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ICRA Lanka reaffirms the [SL]BBB- issuer rating of Trade Finance & Investments PLC

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

The rating factors TFIP's status as the 99.7% subsidiary of Commercial Credit and Finance PLC (CCFL/ rated [SL]BBB by ICRA Lanka); ICRA Lanka expects the company to continue to benefit from managerial, operational and financial support from CCFL. The rating takes note of the company's conservative capital structure and good profitability indicators. The company has been able to maintain gross NPA ratio below the industry level over the last four years notwithstanding the modest credit profile of its customer segments, while bringing down the credit costs in FY2017. The rating however continues to factor in TFIP's modest scale and exposure to riskier product segments. ICRA Lanka notes that there is scope for improvement in the credit appraisal process to make it consistent with the risks inherent with the business segment. TFIP is expected to grow aggressively going forward by extending leasing for 2-wheelers, 3-wheelers, microfinance and small business loans; the ability to maintain good asset quality in these segments, especially microfinance, would be a key rating sensitivity.

TFIP's gross lending portfolio increased to LKR 3,530 Mn as of March 31, 2017 vis a vis LKR 2,268 Mn as of March 31, 2016 (LKR 1,598 Mn as of March 31, 2015). The company's portfolio largely consists of 2-wheeler and 3- wheeler exposures, which together accounted for about 94% of the total portfolio as of March 31, 2017. Going forward, the company is expected to diversify its portfolio by increasing the exposure to pawning, microfinance and revolving business loans; the combined exposure of these loans in the overall portfolio is likely to be about 10-15% in the next 2-3 years period. The portfolio is envisaged to expand by two folds in FY2018 to about LKR 7,600 Mn.

The company's gross NPA ratio stood range bound around 2-3% over the last four years except for FY2016. In FY2016, the company had to make an adjustment of LKR 63 Mn to gross NPA based on the 2016 onsite report of Central Bank of Sri Lanka. The gross NPA ratio was 2.04% as on March 31, 2017 as compared to 4.89% in March 31, 2016. ICRA Lanka takes note of the decrease in credit costs in FY2017 to 1.28% from 2.48% in FY2016 due to reduction in individual impairment charges and losses on account of repossession. The company has also been able to reduce the delinquencies reported in the softer buckets with 30+ dpd to 43% as on March 31, 2017 from about 53% as on March 31, 2016. Going forward, ability of TFIP to maintain good asset quality in the new loan products will be a key rating sensitivity for the company.

The company's gearing was quite conservative at 1.47 times and total capital ratio was about 36% as on March 31, 2017, which is likely to support the envisaged growth in the portfolio over the next 2-3 years. ICRA Lanka takes note of the diversification of the funding profile during FY2017 which reduced the reliance on fixed deposits to 46% of the borrowing profile vis a vis 80% as on March 31, 2016. TFIP envisages to maintain the gearing ratio below 4 times and total capital ratio above 19% going forward.

TFIP enjoyed a healthy yield of above 30% on its advances over the last four years, while costs of funds were quite moderate at about 11%. The operating expenses recorded high in FY2017 at 9.2% compared to 7.9% last year due to increase in regulatory VAT, opening of two new branches and manpower additions (about 82 in FY2017). TFIP currently operates with 6 branches (Excluding the HO) and plans to expand the reach without opening new branches via virtual business model. Virtual business model entails recruitment of marketing officers from new regions who will source business without a branch. Going forward, the operational expenses are expected to witness some increase due to its portfolio expansion and diversification. The credit costs of TFIP moderated to 1.28% in FY2017 from 2.48% in FY2016 because of the improved credit evaluation and reduced losses on repossession. The net profitability continues to be healthy with ROA[1] at 10.19% in FY2017 and ROE [2] at 27.1%. Ability of the company to control its credit costs and cost of funds would be crucial for incremental profitability.

Company Profile

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% share as of March 31, 2017.

TFIP is a registered Finance Company, operating with 6 branches namely, Negombo, Kilinochchi, Jaffna, Batticaloa, Marawila and Maligawatta. The company extends loans largely for 2-wheeler and 3-wheeler financing, which accounted for about to 94% of the total portfolio as on March 31, 2017. TFIP also extends loans for financing cars, vans, tractors, commercial vehicles etc. In August 2016, the company diversified its portfolio by offering microfinance and small business loans.

During FY2017, TFIP reported a net profit of LKR 325 Mn on a total asset base of LKR 3,725 Mn as compared to net profit of LKR 286 Mn on a total asset base of LKR 2,647 Mn in the previous fiscal.

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For further details, please contact:

Analyst Contacts:
Mr. Karthik Srinivasan, (Tel No. +91-22-6114 3444)
karthiks@icraindia.com

Relationship Contacts:
Mr. W. Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com

[1] PAT as a proportion of the average total assets
[2] PAT less dividend as a proportion of the average networth

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