November 03, 2020

Julius Baer Capital (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper (CP) Programme	1,800	1,800	[ICRA]A1+; Reaffirmed
Total	**1,800**	**1,800**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong parentage of Julius Baer Capital (India) Private Limited (JBCIL) by virtue of being a part of Julius Baer Group Limited (the Group), the shared brand name, and the demonstrated track record of support from the Group. The company is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (JBWA), which, in turn, is wholly-owned by Julius Baer Group Limited (JBGL; rated Baa1/Stable by Moody's Investors Service). The rating also takes into account the established track record of JBCIL's immediate parent, JBWA, in wealth management/private banking. This provides the company with access to a clientele with a long and demonstrated relationship in the wealth management space. The rating factors in JBCIL's adequate capitalisation profile.

While reaffirming the rating, ICRA has taken note of the company's moderate scale of operations, its dependence on capital markets and the consequent risk profile of the asset class, given the nature of the underlying security. The correction in equity markets in March-April 2020 resulted in significant deleveraging by JBCIL's clients (loan against securities (LAS) borrowers in general). This resulted in a ~17% reduction in JBCIL's loan book to Rs. 1,257.50 crore as on March 31, 2020 from Rs. 1,520.63 crore as on February 29, 2020. The loan book declined further to Rs. 877 crore as on May 31, 2020 before steadily growing to Rs. 1,084 crore as on September 30, 2020, with the pick-up in the capital markets. The domestic capital markets are expected to remain volatile, given the challenging macroeconomic outlook, weakening of corporate earnings and credit quality, and the subdued consumer sentiment. This, in turn, is expected to affect the company's loan book growth in the near term.

ICRA notes that JBCIL had extended moratorium benefits to its customers (~26% by loan value as on April 30, 2020, which reduced to 3% as on August 31, 2020) under the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI). As on date, the entire dues have been collected from the clients who had availed a moratorium, which has helped support the asset quality. JBCIL did not opt for moratorium benefits on any of its borrowings during March-August 2020.

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, in turn, is wholly owned by JBGL. While JBWA is the wealth advisory arm of the Indian operations (onshore and offshore) of the Group, JBCIL offers lending services (against capital market assets) to its clients. With nearly $10 billion of assets under management (AUM) in India (resident clients only), the country remains strategically important to the Group in terms of its footprint in the emerging markets. The presence of a shared brand name, capital support, and managerial oversight from JBGL also supports ICRA's opinion of JBCIL's importance to the Group.

Operates as NBFC arm of core wealth management business – JBWA has an established presence and track record in the wealth management business in India with a managed AUM of over $10 billion (resident clients only). JBCIL shares significant operational synergies with its immediate parent (JBWA), being 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.

Adequate capitalisation level – The company is adequately capitalised with a net worth[1] of Rs. 432 crore and a capital to risk (weighted) assets ratio (CRAR) of 37.90% as of June 30, 2020 against Rs. 429 crore and 30.56%, respectively, as of March 31, 2020. JBCIL's gearing moderated to 1.62 times from 2.58 times during the same period. The improvement was driven by the rundown of the loan book in the quarter coupled with a gradual accretion to reserves. This notwithstanding, the capitalisation profile provides headroom for growth over the near-to-medium term. Furthermore, JBGL, the ultimate parent of JBCIL, has approved additional capital of CHF 50 million (~Rs. 405 crore[2]) for JBCIL, which is expected to be infused in the company following the scaling up of the loan book (to Rs. 1,700-1,800 crore; gearing to be capped at 4 times).

Credit challenges

Moderate scale of operations – JBCIL has a relatively short track record in the lending business with its primary source of clients being the parent's wealth management business. The loan book stood at ~Rs. 1,257.50 crore as of March 31, 2020 against Rs. 1,147.10 crore as of March 31, 2019. It declined to Rs. 877.28 crore as of May 31, 2020 due to the issuance of margin calls and the winding up of outstanding positions by the clients amid market volatilities. However, the loan book was restored to Rs. 1,084.02 crore as of September 30, 2020 with a recovery in capital market activities.

As the company's focus remains towards providing LAS to high net worth individuals (HNIs), the scale of operations is expected to remain range-bound. Given the recent volatility in the capital markets because of the uncertainty regarding the unfolding impact of the Covid-19 pandemic, JBCIL has moderated its exposure level to mitigate the overall portfolio risk. Thus, in the near-to-medium term, the company's earnings are expected to be muted (compared to FY2020), given the limited prospects of a sizeable increase in the scale of operations.

ICRA notes that JBCIL had extended moratorium benefits to its customers (~26% by loan value as on April 30, 2020, which reduced to 3% as on August 31, 2020) under the COVID-19 – Regulatory Package announced by the RBI. As on date, the entire dues have been collected from the clients who had availed a moratorium, which has helped support the asset quality. JBCIL did not opt for moratorium benefits on any of its borrowings during March-August 2020.

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 callbacks/squaring-off of positions. This would 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. JBCIL largely uses commercial paper (CP) borrowings to fund its LAS book, given the short tenure of its advances. However, the Group's global presence in capital markets and the company's strong systems and processes, which are drawn from the Group's global best practices, provide comfort. JBCIL has an independent risk management function, which oversees the implementation of its risk-

[1] *Net Worth = Equity share capital + Other equity*

[2] *Considering the currency exchange rate as of October 27, 2020*

taking strategy and ensures adherence to its policies across businesses. The company 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 should there be a fluctuation in stock valuation. The collateral value is monitored on a real-time basis with margin calls issued to clients if the loan-to-value (LTV) exceeds the agreed threshold. Also, JBCIL's nil non-performing assets (NPA) since inception alleviate the risk to some extent.

Liquidity position: Adequate

The company 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 September 30, 2020. Moreover, JBCIL has demonstrated good ability to roll over the CPs. While the on-balance sheet liquidity of Rs. 217.82 crore as on September 30, 2020 remained moderate for the outstanding CP borrowings of Rs. 920 crore (including Rs. 325 crore due in November 2020 and Rs. 450 crore due in December 2020), the availability of the unutilised Rs. 200-crore backup drawable funding lines from non-banking financial companies (NBFCs) provides additional comfort.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Any weakening of the strategic importance of the India business (thus of JBCIL) to Julius Baer Group Limited (the parent), resulting in lower operational linkages and reduction in the expected support from the parent, could impact the rating. Material CP-funded growth in the loan book, without a commensurate increase in the back-up credit lines, would be a rating sensitivity. The rating could also face pressure if JBCIL's available liquidity (on balance-sheet as well as tied-up credit lines) falls below 20% of its outstanding debt.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	JBCIL is a wholly-owned subsidiary of JBWA, which, in turn, is wholly owned by JBGL. While JBWA is the wealth advisory arm of the Group's Indian operations (onshore and offshore), JBCIL offers lending services (against capital market assets) to its clients. With over $10 billion of assets currently managed in India (resident clients only), the country remains strategically important to the Group in terms of its footprint in the emerging markets. The shared brand name, operational and capital support and managerial oversight from JBGL also support ICRA's opinion regarding JBCIL's importance to the Group.
Consolidation/Standalone	Standalone

About the company

Julius Baer Capital (India) Private Limited (JBCIL) is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (JBWA), which is ultimately held by Julius Baer Group Limited (JBGL). Registered as a non-deposit taking non-banking financial company (NBFC), JBCIL is primarily involved in providing finance against the security (margin funding and loan against shares) of capital market instruments (equity stocks, bonds and mutual funds).

JBCIL reported a profit after tax (PAT) of Rs. 28.71 crore on an operating income[3] (OI) of Rs. 55.80 crore in FY2020 compared to PAT of Rs. 19.54 crore on an OI of Rs. 40.75 crore in FY2019.

Key financial indicators (audited)

Financial Year	FY2019	FY2020	Q1 FY2021*
Accounting Standard	IND-AS	IND-AS	IND-AS
Operating income (Rs. crore)	40.75	55.80	9.15
PAT (Rs. crore)	19.54	28.71	3.55
Loan book[4] (Rs. crore)	1,168.64	1,282.98	1,013.97
Net worth (Rs. crore)	400.45	429.15	432.69
Total borrowings (Rs. crore)	815.48	1,105.22	701.82
Return on assets (%)	1.61%	2.07%	1.05%
Return on equity (%)	5.00%	6.92%	3.29%
Gearing (times)	2.04	2.58	1.62
Gross NPA (%)	0.00	0.00	0.00
Net NPA (%)	0.00	0.00	0.00

*Amounts in Rs. crore; Source: Company & ICRA research; *Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating Nov-03-20	FY2020 Feb-12-20	Sep-20-19	FY2019 Aug-31-18	FY2018 Jul-27-17
1	CP Programme	Short Term	1,800	920*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *O/s as on September 30, 2020*

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

[3] *Operating Income = Net interest income - Fees and commission costs + Other income*

[4] *Including accrued interest and ECL allowances (net off)*

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	NA	NA	7-365	1,800.00	[ICRA]A1+

Source: JBCIL

Annexure-2: 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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