

June 06, 2023

Barclays Bank PLC (India Operations): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificates of deposit	10,000.00	10,000.00	[ICRA]A1+; reaffirmed
Total	10,000.00	10,000.00	

*Instrument details are provided in Annexure I

Rationale

The rating continues to draw comfort from the strength of Barclays Bank PLC (BBPLC; rated A1/Stable/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa2), which is a global systemically important bank based in the United Kingdom (UK) with a strong worldwide presence and total assets of £1.21 trillion as on March 31, 2023. The rating remains supported by the strong operational linkages between the Indian branches and the head office (HO) in the UK, depicted by the significant integration of the systems and processes of the Indian branches with the HO. The capitalisation profile of the Indian branches remains comfortable with the Tier I and the capital-to-risk weighted assets ratio (CRAR) at 17.37% and 18.69%, respectively, as on December 31, 2022. The last capital infusion by the HO was in FY2022.

However, given the limited focus on retail operations in India, the deposit franchise of the Indian branches is characterised by high depositor concentration with short-tenure liabilities. As a result, the fund-based operations remain limited with loans and advances being lower than the net worth. The liquidity of the Indian branches remains strong supported by the short tenure of the advances, excess holding of Government securities (G-Secs), and the cash balance with the Reserve Bank of India (RBI); this, however, results in a modest earnings profile. In addition, the Indian branches can avail funding support from the HO for any liquidity requirements.

The Indian branches have maintained satisfactory asset quality metrics with limited slippages as the lending relationships are driven by global operations. ICRA will continue to closely monitor the developments at BBPLC as these will remain key determinants of the rating of its Indian branches.

Key rating drivers and their description

Credit strengths

Indian branches of BBPLC – ICRA draws comfort from the strong global presence of BBPLC. The risk management policies and processes followed by the Indian branches are in line with those followed by the HO, depicting the strong integration of the Indian branch operations with the HO. ICRA would continue to monitor developments at BBPLC, which will remain important determinants of the rating of the bank's Indian operations. While the Indian banking operations accounted for an estimated 0.5% of BBPLC's total assets of £1.21 trillion as on March 31, 2023, they provide corporate and investment banking products including risk management solutions. Apart from banking operations, the other Indian entities of the Barclays Group offer various other capital market and wealth management services to corporates, high-net-worth individuals, and overseas investors.

Capitalisation metrics remain comfortable – The capitalisation metrics of the Indian operations remained comfortable with a Tier I and CRAR of 17.37% and 18.69%, respectively, as on December 31, 2022, compared to 23.33% and 25.04%, respectively, as on March 31, 2022. The decline in capitalisation was driven by the growth of the non-funded business. The last capital

infusion of ~Rs. 3,000 crore by BBPLC was in August 2021 to support the growth of the Indian operations (including Group entities) and to meet the regulatory requirements of the exposure limits taken by the Indian branches to the HO, which is governed by the large exposure framework.

As BBPLC is a global systemically important bank, it needs to maintain an additional 1.5% capital above the minimum stipulated capital level (required minimum CET of 9.50% as on March 31, 2023). This requirement applies to the Indian operations as well. Against the regulatory requirement, BBPLC reported a CET of 13.6% as on March 31, 2023, on a consolidated basis, compared to 12.3% as on March 31, 2022, for the global operations. Going forward, ICRA expects the capitalisation profile of the Indian operations to remain comfortable, supported by steady internal accruals and capital infusions by the HO, if required.

Profitability remains modest, given limited scale of operations – The Indian operations are characterised by off-balance sheet derivative exposures with its corresponding mark-to-market (MTM) positions accounting for 23% of the total assets (with a similar amount on the liability side) as on March 31, 2023 (15% as on March 31, 2022). The level of advances remains limited in relation to the net worth. The share of advances stood at ~18% of the total assets as on March 31, 2023 (~21% as on March 31, 2022). The share of liquid assets (largely G-Secs, balances with the RBI and overseas sovereign investments) was high at ~58% of the total assets as on March 31, 2023 compared to ~69% as on March 31, 2022.

The net interest margins (NIMs) of the Indian operations improved to 3.16% of the average total assets (ATA) in FY2023 (2.16% in FY2022) supported by faster repricing of the short-term advances and higher yields on investments amidst rising interest rates. The Indian branches support their clients in cross-border transactions, including derivative exposures on which they earn fee income, which also supports the operating profitability. However, the decrease in fee-based income led to a relative moderation in the return on assets (RoA) to 1.33% in FY2023 from 1.66% in FY2022, despite the expansion in the NIMs during the year.

Globally, BBPLC reported a net profit of ₹1.35 billion in Q1 CY2023, translating into a return on tangible equity (RoTE) of 14.5% against ₹1.30 billion and 14.8%, respectively, in Q1 CY2022.

Asset quality metrics remain satisfactory – BBPLC's customers in India mainly include corporate entities, which have a better risk profile and have global tie-ups at the group level. Accordingly, gross slippages were nil in FY2023 compared to ₹. 57 crore or 0.71% of opening standard advances in FY2022. The bank's gross non-performing advances (NPAs) and net NPAs were satisfactory at 0.33% and nil, respectively, as on March 31, 2023 (1.32% and nil, respectively, as on March 31, 2022). Furthermore, the standard restructured book was low at ₹. 10 crore as on March 31, 2023. Even though the bank has seen no slippages in FY2023, the asset quality profile will remain susceptible to any lumpy slippages, given the high concentration of the loan book.

Likewise, BBPLC reported a non-performing loan (NPL) ratio (NPLs as a proportion of gross loans) of 1.67% as of December 30, 2022 against 2.25% as on December 31, 2021.

Credit challenges

High concentration of Indian operations – Given the short tenure of the liabilities, the loan portfolio of BBPLC's Indian operations is largely focused on shorter-tenor bill discounting and working capital loans, which accounted for 56% of the outstanding loan book as on March 31, 2023 (61% as of March 31, 2022). The net advances grew by ~14% YoY to ₹. 9,467 crore as on March 31, 2023. The tenor of assets booked by the Indian branches is a function of the liability base and its profile. The Indian operations also have high contingent liabilities, which stood at ₹. 11.29 lakh crore as on March 31, 2022 (₹. 8.82 lakh crore as on March 31, 2021); this is expected to have increased further by March 31, 2023. The contingent liabilities are mainly on account of the currency and interest rate derivatives and forward exchange contracts and reflect the notional amount in the underlying contracts. As these contracts are counter-hedged with other branches of BBPLC as well as with other counterparties, the net exposure is lower.

Deposit profile remains wholesale in nature – As on March 31, 2023, BBPLC's Indian operations had a presence via three branches (excluding one service branch) with a focus on wholesale lending. Given the limited retail presence, the deposit base remains concentrated with a low share of current account and savings account (CASA) deposits and a high share of bulk

deposits. This results in high deposit concentration with the top 20 depositors accounting for ~67% of the total deposits as on March 31, 2023 (65% as on March 31, 2022). Given the high share of wholesale deposits, the deposit levels can fluctuate substantially due to the limited predictability of such flows. Thus, the branches operate in short-tenor advances to prevent any gaps in asset and liability maturities with a limited share of term loans.

Liquidity position: Strong

The liquidity position of the Indian branches remains strong with positive gaps across all the <1-year maturity buckets as per the structural liquidity statement (SLS) as on April 30, 2023, supported by an overall net worth position that exceeds the advances outstanding. The liquid assets (cash, G-Secs and other liquid investments) of the Indian branches made up ~58% of the total assets as on March 31, 2023. Moreover, the Indian operations can avail liquidity support of up to 50% of the Tier I capital from the HO in case of urgent requirement, which can increase further to 100% with the internal approval of the Asset Liability Committee.

Rating sensitivities

Positive factors – NA

Negative factors – A material deterioration in the credit profile of BBPLC will lead to a downgrade in the credit rating of the Indian branches.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
Parent/Group support	ICRA expects the Indian branches to be supported by the HO – BBPLC; the HO will extend financial support to the Indian branches, if needed, as they are an integral part of BBPLC
Consolidation/Standalone	Standalone for Indian branches

About the company

UK-based Barclays Bank PLC (BBPLC) is a global systemically important bank that is a part of the Barclays Group. It accounted for around 79% of the Group's total assets as on March 31, 2023. 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 its operations is split between the Group's key markets of the UK and the United States (US) though it also has a presence in continental Europe and other major global financial centres. The CET I capital ratio stood at 13.6% as on March 31, 2023 compared to 12.3% as on March 31, 2022. For Q1 CY2023, the bank reported a net profit of £1.35 billion compared with £1.30 billion in Q1 CY2022.

The Indian branches commenced commercial banking operations in FY2006 and retail banking operations in FY2007. As on March 31, 2023, the bank had a presence in India via three branches (excluding one service branch). It also has investment banking operations in India. It sold its retail assets in FY2013 following the Group's decision to exit its retail business in India in December 2011. BBPLC's Indian operations reported a net profit of Rs. 620 crore in FY2023 on an asset base of Rs. 52,041 crore as on March 31, 2023 compared to a net profit of Rs. 696 crore in FY2022 on a total asset base of Rs. 40,146 crore as on March 31, 2022.

Key financial indicators (standalone)

Barclays Bank PLC (India Operations)	FY2022	FY2023
Net interest income	905	1,475
Profit before tax	1,287	1,198
Profit after tax	696	620
Net advances (Rs. lakh crore)	0.08	0.09
Total assets (Rs. lakh crore)	0.40	0.53
CET I	23.33%	17.37%*
Tier I	23.33%	17.37%*
CRAR	25.04%	18.69%*
Net interest margin / ATA	2.16%	3.16%
PAT / ATA	1.66%	1.33%
Return on net worth	6.31%	5.32%
Gross NPAs	1.32%	0.33%
Net NPAs	0.00%	0.00%
Provision coverage excl. technical write-offs	100.00%	100.00%
Net NPA / Core equity capital	-	-

Source: Barclays Bank PLC (India Operations), ICRA Research; All ratios as per ICRA's calculations; * As on December 31, 2022
Amount in Rs. crore unless mentioned otherwise

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current rating (FY2024)			Chronology of rating history for the past 3 years				
1	Certificates of deposit	Short term	Amount rated	Amount outstanding as of June 2, 2023	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
			(Rs. crore)	(Rs. crore)	Jun-06-2023	Dec-07-2022	Jun-07-2022	Jun-04-2021	Mar-26-2021	May-29-2020
			10,000.00	250.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Certificates of deposit	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE083J16363	Certificates of deposit	May 24, 2023	6.97%	Aug 24, 2023	250.00	[ICRA]A1+
Unplaced	Certificates of deposit	NA	NA	7-365 days	9,750.00	[ICRA]A1+

Source: Barclays Bank PLC (India Operations); CD outstanding as on June 2, 2023

Annexure II: List of entities considered for limited consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Barclays Bank PLC (India Operations)

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About ICRA Limited:

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Branches



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