FOR IMMEDIATE RELEASE

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ICRA Lanka Reaffirms the issuer and Issue ratings of Commercial Credit and Finance PLC

ICRA Lanka Limited, a wholly owned subsidiary of ICRA Ltd., a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]BBB (pronounced SL Triple B) with stable outlook for Commercial Credit and Finance PLC (CCFL or the company).

ICRA Lanka has also reaffirmed the issue rating of [SL]BBB- (pronounced SL Triple B Minus) with stable outlook for the LKR 500 Mn unsecured subordinated redeemable debentures programme of the company, which is currently listed on the Colombo Stock Exchange. ICRA Lanka has also withdrawn the issue rating of [SL]BBB (pronounced SL Triple B) with stable outlook assigned to the proposed LKR 2,000 Mn (with option to increase up to LKR 3,000 Mn) senior secured redeemable debentures programme, at the request of the company, as the instrument has not been issued.

ICRA Lanka has reaffirmed the issue rating of [SL]AA-(SO)[1] (pronounced SL Double A Minus Structured Obligation) rating with stable outlook for the LKR 1,000 Million guaranteed subordinated redeemable debenture programme of the company, which is currently listed on the Colombo Stock Exchange. This rating is based on the strength of the unconditional and irrevocable guarantee from Hatton National Bank PLC (HNB) for the principal amount (LKR 1,000 Mn) and the two quarterly interest instalments (LKR 52.5 Mn) maintained as a security deposit with the Trustee. The guarantor undertakes the obligation to pay, on demand from the Trustee, LKR 1,000 Mn, the principal amount of the subordinated redeemable debentures. ICRA Lanka also factors in the undertaking from the Trustee to utilize the security deposit to pay the interest amount due to the investors and, declare the entire guaranteed amount as payable, in the event the issuer does not meet the scheduled interest payment on any due date or, in the event the issuer does not redeem the debenture in full on any redemption date, to redeem the instrument in full. The rating also assumes that the guarantee will be duly invoked by the Trustee, as per the terms of the underlying Trust deed, Trustee's undertaking and guarantee agreements, in case there is a default in payment by CCFL.

ICRA Lanka has also reaffirmed the issue rating of [SL]A+(SO)[1] (pronounced SL A plus Structured Obligation) rating with stable outlook for the LKR 2,000 Mn guaranteed subordinated redeemable debentures programme, which is currently listed on the Colombo Stock Exchange. This rating is based on the strength of the unconditional and irrevocable guarantees from Sampath Bank PLC (Sampath) and HNB covering the principal and two interest instalments (semi-annual) of the proposed issue. Each guarantor undertakes the obligation to pay, on demand from the Trustee, LKR 1,000 Mn, being 50% of the total principal sum of LKR 2,000 Mn and, one half-yearly interest instalment of the Subordinated Redeemable Debentures. The rating also assume that the guarantees will be duly invoked by the Trustee, as per the terms of the underlying Trust deed and guarantee agreements, in case there is a default in payment by CCFL.

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[1] 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 ratings do not represent ICRA Lanka's opinion on the general credit quality of the issuer(s) concerned

The issuer and the issue rating for the LKR 500 Mn subordinated redeemable debentures, factor in CCFL's established business presence in Sri Lanka and the experienced senior management team, its good profitability indicators, comfortable liquidity position and adequate capital adequacy ratio. ICRA Lanka takes note of the acquisition of 29.99% stake by Group Lease Holding Pte Ltd, which is expected to augment the company's management profile. ICRA Lanka however takes note of CCFL's high dependence on fixed deposits and exposure to customer segments with modest credit profile that is highly vulnerable to economic cycles. The ratings take cognisance of the increase in the gross NPAs during FY2017 with the increase in standalone Gross NPA ratios of key asset classes focused, such as 2-wheelers, 3-wheelers, cars, working capital financing and micro finance, despite the moderation in the NPA generation ratio. ICRA Lanka takes note of the increased competition and stricter LTV rules which may hinder the ability of CCFL to grow its leasing portfolio as envisaged. Going forward, the company is expected to grow its portfolio at about 20-25% over the medium term with focus on leasing and other asset backed financing; Microfinance (MF) and MF-related SME loan share in the overall portfolio is expected to reduce from the current levels and stabilise at about 12-15% over the medium-long term. ICRA Lanka expects the company to achieve the envisaged growth without adversely impacting its capital profile as the internal generations would be quite adequate. Ability to improve prudent appraisal/sourcing norms to keep asset quality under control and to register good profitability indicators by improving its operating efficiencies and keeping credit losses under check would be key rating sensitivities.

CCFL's gross lending portfolio increased to LKR 70,933 Mn as on March 31, 2017, recording a 16% growth during FY2017 (27% during FY2016). The company reported a decline in its MF and MF-related SME loans, the reduction being done due to asset quality concerns. MF and MF-related SME loans together accounted for about 21% of the gross portfolio as on March 31, 2017 while HP/leasing and loans accounted for about 44% and 30% respectively. Within the HP/leasing segment, the company undertakes financing of cars/vans (about 14% of the total portfolio as on March 31, 2017), 2-wheelers (12%), commercial vehicles (11%) and 3-wheelers (7%). Going forward, the company is expected to reduce the share of MF/MF-related product segments to 15% of the total portfolio and increase the share of leasing, pawning and other loans. Pawning accounted for 3% of the total loans as on March 31, 2017; this is expected to improve to 10% over the medium term.

ICRA Lanka takes note of the slight weakening in the asset quality indicators during FY2017 specifically due to the increase in the standalone gross NPA ratio witnessed in the 2-wheelers, 3-wheelers, working capital loans, cars and MF and MF-related SME loans segment. The company's gross NPAs increased from 4.24% as on March 31, 2016 to 4.43% as on March 31, 2017 (4.02% as on March 31, 2015). However, the NPA generation ratio has moderated to 9.1% in FY2017 when compared to 10.6% in FY2016, with the moderation of the Micro Finance portfolio. CCFL's provision coverage was strong at about 86% as on March 31, 2017 and 101% as on March 31, 2016. ICRA Lanka notes that the credit cost of the company is high at 3.8% for FY2017 (4.5% for FY2016) indicating the riskiness of the target customer segment. Therefore, notwithstanding the provision coverage, maintaining good asset quality would be crucial as the business expands and the portfolio seasons.

CCFL's gearing reduced to 6.60 times as on March 31, 2017, when compared to 7.67 times reported on March 31, 2016 (8.41 as on March 31, 2015) because of the moderation in the portfolio growth while internal generation remained healthy. ICRA Lanka notes that the company is expected to grow at a relatively moderate pace of 20-25% as compared to the past (60% CAGR over the period FY2014-FY2017), without any fresh capital infusion, while maintaining the leverage at about 6-7 times. The reported capital adequacy ratio (CAR) was comfortable at 14.2% with core capital at 12.9% as on March 31, 2017.

The company is largely dependent on deposits, which accounted for about 77% of the total funding base over the last two financial years. CCFL has a good renewal rate of about 75% for its fixed deposits; while CCFL has been able to grow its deposit base on the back of the sharp increase in its service locations over the past few years. Going forward, it would be critical for the company to diversify its funding profile and secure longer tenure funding to offset liquidity related risks as it increases focus on longer tenure loans.

CCFL's return on average assets improved to 3.8% in FY2017 as compared to 3.4% in FY2016 because of the reduction in the operating expenses to 8.2% from 8.4% and credit cost to 3.8% from 4.5% during the same period. The operating efficiencies were derived from the reduction in staff and streamlining of operations with the support of the IT systems. The credit costs have come down with reduced focus on the MF portfolio, however the same is higher than peers, indicating the portfolio riskiness. Going forward however, ability to control credit costs and make further improvement in the operating efficiencies would be key for profitability, as the company is expected to focus on lower yielding and competitive asset classes including vehicle loans, business loans, other asset backed loans and personal loans.

Company Profile:

CCFL, a registered finance company, offers leasing, hire purchase, business credit facilities, microfinance, factoring, term loans and other personal loans apart from accepting deposits (fixed and savings). The company was established in 1982 as a specialized leasing company in Kandy. In October 2009, BG Investments (Pvt) Ltd. acquired the controlling stake of the company. Since the change of ownership, the company has rapidly expanded its service locations to about 121 from about 22 in FY2012. The company has an employee base of about 3,400 and caters to about 1,000,000 customers. CCFL's shares were listed in the Dirisavi Board (secondary board) of the CSE in June 2011. The company witnessed investments from multinational company Creation Investment Sri Lanka LLC in March 2014 and strong regional NBFI, Group Lease Holdings Pte Ltd in December 2016. As of March 2017, BG Investment (Pvt) Ltd holds 50.04% of the shares, while Group Lease Holdings Pte Ltd. holds 29.99%, Creation Investments Sri Lanka LLC owns about 6.40%. During FY2015, the company acquired majority stake in Trade Finance and Investments PLC, which presently is a wholly owned subsidiary.

During the year ended March 31, 2017, CCFL reported a net profit of LKR 2,903 Mn on a total asset base of LKR 82,110 Mn as compared to net profit of LKR 2,152 Mn on a total asset base of LKR 70,394 Mn in the previous fiscal year. The consolidated net profit for the year ended March 31, 2017 stood at LKR 3,117 Mn on a total asset base of LKR 84,968 Mn.

Guarantor Profiles:

Hatton National Bank PLC

Hatton National Bank PLC (HNB) is one of the larger private sector commercial banks in the country with total assets amounting to LKR 902 Bn as at March 31, 2017. It accounted for 9.5% of sector assets, 10.7% of sector loans and advances and 9.9% of sector deposits as at December 31, 2016. The bank was incorporated in the present form in the year 1970. Stassen's group with 17.95%, Sri Lanka Insurance Corporation Ltd with 14.61% and Employee Provident Fund with a 9.76% are the major shareholders of the bank.

The bank recorded a total income of LKR 25,037 Mn for the 3MCY2017 and LKR 84,260 Mn for CY2016 (LKR 61,055 Mn for CY2015). The net profits of the bank amounted to LKR 3,652 Mn during 3MCY2017 and LKR 14,143 Mn for the CY2016 (LKR 10,449 Mn for CY2015), which resulted in ROAA of 1.66% and 1.79% (1.61% in CY2015) for the respective periods. The bank had a gross NPA ratios of 1.85% and 1.80% as at 3MCY2017 and CY2016 (2.43% in CY2015) and net NPA ratios of 0.48% and 0.46% respectively for the said periods (0.84% in CY2015). The bank had a net worth of LKR 78,592 Mn as on March 31, 2017 with tier 1 capital adequacy ratio of 10.24% and total capital adequacy ratio of 11.22%.

Sampath Bank PLC

Sampath Bank PLC is one of the larger private sector commercial banks in the country with total assets of LKR 692 Bn. Sampath accounted for 7.3% of the industry assets, 8.4% of the sector loans and advances and 8.1% of sector deposits as on December 31, 2016. The bank commenced operations as a licensed commercial bank in 1987 and was noted for introducing technology to the banking sector. Major institutional shareholders include Vallibal One PLC with a 14.95% and Employee Provident Fund with a 9.97% stake. The Sampath group companies includes Sampath Centre Ltd (97.14%), SC Securities (Pvt) Ltd (100%), Siyapatha Finance PLC (100%) and Sampath Information Technology Ltd (100%).

The bank recorded a total income of LKR 20,317 Mn for the 3MCY2017 and LKR 66,120 Mn for CY2016 (LKR 45,830 Mn for CY2015). The net profits of the bank amounted to LKR 2,340 Mn during 3MCY2017 and LKR 9,125 Mn for CY2016 (LKR 6,134 Mn for CY2015), which resulted in ROAA of 1.39% and 1.54% (1.28% in CY2015) for the respective periods. The bank had gross NPA ratios of 1.73% and 1.61% as at 3MCY2017 and CY2016 (1.64% in CY2015) and net NPA ratios of 0.73% and 0.62% respectively for the said periods (0.46% in CY2015). The bank had a net worth of LKR 47,131 Mn as on March 31, 2017 with tier 1 capital adequacy ratio of 7.68% and total capital adequacy ratio of 11.93%.

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