ICRA Lanka reaffirms the rating of Trade Finance & Investments PLC

August 01, 2019

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	Reaffirmed the issuer rating of [SL]BBB- with Negative outlook

Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of Trade Finance & Investments PLC (TFIP or the Company) at [SL]BBB- (Pronounced SL triple B minus) with Negative outlook.

Rationale

The Negative outlook factors in the subdued financial profile of TFIP's parent company, Commercial Credit and Finance PLC's (CCFL or the Parent/rated [SL]BBB with Negative outlook). TFIP is a 99.7% owned subsidiary and benefits from managerial and operational support from the Parent. The rating also takes cognisance of TFIP's established track record and experienced management team, granular loan portfolio and good profitability indicators. Over the next 3 years, the Company envisages to continue its aggressive portfolio growth strategy where it had recorded a CAGR of around 60% for the last three years, with focus on 2-wheeler and 3-wheelers. ICRA Lanka estimates that the Company, in view of its growth plans, would need additional capital infusion during this period to maintain an adequate capital profile. ICRA Lanka expects timely support from the parent, in raising funding, for meeting its capital requirements. ICRA Lanka notes that TFIP was acquired by CCFL under the financial sector consolidation programme of Central Bank of Sri Lanka (CBSL) in 2014 but continues to remain a subsidiary as at date; ICRA Lanka would closely monitor any significant development on account of the above and the consequent impact on TFIP's credit profile.

The rating takes note of the moderation of TFIP's asset quality over the recent past largely because of macro-economic challenges and moderate credit profile of its customer segments. The rating further takes cognizance of TFIP's small scale, competitive business environment and susceptibility to unfavourable regulatory changes it faces.

Outlook: Negative

The Negative outlook reflects the weakened credit profile of the Parent company, CCFL. The outlook may be revised to 'Stable' in case of steady improvement in CCFL's credit profile while TFIP maintains comfortable capital, asset quality and earnings profiles. The rating may be downgraded in case of downward rating revision of the Parent, lower than expected support from the parent or significant moderation in the financial risk profile of TFIP.

Key rating drivers

Credit strengths

Operational and managerial support from CCFL: TFIP is a 99.7% owned subsidiary of CCFL (rated [SL]BBB/Negative) and has strong business linkages with the Parent. CCFL's support in terms of shared services and knowledge sharing in all key aspects of the operations has helped TFIP to strengthen its systems and procedures over the period. ICRA Lanka expects CCFL to continue its operational and managerial support to TFIP, and provide timely support in securing funding for meeting capital or liquidity requirements, especially given the aggressive portfolio growth envisaged over the next 3-years. CCFL acquired TFIP under the financial sector consolidation programme of CBSL in 2014, going forward, ICRA Lanka would closely monitor the developments with regard to the same. Out of the 6 directors of the board, CCFL has one representative. TFIP has an established track record of 40-years of operation as a finance company in Sri Lanka and the Company's management is also well experienced in its traditional business of leasing 2-wheelers and 3-wheelers.

Adequate capitalization profile: TFIP's capitalization profile is adequate with core and total CAR at 14.3% and gearing at 4.6 times as of Mar-19. TFIP's core capital stood at about LKR 1.7 Bn as of Mar-19 (post incorporating IFRS9 transition impact of LKR 367 Mn), above the minimum regulatory requirement of LKR 1.5 Bn effective from Jan-19. The same is required to be increased up to LKR 2.0 Bn by Jan-20 and to LKR 2.5 Bn by Jan-21. While TFIP's core CAR would be above the regulatory requirement over the next 3-years, the Company would need to raise external capital to maintain gearing at moderate level and to meet increasing total CAR requirements (12.5% by Jul-21) in view of the envisaged portfolio growth at about CAGR of 50% over the period.

Granular loan portfolio– TFIP's portfolio grew by 36% to LKR 9.9 Bn as of Mar-19. The exposure to leasing increased to 96% of the portfolio as of Mar-19 vis a vis 93% as of Mar-18 (96% as of Mar-17), largely because of the curtailing of lending to microfinance during FY2019. The microfinance exposure decreased to 2% from 6% during this period. The top 10 exposures only accounted for 0.4% of the total portfolio (0.5% as of Mar-18) indicating portfolio granularity and low credit concentration risk. As of Mar-19, TFIP's portfolio consisted of 2-wheelers (78%), 3-wheelers (17%), 2% each of gold loans and microfinance and 1% other loans. Going forward, the Company envisages focusing 95-98% of its portfolio on 2-wheelers and 3-wheelers, with the balance on gold loans and other loans. While the portfolio is expected to remain granular, ability to keep credit quality under control in view of the envisaged steep growth in the portfolio and weak credit profile of targeted borrower segments would be a key monitorable.

Adequate profitability indicators: NIM and RoA (on PAT) stood at 18.6% and 7.0% respectively as of Mar-19 (20.8% and 7.5% as of Mar-18) supported by healthy business yields and moderate leverage. During FY2019, TFIP witnessed increase in the provisioning cost (as a percentage of average total assets) to 2.2% from 1.6% largely because of the transition into IFRS9 standard and subdued macroeconomic conditions that prevailed in the country. The operating expenses (as a percentage of average total assets) decreased to 8.3% from 9.2% with the increase in business volumes. Going forward, TFIP's ability to further improve its operating efficiency and keep credit cost under control would be crucial for incremental profitability.

Credit challenges

Moderation in asset quality indicators; however, remains better than the industry: TFIP's gross NPA ratio (GNPA%) increased to 3.5% as of Mar-19 from 2.5% as of Mar-18 (2.0% as of Mar-17); however, it remains better than the systemic level (7.7% as of Mar-19). The increased NPAs during FY2019 was largely because of the weak macro-economic conditions. Further, TFIP targets largely the self-employed borrowers having moderate credit profile, who are more vulnerable to adverse economic cycles. The GNPA% further increased to 4.3% as of May-19 largely on account of the temporary disruption of operations after the terror attack in April 2019. TFIP's asset quality is somewhat supported by strong focus on collections and recoveries. During FY2019, the Company has written off about LKR 279 Mn (LKR 26 Mn in FY2018) largely from the disposal losses in the leasing portfolio. ICRA Lanka notes that historically TFIP had high delinquency in softer buckets. The 90 days past due (dpd) stood at 16% as of Mar-19 vis a vis 13% as of Mar-18 (10% as of Mar-17). Going forward, TFIP's ability to maintain good asset quality levels, considering the envisaged high portfolio growth, would be a key rating sensitivity.

Small scale of operations, competitive business environment and susceptibility to unfavourable regulatory changes: TFIP is a relatively smaller player in the NBFI industry with an asset base of about LKR 10.4 Bn as of Mar-19. The Company operates with 7 branches (including head office), and it has presence covering 11 districts of the country through its virtual business model (branchless operations). ICRA Lanka notes that given the Company's plan to expand its branchless operations island wide, there is need to improve monitoring and supervision aspect of its operations to make it commensurate with the business risk. Further, the operating environment for 2W and 3W financing is quite competitive with established NBFIs and banks competing for market share. The leasing business is also susceptible to adverse regulatory changes as observed in the recent past.

Analytical approach: TFIP credit risk profile is strengthened by the support from CCFL (rated BBB/ Negative). For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.
Links to applicable criteria: ICRA Lanka's Credit Rating Methodology for Non-Banking Financial Institutions

About the Company:

TFIP is a registered finance company which offers leasing, hire purchase, gold loans and other loan products apart from accepting deposits (fixed and savings). The Company is specialised in leasing 2-wheelers and 3-wheelers, which accounted for about 95% of the total portfolio as on March 31, 2019. TFIP operates with 6 branches namely, Negombo, Kilinochchi, Jaffna, Batticaloa, Marawila and Maligawatta. TFIP was incorporated in the year 1978 as a private limited company and was part of the J. L. Morrison Son & Jones group. It was converted to a public limited company (unquoted) in 1990. The Company was taken over by Mr. N G H Cooray, former Chairman of the Jetwing Group of companies, in 1990 by acquiring 93% stake; the Cooray family took management control of TFIP in 1995. As part of the consolidation of the finance and leasing companies in Sri Lanka, Commercial Credit and Finance PLC (CCFL) acquired majority shares of TFIP in the year 2014. CCFL holds close to 99.7% of the Company as of March 31, 2019.

During FY2019, TFIP reported a net profit of LKR 624 Mn on a total asset base of LKR 10,364 Mn as compared to net profit of LKR 418 Mn on a total asset base of LKR 7,471 Mn in the previous fiscal.

ANALYST CONTACTS

Mr. Vidura Welathanthri
+94 11 4339907
vidura@icralanka.com

Mr. A.M Karthik
+91 44 45964308
a.karthik@icraindia.com

RELATIONSHIP CONTACT

Mr. W. Don Barnabas
+94 11 4339907
wdbarnabas@icralanka.com

Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE
Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka
Tel: +94 11 4339907; Fax: +94 11 2333307
Email: info@icralanka.com; Website: www.icralanka.com

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on ICRA Lanka ratings outstanding. All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents