FOR IMMEDIATE RELEASE
November 29, 2017

ICRA Lanka revises the long term ratings of Citizen Development Business Finance PLC

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has revised the issuer rating of Citizen Development Business Finance PLC (CDB or the company) to [SL]BBB+ (pronounced SL triple B plus) from [SL]BBB (pronounced SL triple B). ICRA Lanka also revised the issue ratings of LKR 1 Bn subordinate redeemable debenture programme of the company, to [SL]BBB (pronounced SL triple B) from [SL]BBB- (pronounced SL triple B minus). The outlook on the ratings is stable.

ICRA Lanka has also reaffirmed the [SL]A-(SO) (pronounced SL A minus structured obligation) rating with stable outlook for the LKR 1,000 Mn subordinated guaranteed redeemable debentures of the company, guaranteed by Seylan Bank PLC (Seylan). The letters SO in parenthesis suffixed to a rating symbol stand for structured obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating does not represent ICRA Lanka's opinion on the general credit quality of the issuer concerned.

The rating for the subordinated guaranteed redeemable debentures programme is based on the strength of the unconditional and irrevocable guarantee from Seylan Bank PLC (Seylan) covering the principal and two interest instalments (semi-annual) of the rated issue. The guarantor undertakes the obligation to pay, on demand from the trustee, the total principal sum of LKR 1,000 Mn and, two half-yearly interest instalments of the proposed redeemable debentures. The rating also assumes that the guarantee will be duly invoked by the trustee, as per the terms of the underlying trust deed and guarantee agreement, in case there is a default in payment by CDB.

The rating revisions take cognizance of CDB's comfortable and stable asset quality indicators with the improvement in the portfolio risk profile. CDB has been also able to grow its portfolio in the competitive car-van segment (about 61% of the total portfolio as on September 30, 2017) with reasonable overall profitability indicators, notwithstanding some compression in the business margins. The ratings continue to factor in CDB's established franchise (asset base of about LKR 63 Bn as on September 30, 2017 with over 69 outlets), professional and experienced management team and its adequate appraisal and monitoring systems. The ratings however, take cognizance of the competitive operating environment in traditional vehicle financing space that affects core margins, its relatively high gearing (about 8.1 times as in September 2017, after adjusting for revaluation reserve) and sizable asset liability mismatches in the short-term, as 70% of its funding is through public deposits, which are short term in nature. Going forward, company's ability to maintain a comfortable capitalization profile and adequate profitability would be crucial from a rating perspective.

CDB largely focuses on the auto finance segment (about 90% of the total lending portfolio as on September 30, 2017), while other loans including gold loans, property loans, loans against deposits and personal loans accounted for the remaining. As in September 2017, total loan portfolio stood at LKR 50.3 Bn vis-à-vis LKR 39.9 Bn in September 2016 and LKR 43.2 Bn as in March 2017. ICRA Lanka takes note of the increase in the exposure to relatively safer asset classes such as cars and vans (about 61% of the portfolio as in September 2017), and further decline of the exposure to riskier asset classes such as 3-Wheelers (17.3% as in September 2017 vis-à-vis 19.7% in March 2017 and 25.6% in March 2016), in line with the trend observed in the previous 2-3 years. ICRA Lanka factors in CDBs effort to diversify its lending profile by increasing the exposure to non-auto asset classes such as gold loans (1.8% of the total portfolio as in September 2017 vis-à-vis 1.4% in March 2017 and 0.6% in March 2016); but the contribution from these non-auto asset classes is expected to remain at about 10-15% in the medium to long term.

Asset quality of CDB remains better than systemic levels, because of its increased focus on safer asset classes and prime borrower segments; gross NPA was 3.2% as in September 2017 vis-à-vis 3.1% in March 2017 and 3.6% in March 2016. The asset quality is supported by relatively low NPAs (gross NPA at 3.2% as in September 2017) in the core asset segment, namely cars and vans. Going forward, CDB's ability to maintain good asset quality levels, in the light of envisaged high portfolio growth and diversification to other asset classes would be critical.

CDB's funding profile is largely characterized by fixed deposits, which account for about 70% of the total debt as on September 30, 2017 (67% as on March 31, 2017); proportion of savings has remained range bound at about 3-4%, while debt instruments and bank borrowings accounted for the balance. CDB's ALM profile is characterized by sizeable mismatches in the < 1 year bucket (17.2% as on March 31, 2017) because of the short term nature of the deposits. However, good deposit renewal rate of about 75% and the long standing relationships with banks & other financial institutions provide comfort on CDB's overall liquidity profile.

The company reported a total capital adequacy ratio (CAR) of 13.5% as on June 30, 2017 (March 2017 – 14.1%, March 2016 – 11.7%). The gearing however is high at 8.1 times (after adjusting for revaluation reserves). Going forward, company is expected to grow the portfolio at 25-30% per annum over the medium term; CDB's ability to maintain a comfortable risk adjusted capital profile would be crucial, given the relatively aggressive envisaged growth in relation to internal generation.

CDB's earnings profile is characterized by a moderation in lending margins (NIM 5.2% in H1FY2018 vis-à-vis 5.5% in FY2017 and 6.9% in FY2016), as CDB shifted its focus to low-risk asset classes and because of the increase in systemic rates during CY2016 to 1HCY2017 which affected the cost of funding. CDB's credit cost reduced over the last few years (credit provisions & write offs/ATA[1] at 0.1% for H1FY2018 vis-à-vis 0.4% in FY2017 and 0.9% in FY2016), as the asset quality indicators were largely stable; operating expenses (operating expenses/ ATA) also remained stable (5.3% in 1HFY2018, 4.7% in FY2017 and 5.1% in FY2016). Going forward, CDB's ability to manage the operating and credit expenses will be key drivers of profitability, as the scope for expanding lending yields is expected to be limited.

Company Profile

Citizens Development Business Finance PLC (CDB), set up in 1995 was initially named as Ceylinco Development Bank Limited. In 2009 CDB obtained RFC license and re branded itself as Citizens Development Business Finance PLC. CDB's largest shareholder is Ceylinco life insurance limited with 33.5% stake, followed by Janashakthi General Insurance Limited with 5.2% and Janashakthi Insurance PLC with 5%, as of September 30, 2017. Currently, as one of the relatively large NBFIs in the Sri Lankan non-banking financial institutions sector, CDB offers leasing, hire purchase, deposits (fixed and savings) and other personal credit facilities. CDB was initially listed in the secondary board of the Colombo Stock Exchange and was transferred to the main board in December 2010. CDB operates 69 outlets across the island as of September 2017 and has access to 550 ATMs through Commercial Bank

[1] ATA-Average total Assets

PLC. The company acquired controlling stake in Unison Capital Leasing (previously known as Laughs Capital Limited) and currently holds over 90% shares of the company.

During the year ended March 31, 2017 CDB (stand-alone) reported a net profit of LKR 1,007 Mn on a total asset base of LKR 53.9 Bn as compared to net profit of LKR 1,005 Mn on a total asset base of LKR 50.6 Bn in the previous fiscal year.

For the six months ended September 30, 2017 CDB reported a net profit of LKR 516 Mn on a total asset base of LKR 63.1 Bn.

Guarantor Profile

Seylan Bank PLC

Seylan Bank PLC (Seylan) with total asset base of LKR 356 Bn as in December 31, 2016 (LKR 296 Bn in December 31, 2015) accounted for about 4.5% of sector assets; it also accounted for 4.8% of sector loans and advances and 5.0% of the sector deposits as in December 31, 2016. The bank was incorporated in the year 1987. Sri Lanka Insurance Corporation Ltd (15.0%), Browns and Company PLC (13.9%), Employee Provident Fund (9.9%), LOLC Investments Limited (9.6%), NDB Bank PLC (8.7%) and Bank of Ceylon (7.5%) are the major voting shareholders of the bank.

The bank recorded a total income of LKR 21.6 Bn for the H1CY2017 and LKR 38.0 Bn during CY2016 (LKR 28.5 Bn for the CY2015). The net profits of the bank amounted to LKR 1.8 Bn during H1CY2017 and LKR 4.0 Bn for the CY2016 (LKR 3.8 Bn for the CY2015), which resulted in ROA of 1.0% (annualised) for H1CY2017 and 1.2% for CY2016 (1.4% in CY2015) respectively. The bank had gross NPA ratios of 5.16% and 4.47% as at H1CY2017 and CY2016 (4.68% in CY2015) and net NPA ratios of 3.62% and 3.07% respectively for the said periods (3.06% in CY2015). The bank had a net worth of LKR 30.3 Bn as of June 30, 2017, with tier 1 capital adequacy ratio of 10.42% and total capital adequacy ratio of 12.67%.

Note 01: CY - Calendar Year from January 01 to December 31

November 2017

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