

June 15, 2022

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	2,200.00	2,600.00	[ICRA]A1+; Assigned/reaffirmed
Total	2,200.00	2,600.00	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in the strong parentage of Julius Baer Capital (India) Private Limited (JBCIL), by virtue of being a part of Julius Baer Group (the Group), the shared brand name, the demonstrated track record of support from the Group and the adequate capitalisation profile. JBCIL 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/Positive by Moody's Investors Service). Bank Julius Baer & Co Limited (BJB; rated A2/Stable by Moody's Investors Service) is the main operating entity of the Group. The rating also considers the established track record of JBCIL's immediate parent, JBWA, in wealth management, which provides the company with access to a clientele with a long and demonstrated relationship in the wealth management space. The rating factors in the company's adequate liquidity profile.

While reaffirming/assigning the rating, ICRA has taken note of the improvement in the scale of operations, albeit on a moderate base, the dependency on capital markets and the consequent risk profile of the asset class given the nature of the underlying security. JBCIL has continued to report a healthy asset quality with nil gross non-performing assets (GNPAs) since its inception.

With a capital infusion of ~Rs. 162 crore in FY2022, JBCIL's capitalisation profile remains adequate (net worth increased to Rs. 664.3 crore as of March 31, 2022 from Rs. 459.3 crore as of March 31, 2021) to support its near-term growth. Further, the ultimate parent remains committed to providing financial support (in the form of capital infusions) to help the company achieve its medium-to-long-term growth plans. Considering the short-term nature of the loan against shares (LAS) product, the borrowing profile remains dominated by commercial papers (CP). Notwithstanding this, the liquidity position remains adequate with no negative cumulative mismatches across maturity buckets.

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 for the Group's Indian operations (onshore and offshore), JBCIL offers lending services (against capital market assets) to the clients. With ~21 billion CHF¹ 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 about JBCIL's importance to the Group.

¹ Swiss franc

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 ~21 billion CHF (resident clients only). JBCIL shares significant operational synergies with 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 – Supported by a capital infusion of Rs. 162.2 crore and internal accruals of Rs. 42.7 crore in FY2022, the net worth increased to Rs. 664.3 crore as on March 31, 2022 from Rs. 459.3 crore as on March 31, 2021. As of March 31, 2022, the capitalisation profile remained comfortable with a gearing of 2.81 times (2.85 times as of March 31, 2021) and a capital adequacy ratio of 26.4% (26.0% as of March 31, 2021). The capitalisation profile provides headroom for growth over the near term. Furthermore, JBGL, the ultimate parent of JBCIL, has committed additional capital for JBCIL for its medium-to-long-term growth plans.

Credit challenges

Moderate scale of operations – JBCIL is in the lending business with its clients primarily being sourced from the parent's wealth management business. Nonetheless, its loan book demonstrated a compound annual growth rate of 26% during March 31, 2019 to March 31, 2022 and stood at ~Rs. 2,367 crore as of March 31, 2022.

As the company's focus remains towards offering LAS to high-net-worth individuals (HNIs), the growth in the scale of operations is expected to remain primarily dependent on the performance and referrals from the wealth business (hosted in JBWA (parent)). Further, with the increase in the cost of borrowing in recent quarters on the back of the tightening of monetary policies, the net interest margins are expected to moderate in the near term, thereby limiting profitability growth to some extent.

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 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.

However, the Group's global presence in the financial service business and JBCIL's systems and processes provide comfort. 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. JBCIL has been able to demonstrate a healthy asset quality with nil GNPA's since inception, which also provides some comfort.

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 April 30, 2022. As of April 30, 2022, the company had a free cash and bank balance of ~Rs. 152 crore and drawable but unutilised lines of Rs. 252 crore against CPs outstanding of ~Rs. 2,008 crore. Further, healthy collections from the LAS book and the company's demonstrated ability in raising funds provide comfort.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure could arise in case of a material deterioration in the credit profile of the ultimate parent or any weakening in the likelihood of financial support from the ultimate parent.

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. JBGL holds a 100% stake in JBWA. JBJ is the main operating entity of the Group.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of JBCIL.

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 support to the wealth management business of JBWA. JBCIL provides finance against capital market securities (equity shares, bonds and mutual funds).

JBCIL is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (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. JBWA also has a presence in the equity broking business and it received a portfolio management services (PMS) licence from the Securities and Exchange Board of India (SEBI) in June 2020.

Julius Baer Group offers various financial services including structured finance products, investment advisory services, Lombard financing as well as security and foreign exchange trading services. The Group has a presence in Europe, Asia and South America.

Key financial indicators (audited)

JBCIL	Mar-20/FY2020	Mar-21/FY2021	Mar-22/FY2022
Total income (Rs. crore)	121.0	109.6	158.6
Profit after tax (Rs. crore)	28.7	30.3	42.7
Net worth (Rs. crore)	429.1	459.3	664.3
Loan book (net; Rs. crore)	1,283.0	1,622.8	2,367.1
Total assets (Rs. crore)	1,545.9	1,780.1	2,539.3
Return on assets (%)	2.1%	1.8%	2.0%
Return on net worth (%)	6.9%	6.8%	7.6%
Gross gearing (times)	2.6	2.9	2.8
Gross NPA (%)	0.0%	0.0%	0.0%
Net NPA (%)	0.0%	0.0%	0.0%
Solvency (Net stage 3/Net worth)	0.0%	0.0%	0.0%
CRAR (%)	30.6%	26.0%	26.4%

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					Jun 15, 2022	Aug 2, 2021	Nov 3, 2020	Feb 12, 2020	Sep 20, 2019	
1	CP Programme	Short Term	2,600.00	1,725.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

* As of June 10, 2022

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: 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
INE824H14CL6	CP Programme	March 23, 2022	4.65%	June 21, 2022	100	[ICRA]A1+
INE824H14EB3	CP Programme	March 24, 2022	4.65%	June 23, 2022	50	[ICRA]A1+
INE824H14EC1	CP Programme	March 28, 2022	4.60%	June 27, 2022	100	[ICRA]A1+
INE824H14EC1	CP Programme	March 29, 2022	4.60%	June 17, 2022	50	[ICRA]A1+
INE824H14EC1	CP Programme	April 06, 2022	4.46%	July 06, 2022	100	[ICRA]A1+
INE824H14EE7	CP Programme	April 08, 2022	4.46%	July 08, 2022	100	[ICRA]A1+
INE824H14ED9	CP Programme	April 11, 2022	4.35%	July 01, 2022	75	[ICRA]A1+
INE824H14EF4	CP Programme	April 21, 2022	4.50%	July 20, 2022	100	[ICRA]A1+
INE824H14EG2	CP Programme	April 22, 2022	4.50%	July 22, 2022	100	[ICRA]A1+
INE824H14EH0	CP Programme	April 26, 2022	4.57%	July 26, 2022	125	[ICRA]A1+
INE824H14EI8	CP Programme	April 27, 2022	4.30%	June 15, 2022	150	[ICRA]A1+
INE824H14EI8	CP Programme	April 28, 2022	4.65%	July 28, 2022	100	[ICRA]A1+
INE824H14EJ6	CP Programme	April 29, 2022	4.65%	July 29, 2022	25	[ICRA]A1+
INE824H14EM0	CP Programme	May 02, 2022	4.65%	August 01, 2022	50	[ICRA]A1+
INE824H14EL2	CP Programme	May 02, 2022	4.65%	July 29, 2022	50	[ICRA]A1+
INE824H14EK4	CP Programme	May 12, 2022	5.60%	August 10, 2022	50	[ICRA]A1+
INE824H14EN8	CP Programme	May 17, 2022	5.70%	August 08, 2022	100	[ICRA]A1+
INE824H14EN8	CP Programme	May 18, 2022	5.70%	August 04, 2022	150	[ICRA]A1+
INE824H14EO6	CP Programme	May 26, 2022	5.73%	August 25, 2022	75	[ICRA]A1+
INE824H14EQ1	CP Programme	May 30, 2022	5.57%	August 12, 2022	75	[ICRA]A1+
-	CP Programme (yet to be placed)	-	-	-	875	[ICRA]A1+

Source: Company; As on June 10, 2022

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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