

January 17, 2020

## 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	600.00	600.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>600.00</b>	<b>600.00</b>	

### Rationale

The rating draws comfort from the strengths of Credit Suisse AG (CS; rated A1 (Positive)/P-1, BCA baa2 by Moody's), the holding company, which, in turn, is held by Credit Suisse Group AG, the ultimate holding company of Credit Suisse Finance India Private Limited (CSFIPL). In addition to being a wholly-owned subsidiary of CS, CSFIPL shares strong operational linkages with its parent and Group companies operating in India, which are engaged in institutional broking, wealth management and investment banking operations, as well as the foreign bank branch in India. Apart from the shared brand name, the company enjoys managerial support from the Group. In India, CSFIPL shares significant operational synergies with its Group company, Credit Suisse Securities (India) Private Limited (CSSIPL), by virtue of being a lending arm for its wealth management and investment banking business.

Any deterioration in the credit profile of Credit Suisse Group AG and CS will serve as a key determinant for the rating of CSFIPL. The rating also takes note of the company's dependence on capital markets, which results in volatility in its income. This also exposes CSFIPL to the risks of the underlying security pledged against the loans given by it, which are mitigated to a certain extent by its strong risk management and monitoring processes. Additionally, the overall scale of operations remains small. However, as the company remains key to the Group's growth plans in the region, its overall scale is likely to grow at a moderate pace.

ICRA expects Credit Suisse Group AG to be willing to extend financial support to CSFIPL, if needed, given the company's importance to Credit Suisse Group AG for meeting its diversification objectives. Credit Suisse Group AG and CSFIPL share a common name, which, in ICRA's opinion, would require Credit Suisse Group AG to provide financial support to the company to protect its reputation from the consequences of a Group entity's distress.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage by virtue of being a part of Credit Suisse Group; strategic importance of the Indian venture at Group level** – CSFIPL is a wholly-owned subsidiary of CS. Credit Suisse Group AG (the ultimate holding company of the Group and the holding company of CS) is a global banking and financial services group, which reported total consolidated assets of \$806 billion and assets under management (AUM) of \$1.50 trillion as on June 30, 2019. In India, while its Group company, CSSIPL, is the wealth advisory arm, CSFIPL offers lending services against capital market assets. Besides this, CS carries out banking operations in India through its Indian branch. Going forward, India remains strategically important to the Group in terms of their footprint in emerging markets. Besides being a wholly-owned subsidiary, the presence of a shared brand name, operational and capital support and managerial oversight from CS supports ICRA's opinion of CSFIPL's importance to the Group.

**Operates as NBFC arm with synergies from Group companies involved in core wealth management business** – The Group has an established presence and track record in the wealth management business in India operating under CSSIPL. CSFIPL is primarily the lending arm of the Group in India and thus draws the advantage of access to the clientele.

**Lending against liquid collateral comprising a mix of securities** – The company primarily provides finance against the security of capital market instruments (equity stocks, bonds and mutual funds) and has two business verticals, private banking (PB) and investment banking (IB). In the IB division, the funding is more strategic in nature, whereby the collateral is usually a single scrip which may or may not be listed. However, in the PB division, the lending is against a bouquet of securities as a collateral in adherence to the internal guidelines about the portfolio composition (number of securities and composition of the portfolio). In the PB segment, the company typically provides a loan of up to 40-50% of the approved equity collateral value (after providing for the requisite haircut), against the statutory requirement of 50%, which provides it with headroom should there be a fluctuation in the stock's valuation. Furthermore, the underlying collateral for the loans are callable on demand and thus the portfolio can be liquidated on short notice if required.

**Strong collateral monitoring systems** – The price of the underlying collateral for all loans is monitored in real time by the company with margin calls issued to clients in case the loan-to-value (LTV) crosses the agreed threshold. The clients are required to top up their collaterals within two days of the margin call being issued, failing which a portion of the collateral is liquidated to the extent that the LTVs become compliant with the internal benchmarks. The value of the collateral is monitored on a daily basis. All loans sanctioned by CSFIPL in the PB business are contractually callable on demand. On the other hand, loans in the IB division have prefixed or scheduled repayment dates.

**Strong capitalisation and comfortable liquidity position with sufficient backup lines available** – The company is highly capitalised with a net worth of Rs. 1,956 crore as on March 31, 2019 against a total loan book of Rs. 1,189 crore, investment in corporate bonds of Rs. 632 crore and cash and bank balances of Rs. 407 crore. The high capitalisation has ensured that the gearing has remained at comfortable levels, with the same at 0.16 times as on March 31, 2019. The cash balances reduced to Rs. 147 crore as on September 30, 2019 on the deployment of funds towards a fresh short-term exposure that was squared off in Q3 FY2020. The debt levels remained minimal as on September 30, 2019 with a gross leverage of 0.05 times. Additionally, CSFIPL has sufficient unutilised and backup lines of credit to take care of any adverse situation. The leverage levels are expected to remain low and within 1 time.

## Credit challenges

**Modest scale of operations** – 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 to total advances remains more or less equal. While these divisions have contributed to steady growth in the loan book over the years, the overall scale remains modest at Rs. 1,821 crore as on March 31, 2019 (vis-à-vis Rs. 1,957 crore as on March 31, 2018), including advances of Rs. 1,189 crore (Rs. 1,694 crore as on March 31, 2018) and investments of Rs. 632 crore (Rs. 263 crore as on March 31, 2018). However, going forward, CSFIPL is expected to continue to grow at a moderate pace although the overall growth will remain subject to the capital market exposure limits of the parent, i.e. CS (Indian Branches).

**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 lead to loan call backs/squaring-off of positions, which would affect the company's income or the asset quality. However, CSFIPL has adequate risk mitigation policies with continuous

monitoring of the same on an on-going basis. It ensures that the LTV coverage is above the stipulated levels, thereby ensuring greater security.

### Liquidity position: Strong

Given the low leverage and hence the limited repayment liabilities, CSFIPL'S overall liquidity position is strong with positive cumulative mismatches across all buckets, as per the asset liability maturity profile as on September 30, 2019. Its assets (investments and loan book) were entirely funded by its net worth as on March 31, 2019 and September 30, 2019. The on-balance sheet liquidity stood at Rs. 137 crore as on September 30, 2019 and the company has a Rs. 260-crore unsecured credit line from CS (Indian Branches) and debt repayments of Rs. 97 crore in H2 FY2020.

### Rating sensitivities

**Positive triggers** – Not applicable

**Negative triggers** – A deterioration in the credit profile of CS or a decrease in the importance of the Indian operations would pressurise on the rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> Group companies: Credit Suisse AG, Credit Suisse Group AG
Group Support	ICRA expects CSFIPL's parent, CS, which, in turn, is held by Credit Suisse Group AG (rated BCA baa2 by Moody's), to be willing to extend financial support to CSFIPL, if needed, given the company's high strategic importance to Credit Suisse Group AG for meeting its diversification objectives. Credit Suisse Group AG and CSFIPL share a common name, which, in ICRA's opinion, would persuade Credit Suisse Group AG 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) provides promoter financing, acquisition financing, loans against shares and debt syndication. It is a wholly-owned subsidiary of Credit Suisse AG (rated A1(Positive)/P-1, BCA baa2 by Moody's), which, in turn, is wholly owned by Credit Suisse Group AG (rated BCA baa2 by Moody's). 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 India branch – Credit Suisse AG.

In FY2019, CSFIPL reported a net profit of Rs. 111.71 crore on an operating income of Rs. 200.15 crore compared with a net profit of Rs. 85.52 crore on an operating income of Rs. 167.67 crore in the previous year.

### Credit Suisse Group AG

Credit Suisse Group AG 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 worldwide. As of June 30, 2019, it reported total consolidated assets of \$806 billion and AUM of \$1.5 trillion.

### Credit Suisse AG

The banking business of Credit Suisse Group AG is performed by Zurich (Switzerland)-based Credit Suisse AG. Credit Suisse AG is an integrated global bank operating through three divisions – Investment Banking, Private Banking and Asset Management – and is a shared services organisation that provides infrastructure and services to the divisions.

### Key financial indicators (standalone) – Credit Suisse Finance India Private Limited

	FY2018	FY2019
Operating Income	167.67	200.15
Profit after Tax	85.52	111.71
Loan Book <sup>^</sup>	1,957.20	1,820.50
Net Worth	1,844.00	1,955.68
Total Borrowings	286.49	303.20
Return on Assets (%)	4.19%	5.06%
Return on Equity (%)	4.75%	5.88%
Gearing (times)	0.16	0.16
Gross NPA (%)	0.00%	0.00%
Net NPA (%)	0.00%	0.00%

Amount in Rs. crore; <sup>^</sup>Including investment book

Source: Credit Suisse Finance India Private Limited, ICRA research

All ratios are as per ICRA calculations

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

Instrument	Current Rating (FY2020)				17-Jan-20	Chronology of Rating History for the Past 3 Years FY2019 Dec 6, 2018
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)			
1 Commercial Paper Programme	Short Term	600.00	-		[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	-	7-365 days	600.00	[ICRA]A1+

Source: Credit Suisse Finance India Private Limited

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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.

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For more information, visit [www.icra.in](http://www.icra.in)

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