February 09, 2024

Deutsche Investments India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	2,200	2,200	[ICRA]A1+; Reaffirmed
Total	**2,200**	**2,200**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Deutsche Investments India Private Limited's (DIIPL) parentage in the form of Deutsche Bank AG (DBAG; rated A1/ Baa1/ P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa2) holding the entire stake in the company through its subsidiaries – Deutsche Asia Pacific Holdings Pte. Ltd (80.95%) and Deutsche India Holdings Private Limited (19.05%). The company benefits from the shared brand name, operational and management support, and risk oversight from the Deutsche Group (the Group). Given the ownership structure and the shared brand name, ICRA expects the company to receive timely support from the Group when required. The rating also considers DIIPL's adequate capitalisation profile (net worth[1] of Rs. 901.7 crore and gearing of 2.3x as of September 30, 2023) and financial flexibility by virtue of its parentage. DIIPL serves as the only non-banking lending arm of the Group in India, with the underlying business of extending loan against securities (LAS).

The company's scale of operations remains modest with assets under management (AUM) of ~Rs. 2,441 crore as on September 30, 2023, along with the relatively high credit concentration, given the wholesale nature of the business. DIIPL's profitability indicators remain muted, constrained by the modest scale of operations.

Key rating drivers and their description

Credit strengths

Strong parentage with operational and management support – DIIPL benefits from being a part of DBAG and gets operational and management support from the parent. The operational synergies with the parent also enable the company to have risk management systems in line with the Group's global risk management parameters, thereby providing strength to its credit appraisal process. Further, the shared brand name aids DIIPL's financial flexibility and ICRA expects support from the parent to be forthcoming as and when required.

Adequate capitalisation levels for current scale of operations – DIIPL has adequate capitalisation levels for the current scale of operations, with a net worth of Rs. 901.7 crore and a gearing of 2.3x as on September 30, 2023. With the growth in the AUM, the borrowings are expected to increase. While internal accruals remain limited, given its importance to the Deutsche Group, ICRA expects DIIPL to receive timely capital support from the Group for its growth plans while maintaining prudent capitalisation levels.

Credit challenges

Modest scale of operations; relatively high credit concentration – DIIPL's scale of operations remains modest with AUM of ~Rs. 2,441 crore as on September 30, 2023 (Rs. 2,075 crore as on March 31, 2023). The AUM primarily comprises LAS (90%),

[1] *Net worth excluding deferred tax assets*

which is given to high-net-worth individuals (HNIs), backed by liquid collateral like listed shares and debt/equity mutual funds. Given its LAS-focused portfolio, DIIPL's loan book remains susceptible to volatility in the capital markets. Apart from LAS, the company undertakes lending through structured investments, for which the underlying collateral may not be liquid securities. The share of these investments stood at 10% of the total AUM as of September 2023. The company is looking to increase its exposure in relatively riskier structured investments in the corporate sector, resulting in increased portfolio vulnerability, though the share of the same in the total AUM is likely to remain limited.

Given the wholesale nature of the loans, DIIPL's credit concentration is relatively high, making the portfolio vulnerable to asset-quality-related shocks. As on September 30, 2023, the top 25 advances accounted for 85.2% of the total portfolio and 200.3% of the total net worth (91.8% and 187.2%, respectively, as on March 31, 2023). However, most of the loans are given to HNIs, who have an existing track record with the company, and the loans are secured by liquid collateral in the form of listed shares, mutual funds, bonds, etc. This is likely to keep the ultimate losses low in case of default.

The operating expenses remain high due to the limited scale of operations. Further, the profitability was impacted by the increased provisioning on the structured finance investment with the company reporting profit after tax (PAT)/average total assets (ATA) of 0.4% in FY2023. The profitability improved in H1 FY2024 to 1.2% and is likely to be higher in FY2024, supported by the recoveries from one of the non-performing investments. On the liabilities side, given the short-term nature of the loans, DIIPL's reliance is largely on commercial paper (CP), which is susceptible to market volatility and could impact the borrowing levels and scale of operations.

Liquidity position: Adequate

The company's liquidity profile remains adequate, with positive cumulative mismatches across all its buckets as per the Statement of Structural Liquidity as on December 31, 2023. DIIPL had liquid investments and sanctioned but unutilised bank lines of Rs. 663 crore (including the bank lines from DBAG), as on January 03, 2024, against scheduled debt repayments of around Rs. 1,500 crore over the next six months. Further, its loans remain short term in nature and are callable on demand, providing comfort. As it is a part of the Deutsche Group and given the shared brand name, DIIPL enjoys good financial flexibility. ICRA expects support from the parent to be forthcoming, if required, to support the company's liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be revised downwards in case of a significant deterioration in DBAG's credit profile or any weakening in the likelihood of financial support from the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Deutsche Bank AG The rating factors in the high likelihood of support from DBAG, given the shareholding and the shared brand name
Consolidation/Standalone	Standalone

About the company

Deutsche Investments India Private Limited (DIIPL) is held by Deutsche India Holdings Private Limited (19.05%) and Deutsche Asia Pacific Holdings Pte. Ltd (80.95%). Both entities are ultimately owned by DBAG. On August 02, 2007, DIIPL was registered with the Reserve Bank of India as a non-banking financial company (NBFC).

DIIPL primarily provides loan against shares and against debt/equity mutual funds. It also has structured investments in corporates.

Key financial indicators

	FY2022	FY2023	H1 FY2024
Total income	149.5	141.2	113.9
Profit after tax	18.9	9.9	17.3
Total managed assets	2,432.5	2,530.7	3,061.8
Return on average managed assets	0.8%	0.4%	1.2%
Reported gearing (times)	1.6	1.7	2.3
Gross stage 3	0.0%	6.4%	5.4%
CRAR	45.0%	43.0%	37.1%

Source: DIIPL, ICRA Research; Amount in Rs. crore; All figures and 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 (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
					Feb 09, 2024	Feb 10, 2023	Feb 11, 2022	Feb 25, 2021
1	**Commercial paper programme**	Short term	2,200	1,605	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Source: ICRA Research; CP outstanding data is as on January 29, 2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper 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: Click Here

Annexure I: Instrument details (as on January 29, 2024)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE144H14FZ2	Commercial paper	Sep-11-23	8.20	Mar-7-24	175	[ICRA]A1+
INE144H14FX7	Commercial paper	Sep-12-23	8.20	Mar-11-24	150	[ICRA]A1+
INE144H14FZ2	Commercial paper	Sep-14-23	8.20	Mar-7-24	75	[ICRA]A1+
INE144H14GA3	Commercial paper	Oct-23-23	8.15	Feb-28-24	300	[ICRA]A1+
INE144H14GB1	Commercial paper	Nov-3-23	8.15	Feb-2-24	100	[ICRA]A1+
INE144H14GC9	Commercial paper	Nov-16-23	8.60	May-27-24	100	[ICRA]A1+
INE144H14GD7	Commercial paper	Nov-17-23	8.75	Nov-15-24	50	[ICRA]A1+
INE144H14GF2	Commercial paper	Nov-20-23	8.60	Apr-30-24	150	[ICRA]A1+
INE144H14GE5	Commercial paper	Nov-21-23	8.75	Nov-19-24	50	[ICRA]A1+
INE144H14GG0	Commercial paper	Dec-8-23	8.35	Mar-8-24	150	[ICRA]A1+
INE144H14GI6	Commercial paper	Dec-12-23	8.25	Mar-12-24	50	[ICRA]A1+
INE144H14GH8	Commercial paper	Dec-12-23	8.70	Jun-10-24	25	[ICRA]A1+
INE144H14GJ4	Commercial paper	Jan-15-24	8.50	Apr-15-24	125	[ICRA]A1+
INE144H14GK2	Commercial paper	Jan-16-24	8.50	Apr-3-24	5	[ICRA]A1+
INE144H14GL0	Commercial paper	Jan-25-24	9.10	Jan-23-25	100	[ICRA]A1+
NA	Commercial paper*	NA	NA	7-365 days	595	[ICRA]A1+

*Source: DIIPL, ICRA Research; * Yet to be placed*

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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