

December 06, 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	3,000.00	3,500.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	3,000.00	3,500.00	

*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 441 billion as of June 2023. Within the Group, JBWA operates as the wealth management arm in India with a 4-5% share² of the global AUM and provides JBCIL with access to the Group's clientele. The rating also factors in the company's adequate liquidity profile.

While reaffirming 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. While the increase in borrowing costs in FY2023 and H1 FY2024 amid rising systemic interest rates resulted in a moderation in the net interest margin, the overall performance remained adequate with a return on assets (RoA) and a return on equity (RoE) of 1.8% and 7.9% respectively, in H1 FY2024 (1.8% and 7.2% respectively, in FY2023 compared to 2.0% and 8.1%, respectively, in FY2022). ICRA notes that JBCIL's foray into the bond trading business, on behalf of its clients, supports its revenue and overall profitability.

Given the capital infusion of ~Rs. 162 crore in FY2022 and healthy internal accruals, JBCIL's capitalisation profile remains comfortable with a net worth³ of Rs. 684 crore as of September 30, 2023. The capital-to-risk weighted assets ratio (CRAR) also remained comfortable at 22.1% as of September 30, 2023. The company's stated intent of maintaining the CRAR of at least 20% at all times and the corresponding capital commitment of CHF 30 billion (~Rs. 270 crore)⁴ 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) product⁵, 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.

¹Swiss franc

² 4.4% as of December 2022

³Adjusted for goodwill of Rs. 33.05 crore

⁴ Including Rs. 162 crore received in FY2022

⁵ ~10% the loan book is static in nature while the churn is faster for the remaining 90%

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 4-5% of the global AUM of CHF 441 billion as of June 2023 in India (resident clients only), JBCIL offers lending services (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. 162.2 crore (infused in FY2022) and healthy internal accruals, the net worth⁶ remained comfortable at Rs. 684 crore as on September 30, 2023. The capitalisation profile is characterised by a gearing of 3.6 times and a capital adequacy ratio of 22.1% as of September 30, 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 its near-and-medium-term growth.

Credit challenges

Moderate scale of operations – JBCIL is in the Group's 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 depends significantly 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 the capital markets. Thus, while the loan book increased at a compound annual growth rate of 26% during March 31, 2019 to March 31, 2022, muted capital market sentiment impacted growth in FY2023. 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. Subsequently, improved capital market sentiment supported growth in H1 FY2024 and the loan book stood at Rs. 3,003 crore as of September 30, 2023. ICRA also takes cognisance of the increase in the borrowing cost FY2023 onwards due to the tightening of the monetary policy. This resulted in a moderation in the net interest margin, thereby limiting the profitability during this period. Nonetheless, JBCIL's foray into the bond trading business, on behalf of its clients, supported the revenue and overall profitability in the last 18 months.

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.

⁶Adjusted for goodwill of Rs. 33.05 crore

However, ICRA notes the adequacy of JBCIL’s systems and processes, which is reflected by 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 September 30, 2023. As of September 30, 2023, the company had a free cash and bank balance of ~Rs. 110 crore and drawable but unutilised lines of Rs. 250 crore against CP outstanding of ~Rs. 2,470 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 – 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 will be a credit negative.

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).
Consolidation/Standalone	Standalone

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 September 30, 2023, JBCIL’s loan book stood at Rs. 3,003 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 441 billion CHF as of June 30, 2023.

Key financial indicators (audited)

JBCIL	Mar-22/FY2022	Mar-23/FY2023	Sep-23/H1 FY2024
Total income	159	218	136
Profit after tax	43	47	27
Net worth*	631	679	684
Net loan book [^]	2,335	2,467	3,003
Total assets*	2,506	2,705	3,171
Return on assets	2.0%	1.8%	1.8%
Return on net worth	8.1%	7.2%	7.9%
Gross gearing (times)	3.0	3.0	3.6
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	26.4%	26.7%	22.1%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 6, 2023	Jun 26, 2023			
1	CP programme	Short term	3,500	2,727	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

* As of November 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
INE824H14KU0	CP programme	27-Feb-23	7.95%	26-Feb-24	10.0	[ICRA]A1+
INE824H14KV8	CP programme	1-Mar-23	7.90%	28-Feb-24	5.0	[ICRA]A1+
INE824H14MJ9	CP programme	5-Sep-23	7.73%	5-Dec-23	100.0	[ICRA]A1+
INE824H14MK7	CP programme	7-Sep-23	7.79%	7-Dec-23	50.0	[ICRA]A1+
INE824H14ML5	CP programme	11-Sep-23	7.79%	11-Dec-23	75.0	[ICRA]A1+
INE824H14MN1	CP programme	12-Sep-23	7.79%	12-Dec-23	250.0	[ICRA]A1+
INE824H14MO9	CP programme	14-Sep-23	7.75%	12-Mar-24	31.2	[ICRA]A1+
INE824H14MP6	CP programme	15-Sep-23	7.85%	15-Dec-23	250.0	[ICRA]A1+
INE824H14MQ4	CP programme	18-Sep-23	7.78%	18-Dec-23	100.0	[ICRA]A1+
INE824H14MR2	CP programme	20-Sep-23	7.77%	20-Dec-23	125.0	[ICRA]A1+
INE824H14MS0	CP programme	27-Sep-23	7.76%	27-Dec-23	100.0	[ICRA]A1+
INE824H14MT8	CP programme	9-Oct-23	7.90%	8-Jan-24	100.0	[ICRA]A1+
INE824H14MU6	CP programme	16-Oct-23	8.20%	15-Oct-24	5.4	[ICRA]A1+
INE824H14MV4	CP programme	17-Oct-23	8.20%	16-Oct-24	3.0	[ICRA]A1+
INE824H14MW2	CP programme	25-Oct-23	8.13%	24-Jan-24	120.0	[ICRA]A1+
INE824H14MX0	CP programme	26-Oct-23	8.13%	25-Jan-24	200.0	[ICRA]A1+
INE824H14MY8	CP programme	27-Oct-23	8.13%	22-Jan-24	100.0	[ICRA]A1+
INE824H14MZ5	CP programme	27-Oct-23	7.90%	25-Apr-24	26.6	[ICRA]A1+
INE824H14NA6	CP programme	31-Oct-23	8.13%	30-Jan-24	150.0	[ICRA]A1+
INE824H14NB4	CP programme	31-Oct-23	8.00%	30-Apr-24	10.4	[ICRA]A1+
INE824H14NC2	CP programme	9-Nov-23	8.10%	9-May-24	10.4	[ICRA]A1+
INE824H14ND0	CP programme	16-Nov-23	8.70%	14-Nov-24	50.0	[ICRA]A1+
INE824H14NE8	CP programme	17-Nov-23	8.22%	16-Feb-24	200.0	[ICRA]A1+
INE824H14NF5	CP programme	17-Nov-23	8.00%	17-May-24	5.2	[ICRA]A1+
INE824H14NG3	CP programme	22-Nov-23	8.25%	21-Feb-24	250.0	[ICRA]A1+
INE824H14NH1	CP programme	28-Nov-23	8.25%	27-Feb-24	250.0	[ICRA]A1+
INE824H14KV8	CP programme	29-Nov-23	8.25%	28-Feb-24	150.0	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	7-365 days	772.8	[ICRA]A1+

Source: Company; As of Nov 30, 2023

Annexure II: List of entities considered for consolidated analysis

Not applicable

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