

June 04, 2021

## Barclays Investments & Loans (India) Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Long-term equity linked debenture programme	1,589.60	1,589.60	PP-MLD[ICRA]AAA(Stable); reaffirmed
Non-convertible debenture programme	745.00	745.00	[ICRA]AAA(Stable); reaffirmed
Bank lines	150.00	150.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>4,984.60</b>	<b>4,984.60</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings continue to draw comfort from the strong parentage in the form of Barclays Bank PLC (BBPLC; rated A1/Stable/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa3). BBPLC is a global systemically important bank based in the United Kingdom (UK) and directly holds a 57.84% stake in Barclays Investments & Loans (India) Private Limited (BILIL) while the rest is held by its wholly-owned subsidiary, Barclays Overseas Holdings Limited, Mauritius.

BILIL serves as the only non-banking lending arm for the Barclays Group in India, with the underlying business of extending loans against securities (LAS). Given the ownership structure and the shared brand name, ICRA expects BBPLC to provide timely funding support to BILIL, if required. Further, ICRA takes comfort from BILIL's comfortable capitalisation profile, robust risk management systems that draw from the Group's global risk management policies, and adequate liquidity profile (on the back of well-matched asset and liability maturities). The Group has demonstrated its commitment towards BILIL in the form of regular capital infusions in the past and the company's recent performance has remained satisfactory in terms of internal capital generation. ICRA notes that BILIL's scale of operations and profitability profile will remain constrained and susceptible to the performance of the domestic capital markets, given its presence only in the LAS segment. Weakening in the credit profile of BBPLC would be a key negative rating driver for the ratings of BILIL.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage** – ICRA's ratings for BILIL remain supported by the 100% ownership by BBPLC. Given its parentage and strategic importance to the Group, BILIL continues to enjoy strong operational, managerial and financial support from the Group. These include sharing common services (through Barclays Global Service Centre Private Limited) and resources for the treasury, credit, IT systems, legal and risk management processes. Moreover, as a part of the Barclays Group, BILIL has access to the high and ultra-high net worth (HNW and UHNW) customer segments, which are a part of the company's key borrower groups. With BILIL receiving capital support in the past (as depicted by the infusion of Rs. 909-crore capital during FY2009-FY2012), ICRA expects strong parent support, going forward as well, if required. The ratings remain supported by the Group's global presence in the capital markets and banking operations as well as BILIL's adherence to global risk management systems and practices.

**Comfortable capitalisation profile** – BILIL's capitalisation profile remains comfortable as depicted by an estimated leverage of 1.36 times as on December 31, 2020 against 1.42 times as on March 31, 2020. Its capitalisation metrics remain comfortable

with a CRAR of 48.99% (Tier I – 48.39%) as on March 31, 2020 compared to 40.70% (Tier I – 40.09%) as on March 31, 2019. BILIL largely uses commercial paper (CP) borrowings to fund its LAS book and the LAS is repayable on demand, which also results in the short tenure of the assets driving the matching of the assets and the liabilities. Based on the collections trend, BILIL typically collects 4-16% of its portfolio on a monthly basis and there have been no instances of default by its borrowers. With adequate liquid collateral, the loss upon default is likely to remain low driving comfortable capitalisation levels for the company.

**Lending against highly liquid securities mitigates credit risks; robust risk management systems aid strong asset quality profile** – After exiting the unsecured lending business in India in 2011, BILIL’s focus has been on secured lending in the form of LAS (which started in June 2009). As on December 31, 2020, the company had a loan book outstanding of Rs. 1,917 crore (compared to Rs. 1,482 crore as on March 31, 2020) backed by equity shares, debt/equity mutual fund units, bonds and fixed deposits. The list of approved securities is finalised in consultation with the global operations, and in line with the domestic regulations, the loan to value (LTV) for LAS and equity mutual funds is capped at 50% while it is higher for debt instruments for better-rated liquid instruments. The loans have average tenures of less than one year and are callable on demand.

ICRA takes note of the company’s strong risk management systems, which involve constant monitoring of the loan portfolio. This is depicted by the NIL instances of the company enforcing a security in the last nine years because of the borrower failing to respond to a margin call<sup>1</sup>. Also, during the heightened volatility in the capital markets in March 2020 and Q1 FY2021 (on account of the lockdown amid concerns of further downside risk of the Covid-19 pandemic), there were no instances of forced liquidation by BILIL.

## Credit challenges

**Small scale of operations; susceptible to volatility in capital markets** – As mentioned earlier, given its LAS-focused portfolio, BILIL remains susceptible to volatility in the capital markets, in line with recent trends, which results in limited growth opportunities. As the company’s focus segment is providing LAS to HNW and UHNW individuals from the pool of Barclays Group customers, the scale of operations is expected to remain range-bound. Further, volatility in the capital markets results in volatility in the funding requirements of the customers, leading to volatility in the scale of operations and the borrowing and leverage levels. Therefore, the ability to maintain a sufficient scale of operations to absorb the fixed overheads will be a key driver of the profitability. BILIL’s top 10 and top 20 borrowers accounted for 33% and 57%, respectively, of its total advances as on December 31, 2020.

**Profitability could moderate in coming years because of increase in operating costs** – With the improved scale of the loan book and the sharp decline in short-term funding rates, BILIL’s net interest income (NII) increased steadily in 9M FY2021. Given the secured lending business and the shorter loan tenor, the average yield on loans remains modest, though this is offset by the competitive borrowing cost on CPs. With NIL non-performing assets, the credit costs were negligible and the operating expenses remained largely stable at 0.49% of the average assets in FY2020 (0.5% in FY2019), given the concentrated loan book.

In 9M FY2021, BILIL made an impairment provision of Rs. 23 crore on its investment in an associate company, Barclays Securities (India) Private Limited (BSIPL; rated [ICRA]A1+), resulting in a decline in the net profit in 9M FY2021. In ICRA’s view, this investment is now fair valued. Going forward, BILIL proposes to hire more employees to expand its existing business as well as provide marketing and servicing support to group entities. In the short term, this will likely moderate its profitability from the current levels. In addition, ICRA notes that BILIL’s profitability profile will remain constrained and susceptible to the performance of the domestic capital markets as it impacts the scale of its loan book.

<sup>1</sup> A margin call gets triggered when a decline in the (fair/market) value of a collateral on a particular day results in the LTV ratio breaching the maximum permissible limit; in such a scenario, the borrower is allowed a specific period to top up the deficit in the collateral value (either through cash or in the form of acceptable securities), failing which the company would enforce the security

## Liquidity position: Adequate

The company largely offers LAS, a revolving demand 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 structural liquidity statement as of March 31, 2021. Moreover, BILIL has demonstrated good ability to roll over the CPs. It also maintains back-up bank lines of Rs. 400 crore, which can be used to repay the CP maturities during the upcoming 2-3 months. The company had a cash and bank balance of ~Rs. 52 crore as on March 31, 2021 against CP maturities of Rs. 905 crore in Q1 FY2022.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – The ratings could be placed on a Negative outlook or could be revised downwards in case of a deterioration in the credit profile of BBPLC or any weakening in the likelihood of financial support from the parent.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA Rating Methodology for NBFCs</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	<b>Parent Company:</b> Barclays Bank PLC <b>Barclays Investments &amp; Loans (India) Private Limited</b> ICRA expects BBPLC to be willing to extend financial support to BILIL, if needed, given the strategic importance that BILIL holds for the Barclays Group for meeting its diversification objectives. The Barclays Group and BILIL share a common name, which, in ICRA's opinion, is reflective of the strong likelihood of the Group/BBPLC providing financial support to BILIL to protect its reputation from the consequences of a group entity's distress
Consolidation/Standalone	Standalone

## About the company

UK-based Barclays Bank PLC (BBPLC) is a global systemically important bank. It is the non-ring-fenced bank of the Barclays Group, accounting for around 80% of the Group's total assets following the transfer of the Group's retail and small business banking operations to Barclays Bank UK PLC on April 1, 2018. The bank houses the Group's corporate and investment banking activities along with other non-capital market activities including payments, wealth management, and international consumer and card activities. The bulk of the bank's operations is split between the Group's key markets of the UK and the US though it also has a presence in continental Europe and other major global financial centres. The CET-I capital ratio stood at 13.1% as on March 31, 2020 compared to 13.8% as on December 31, 2019. For CY2019, the bank reported a net profit of £2.5 billion (RoE of 5.3%) compared with £1.6 billion in CY2018.

In August 2006, BBPLC acquired a controlling stake and management control in Rank Investments and Credits (India) Limited. The stake has since increased to 100% (57.84% held by BBPLC and 42.16% held by Barclays Mauritius Overseas Holdings Limited, a wholly-owned subsidiary of BBPLC) after a capital infusion of Rs. 909 crore during FY2009 to FY2012. BILIL reported a net profit of Rs. 163.81 crore on a total income of Rs. 176.79 crore in FY2020 compared to Rs. 42.6 crore and Rs. 159 crore, respectively, in FY2019.

### Key financial indicators (audited)

Barclays Investments & Loans (India) Private Limited	FY2019	FY2020	9M FY2021
Net interest income	65.20	76.92	55.36
Profit before tax	56.23	78.00	26.06
Profit after tax	42.60	163.81	18.01
Net advances	1,676.65	1,482.06	1,917.25
Total assets	1,856.54	2,115.30	2,106.53
% CET-I	40.09%	48.39%	-
% Tier I	40.09%	48.39%	-
% CRAR	40.70%	48.99%	-
% Net interest margin	3.31%	3.87%	3.50%
% PAT / ATA	2.16%	8.25%	1.14%
% Return on net worth	6.19%	20.69%	2.72%
% Gross NPAs	0.00%	0.00%	0.00%
% Net NPAs	0.00%	0.00%	0.00%
% Provision coverage excl. technical write-offs	-	-	-
% Net NPA/ Core equity capital	-	-	-

**Note:** Amount in Rs. crore; All calculations are as per ICRA research; **Source:** BILIL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					June 04, 2021	May-29-20	April-05-19	Apr-11-18	
1	Commercial paper programme	ST	2,500.00	1,540	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Long-term equity linked debenture programme	LT	1,589.60	Yet to be issued	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	PP-MLD [ICRA]AAA (Stable)	
3	Non-convertible debenture programme	LT	745	Yet to be issued	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4	Bank lines	LT/ST	150	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	

^ Data as on March 31, 2021; ST – Short term; LT – Long term

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper programme	Very simple
Non-convertible debenture programme	Very simple
Bank lines	Very simple
Long-term equity linked debenture programme	Moderately complex

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: [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	Bank lines	Yet to be issued	NA	NA	150	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Long-term equity linked debenture	Yet to be issued	NA	NA	745	PP-MLD[ICRA]AAA (Stable)
NA	Non-convertible debenture	Yet to be issued	NA	NA	1,589.60	[ICRA]AAA(Stable)
INE704I14DT9	Commercial paper	Oct-28-20	4.40	Apr-26-21	170	[ICRA]A1+
INE704I14DU7	Commercial paper	Nov-20-20	4.05	May-20-21	90	[ICRA]A1+
INE704I14DV5	Commercial paper	Nov-23-20	4.05	May-27-21	25	[ICRA]A1+
INE704I14DV5	Commercial paper	Nov-27-20	4.05	May-27-21	50	[ICRA]A1+
INE704I14DW3	Commercial paper	Nov-27-20	5.15	Nov-26-21	20	[ICRA]A1+
INE704I14DX1	Commercial paper	Dec-16-20	4.20	Jun-14-21	300	[ICRA]A1+
INE704I14DY9	Commercial paper	Jan-12-21	4.15	Jul-09-21	150	[ICRA]A1+
INE704I14DZ6	Commercial paper	Jan-29-21	3.90	Apr-27-21	25	[ICRA]A1+
INE704I14EA7	Commercial paper	Jan-29-21	4.20	Jul-12-21	25	[ICRA]A1+
INE704I14EB5	Commercial paper	Feb-12-21	4.10	May-12-21	200	[ICRA]A1+
INE704I14EC3	Commercial paper	Feb-16-21	4.75	Aug-13-21	50	[ICRA]A1+
INE704I14ED1	Commercial paper	Feb-22-21	4.95	Feb-22-22	10	[ICRA]A1+
INE704I14EE9	Commercial paper	Feb-26-21	4.75	Aug-25-21	100	[ICRA]A1+
INE704I14EF6	Commercial paper	Mar-2-21	4.05	Jun-2-21	20	[ICRA]A1+
INE704I14EG4	Commercial paper	Mar-16-21	4.67	Sep-9-21	180	[ICRA]A1+
INE704I14EH2	Commercial paper	Mar-18-21	4.60	Sep-14-21	100	[ICRA]A1+
INE704I14EI0	Commercial paper	Mar-24-21	4.00	Jun-23-21	25	[ICRA]A1+
NA	Commercial paper	Yet to be placed	-	7-365 days	960.00	[ICRA] A1+

Source: BILIL

Commercial paper outstanding as on March 31, 2021

#### Annexure-2: List of entities considered for consolidated analysis - Not applicable

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### Branches



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