

June 26, 2023

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	2,600.00	3,000.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	2,600.00	3,000.00	

*Instrument details are provided in Annexure I

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 comfortable capitalisation profile. JBCIL is a wholly-owned subsidiary of Julius Baer Wealth Advisors (India) Private Limited (JBWA), which 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) is the main operating entity of the Group. The rating also considers the established track record of the Group in wealth management with global assets under management (AUM) of CHF¹ 424 billion as of December 2022. Within the Group, JBWA operates as the wealth management arm in India with a 4.4% share of the global AUM (as of December 2022) and provides JBCIL with access to the Group's clientele. The rating also factors in the company's adequate liquidity profile.

While reaffirming/assigning the rating, ICRA has taken note of JBCIL's moderate scale of operations and its dependency on capital markets and the consequent risk profile of the asset class, given the nature of the underlying security. Despite its exposure to volatile capital markets, JBCIL has continued to report a healthy asset quality with nil gross non-performing assets (GNPAs) since inception. However, the increase in borrowing costs in FY2023, amid rising systemic interest rates, resulted in a moderation in the net interest margins and limited profitability and growth during this period. JBCIL's foray into the bond trading business, on behalf of its clients, supported its revenue and overall profitability for the year.

With a capital infusion of ~Rs. 162 crore in FY2022 and healthy internal accruals, JBCIL's capitalisation profile remains comfortable with a net worth² of Rs. 679 crore as of March 31, 2023. The reported capital-to-risk weighted assets ratio (CRAR) remained comfortable at 26.7% as of March 31, 2023. The company's stated intent of maintaining the CRAR above 20% at all times and the corresponding capital commitment of CHF 30 billion (~Rs. 270 crore)³ from JBGL further strengthens ICRA's opinion that JBCIL's capitalisation level will remain satisfactory. Considering the short-term nature of the loan against shares (LAS) product⁴, the borrowing profile remains dominated by commercial papers (CP). Notwithstanding this, the liquidity position remains adequate with no negative cumulative mismatches across all the 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 is wholly owned by JBGL. While JBWA is the wealth advisory arm of the Group's Indian operations (onshore and offshore) accounting for 4% of the global AUM of CHF 424 billion as of December 2022 in India (resident clients only), JBCIL offers lending services

¹Swiss franc

²Adjusted for goodwill of Rs. 33.05 crore

³ Of which Rs. 162 crore was received in FY2022

⁴ ~10% the loan book is static in nature while the churn is faster for the remaining 90% of the book

(against capital market assets) to the clients. In addition to resident clients, the Group manages the wealth of non-residents in other currencies. Hence, the country remains strategically important to the Group in terms of its footprint in emerging markets. The presence of a shared brand name, capital commitment, and managerial oversight from JBGL also supports ICRA's opinion about JBCIL's importance to the Group.

JBWA has an established presence and track record in the wealth management business in India with a managed AUM of ~CHF 18 billion (resident clients only) as on March 31, 2023. JBCIL shares significant operational synergies with JBWA, as 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.

Comfortable capitalisation level – Supported by a capital infusion of Rs. 162 crore and healthy internal accruals, the net worth¹ remained comfortable at Rs. 679 crore as on March 31, 2023. The capitalisation profile is characterised by a gearing of 3.0 times and a capital adequacy ratio of 26.7% as of March 31, 2023. ICRA's notes the company's stated intent of maintaining a CRAR of at least 20% at all times. The corresponding capital commitment from JBGL further strengthens ICRA's opinion that JBCIL's capitalisation level will remain satisfactory to support near-and-medium-term growth.

Credit challenges

Moderate scale of operations – JBCIL is in the capital market lending business and its clients are primarily sourced from the parent's wealth management business. As the company's focus remains towards offering LAS to high-net-worth individuals (HNIs), the growth in the scale of operations is mainly dependent on the performance and referrals from the wealth management business {hosted under JBWA (parent)}. Further, the growth in the loan book is driven by the overall investor sentiment in capital markets. Thus, while the loan book increased at a compound annual growth rate of 26% during March 31, 2019 to March 31, 2022, the muted capital market sentiments impacted the year-on-year growth in FY2023 after registering a healthy growth of 44% in FY2022. The loan book remained moderately flat at Rs. 2,467 crore as of March 31, 2023 compared to Rs. 2,335 crore as of March 31, 2022. ICRA also takes cognisance of the increase in the borrowing cost in FY2023 due to the tightening of monetary policies. This resulted in a moderation in the net interest margins, thereby limiting the profitability and growth during this period. Nonetheless, JBCIL's foray into the bond trading business, on behalf of its clients, supported the revenue and overall profitability for the year.

JBCIL's top 10 and top 20 borrowers accounted for 29% and 47%, respectively, of its total advances as on March 31, 2023. On the liability side, the top 3 CP investors accounted for a significant portion of the total outstanding as on March 31, 2023, indicating high concentration.

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 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. The recent foray into the bond trading business, wherein JBCIL holds the bonds in its book for 2-5 days, further increases its exposure to capital markets.

However, ICRA notes the adequacy of JBCIL's systems and processes from its healthy asset quality since inception. 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. ICRA notes that the trades undertaken in the bond trading business are only against confirmed orders and JBCIL's average holding period remains short (2-5 days), thus protecting it from market volatility risk to some extent.

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, 2023. As of April 30, 2023, the company had a free cash and bank balance of ~Rs. 139 crore and drawable but unutilised lines of Rs. 250 crore against CPs outstanding of ~Rs. 1,985 crore. Further, healthy collections from the LAS book and the company's demonstrated ability of raising funds provide comfort.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded in case of a material deterioration in the credit profile of the ultimate parent (JBGL) 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 Implicit Parent or Group Support
Parent/Group support	Ultimate parent: JBGL Immediate parent: JBWA The rating factors in the strong parentage of JBCIL, 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 (rated Baa1/Positive by Moody's Investors Service).
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 finance against capital market securities (equity shares, bonds and mutual funds) and complements the wealth management business of JBWA. As on March 31, 2023, JBCIL's loan book stood at Rs. 2,467 crore.

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. JBWA's AUM was ~CHF 18 billion as of March 31, 2023.

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. JBGL's AUM was 424 billion CHF as of December 31, 2022.

Key financial indicators (audited)

JBCIL	Mar-21/FY2021	Mar-22/FY2022	Mar-23/FY2023
Total income	110	159	218
Profit after tax	30	43	47
Net worth*	426	631	679
Net loan book [^]	1,602 ¹	2,335	2,467
Total assets*	1,747	2,506	2,705
Return on assets (%)	1.9%	2.0%	1.8%
Return on net worth (%)	7.4%	8.1%	7.2%
Gross gearing (times)	3.1	3.0	3.0
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 (%)	26.0%	26.4%	26.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Adjusted for goodwill of Rs. 33.05 crore; [^]Excluding interest accrued but not due; ¹Net loan book of FY2021 was reinstated in FY2022 to exclude interest accrued but not due

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun 26, 2023	Jun 15, 2022	Aug 2, 2021	Nov 3, 2020
1	CP programme	Short term	2,600.0	2,235.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	CP programme	Short term	400.0	-	[ICRA]A1+	-	-	-

* As of May 30, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
CP programme	Very Simple*

*Subject to change based on terms of issuance

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 / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE824H14IU4	CP programme	Aug 17, 2022	7.10	Aug 16, 2023	25	[ICRA]A1+
INE824H14IY6	CP programme	Aug 25, 2022	7.25	Aug 24, 2023	50	[ICRA]A1+
INE824H14JA4	CP programme	Sep 08, 2022	7.25	Sep 07, 2023	100	[ICRA]A1+
INE824H14KS4	CP programme	Feb 20, 2023	7.80	Nov 17, 2023	5	[ICRA]A1+
INE824H14KU0	CP programme	Feb 27, 2023	7.95	Feb 26, 2024	10	[ICRA]A1+
INE824H14KV8	CP programme	Mar 01, 2023	7.90	Feb 28, 2024	5	[ICRA]A1+
INE824H14KW6	CP programme	Mar 03, 2023	8.30	Jun 02, 2023	125	[ICRA]A1+
INE824H14KX4	CP programme	Mar 06, 2023	8.30	Jun 05, 2023	75	[ICRA]A1+
INE824H14KY2	CP programme	Mar 09, 2023	7.80	Jun 08, 2023	15	[ICRA]A1+
INE824H14LB8	CP programme	Mar 13, 2023	8.14	Jun 12, 2023	100	[ICRA]A1+
INE824H14LA0	CP programme	Mar 14, 2023	8.14	Jun 13, 2023	150	[ICRA]A1+
INE824H14LC6	CP programme	Mar 15, 2023	8.02	Jun 14, 2023	100	[ICRA]A1+
INE824H14KZ9	CP programme	Mar 16, 2023	8.14	Jun 15, 2023	100	[ICRA]A1+
INE824H14LD4	CP programme	Mar 20, 2023	8.14	Jun 19, 2023	100	[ICRA]A1+
INE824H14LE2	CP programme	Mar 23, 2023	8.14	Jun 22, 2023	125	[ICRA]A1+
INE824H14LF9	CP programme	Mar 24, 2023	7.94	Jun 23, 2023	100	[ICRA]A1+
INE824H14LG7	CP programme	Mar 27, 2023	7.94	Jun 26, 2023	100	[ICRA]A1+
INE824H14LI3	CP programme	Apr 21, 2023	7.55	Jul 21, 2023	125	[ICRA]A1+
INE824H14LJ1	CP programme	Apr 27, 2023	7.63	Jul 27, 2023	75	[ICRA]A1+
INE824H14LK9	CP programme	Apr 28, 2023	7.63	Jul 28, 2023	75	[ICRA]A1+
INE824H14LL7	CP programme	May 09, 2023	7.63	Aug 08, 2023	150	[ICRA]A1+
INE824H14LM5	CP programme	May 12, 2023	7.63	Aug 11, 2023	100	[ICRA]A1+
INE824H14LN3	CP programme	May 16, 2023	7.59	Aug 14, 2023	100	[ICRA]A1+
INE824H14LO1	CP programme	May 18, 2023	7.59	Aug 17, 2023	50	[ICRA]A1+
INE824H14LP8	CP programme	May 19, 2023	7.50	Aug 18, 2023	175	[ICRA]A1+
INE824H14LQ6	CP programme	May 26, 2023	7.41	Aug 25, 2023	100	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	-	765	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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