aggregated 48% of the profit after tax (PAT) in H1 FY2025 (49% in FY2024 and 46% in FY2023). Going forward, the dividend payouts are expected to continue in line with the current trend.

Credit challenges

Moderate scale of operations – JBCIL's scale of operations remains moderate as the Group is primarily focused on the wealth management business and lending remains a complementary product. Accordingly, JBCIL manages the Group's capital market lending business and its clients are mainly sourced from the parent's wealth management business. As the company's focus remains towards offering LAS to JBWA's wealth clientele, the growth in its scale of operations depends significantly on the performance and referrals from the wealth management business. 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 (CAGR) of 26% during March 31, 2019 to March 31, 2022, muted capital market sentiment impacted the growth in FY2023. Nevertheless, the subsequent improvement in capital market sentiment supported the growth in FY2024, with the loan book increasing by 51% year-on-year (YoY) to Rs. 3,716 crore as on March 31, 2024 from Rs. 2,468 crore as on March 31, 2023. It registered a healthy growth of ~62% YoY as on September 30, 2024 to Rs. 4,879 crore.

After witnessing a compression in FY2023 and FY2024, amid rising systemic interest rates and a corresponding increase in borrowing costs, the net interest margin (NIM) stabilised in H1 FY2025. The profitability stands characterised by an annualised RoA of 1.6% in H1 FY2025 compared to 1.5% in FY2024 and 1.8% in FY2023, with a 4-year average of 1.9% during FY2019-FY2022. ICRA notes that JBCIL's foray into the bond warehousing business, on behalf of its clients, also supports its revenue profile.

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[5] *Adjusted for goodwill of Rs. 33 crore*

JBCIL's top 10 and top 20 borrowers accounted for 28% and 44%, respectively, of its total advances as on September 30, 2024. ICRA take cognisance of the low loan-to-value (LTV) ratio, on average, of 37% for the top 20 exposures. On the liability side, the top 10 investors/lenders accounted for 88% of the total borrowings outstanding as on March 31, 2024, indicating high concentration. Nevertheless, in recent months, the company has expanded its investor base to high-net-worth individuals (HNIs), ultra HNIs, family offices and corporates (primarily existing customers of JBWA), although this segment accounts for a modest part of the overall borrowings. Between April 2024 and September 2024, JBCIL raised Rs. 8,259 crore, of which 2% was from the investor base comprising HNIs, ultra HNIs, family offices and corporates.

High dependence on capital markets – Any adverse event in the capital markets could lead to an erosion in the value of the underlying collateral 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 volatility in the scale of operations and the borrowing and leverage levels. The foray into the bond warehousing 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 LTV exceeds the agreed threshold. ICRA notes that the trades undertaken in the bond warehousing 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 CP constituting almost the entire share of its borrowings, as on September 30, 2024, the cumulative gaps remained largely positive across most maturity buckets as per the asset-liability maturity (ALM) profile. As on September 30, 2024, the company had a free cash and bank balance of ~Rs. 316 crore and drawable but unutilised lines of Rs. 250 crore against CP outstanding of ~Rs. 4,190 crore (due for payment in the next six months). Further, healthy collections from the LAS book and JBCIL'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. A significant and sustained increase in JBCIL's leverage will also 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 is fully 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 September 30, 2024, JBCIL's loan book (including interest accrued but not due) stood at Rs. 4,879 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.

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 474 billion as on June 30, 2024.

Key financial indicators (audited)

JBCIL	FY2023	FY2024	H1 FY2025
Total income	218.3	310.4	222.1
Profit after tax	47.4	49.7	38.1
Net total managed assets*	2,705.4	4,004.5	~5,303
Return on managed assets*	1.8%	1.5%	1.6%
Gross gearing (times)*	3.0	3.1	4.3
Gross NPA	0.0%	0.0%	0.0%
CRAR	26.7%	25.2%	19.7%

*Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; * Net worth and total assets excluding goodwill*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)					Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Nov 18, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
CP programme	Short term	5,500	[ICRA]A1+	Jun 27, 2024	[ICRA]A1+	Jun 26, 2023	[ICRA]A1+	Jun 15, 2022	[ICRA]A1+	Aug 2, 2021	[ICRA]A1+
				Sep 25, 2024	[ICRA]A1+	Dec 6, 2023	[ICRA]A1+	-			
						Feb 22, 2024	[ICRA]A1+				

Complexity level of the rated instruments

Instrument	Complexity Indicator
CP 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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE824H14ND0	CP programme	Nov 16, 2023	8.70	Nov 14, 2024	50.0	[ICRA]A1+
INE824H14NU4	CP programme	Jan 16, 2024	8.55	Jan 15, 2025	27.0	[ICRA]A1+
INE824H14OB2	CP programme	Feb 06, 2024	8.55	Feb 05, 2025	5.4	[ICRA]A1+
INE824H14OH9	CP programme	Feb 21, 2024	8.55	Feb 20, 2025	10.9	[ICRA]A1+
INE824H14OM9	CP programme	Mar 01, 2024	8.25	Feb 28, 2025	6.5	[ICRA]A1+
INE824H14PN4	CP programme	Jun 14, 2024	8.05	Dec 13, 2024	5.2	[ICRA]A1+
INE824H14PN4	CP programme	Jul 03, 2024	8.20	Dec 13, 2024	200.0	[ICRA]A1+
INE824H14PT1	CP programme	Aug 13, 2024	8.12	Jan 02, 2025	50.0	[ICRA]A1+
INE824H14ND0	CP programme	Aug 16, 2024	7.93	Nov 14, 2024	150.0	[ICRA]A1+
INE824H14PV7	CP programme	Aug 20, 2024	7.93	Nov 19, 2024	350.0	[ICRA]A1+
INE824H14PW5	CP programme	Aug 21, 2024	7.93	Nov 20, 2024	150.0	[ICRA]A1+
INE824H14PX3	CP programme	Aug 22, 2024	8.22	Jan 24, 2025	150.0	[ICRA]A1+
INE824H14PY1	CP programme	Aug 23, 2024	7.92	Nov 22, 2024	290.0	[ICRA]A1+
INE824H14PX3	CP programme	Aug 26, 2024	8.22	Jan 24, 2025	150.0	[ICRA]A1+
INE824H14PZ8	CP programme	Aug 28, 2024	7.92	Nov 27, 2024	325.0	[ICRA]A1+
INE824H14QA9	CP programme	Aug 29, 2024	8.22	Jan 17, 2025	50.0	[ICRA]A1+
INE824H14QD3	CP programme	Aug 30, 2024	7.92	Nov 29, 2024	305.6	[ICRA]A1+
INE824H14QB7	CP programme	Aug 30, 2024	8.22	Feb 27, 2025	25.0	[ICRA]A1+
INE824H14NU4	CP programme	Sep 03, 2024	8.22	Jan 15, 2025	150.0	[ICRA]A1+
INE824H14QE1	CP programme	Sep 03, 2024	8.22	Jan 10, 2025	125.0	[ICRA]A1+
INE824H14QE1	CP programme	Sep 04, 2024	8.22	Jan 10, 2025	100.0	[ICRA]A1+
INE824H14QA9	CP programme	Sep 06, 2024	8.22	Jan 17, 2025	100.0	[ICRA]A1+
INE824H14QF8	CP programme	Sep 09, 2024	7.94	Dec 09, 2024	250.0	[ICRA]A1+
INE824H14QC5	CP programme	Sep 11, 2024	7.94	Dec 11, 2024	250.0	[ICRA]A1+
INE824H14QG6	CP programme	Sep 19, 2024	7.98	Dec 19, 2024	300.0	[ICRA]A1+
INE824H14QH4	CP programme	Sep 24, 2024	7.90	Dec 24, 2024	200.0	[ICRA]A1+
INE824H14QI2	CP programme	Sep 27, 2024	8.35	May 20, 2025	100.0	[ICRA]A1+
INE824H14QJ0	CP programme	Oct 04, 2024	7.68	Dec 30, 2024	75.0	[ICRA]A1+
INE824H14QK8	CP programme	Oct 08, 2024	7.72	Dec 27, 2024	250.0	[ICRA]A1+
INE824H14QL6	CP programme	Nov 07, 2024	7.75	Feb 06, 2025	250.0	[ICRA]A1+
INE824H14QN2	CP programme	Nov 12, 2024	8.00	Aug 11, 2025	10.0	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	7-365 days	1,039.4	[ICRA]A1+

Source: Company; As on November 12, 2024

Annexure II: List of entities considered for consolidated analysis

Not applicable

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