

## Update on UB Finance Company Limited

August 09, 2019

Instrument	Rated Amount (LKR Mn)	Rating
Issuer rating	N/A	[SL]BB (Negative); rating outstanding

### Update

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, notes that UB Finance Company Limited's ("UBF" or "The Company") minimum core capital, tier-I capital ratio and total capital ratio continue to remain below regulatory levels as it was unable to secure external equity by Jun-19, which was previously envisaged. The Company continues to have a cap on its lending and deposit sourcing, which was imposed by CBSL in Jan-19. ICRA Lanka takes into consideration the commitment from Union Bank of Colombo (UBC; rated [SL]BBB/stable) via an undertaking letter that in case UBF is unable to secure capital from an external investor by Sep-19, then UBC would infuse capital, to meet the statutory capital requirements of UBF for FY2020. In view of the commitment from the Board of UBF and from UBC, Central Bank of Sri Lanka ("CBSL") has also granted extension to UBF till December 31, 2019 to meet various statutory thresholds.

UBF's Tier 1 and total CAR stood at 3.64% and 5.49% in Dec-18 as compared to the regulatory requirement of 6.00% and 10.00% which further increased to 6.50% and 10.50% in Jul-19. Gross NPA ratio of the company was 18.6% in Dec-18 as compared to 12.7% in Dec-17.

ICRA Lanka would closely monitor the extent of capital infusion, changes in ownership structure, liquidity position, and asset quality performance, over the near term, before taking further rating action. The rating continues to factor in UBF's modest scale and subdued earnings profile.

The previous detailed rationale was dated [May 27, 2019](#).

**Analytical approach:** For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below. Financial, operational and management support from UBC is factored into the issuer rating of UBF.

**Links to applicable criteria:** [ICRA Lanka's Credit Rating Methodology for Non-Banking Financial Institutions](#)

### About the company:

UB Finance Company Limited (UBF) was formerly known as The Finance & Guarantee Co. Ltd. It was incorporated in 1961 and, operated as a Finance and Real estate development company. In 2011, Union Bank of Colombo (UBC) acquired majority stake in the Company with a capital infusion of LKR 600 Mn. The Company received a further capital infusion of LKR 500 Mn from a private equity investor- ShoreCap II Ltd. As in April 2018, UBC and ShoreCap II Ltd held about 73% (81% voting rights) and 12% (13% voting rights) respectively in UBF. Initially, UBF was involved in real-estate development and financing. The Company still has some of its old loan portfolio, which is completely in the NPA category. Presently, the Company focuses on retail asset classes (vehicles loans/ leases/ hire purchase) and working capital finance.

During the year ended March 31, 2019, UBF reported a PAT of LKR 6 Mn (unaudited) on a total asset base of LKR 11.5 Bn (unaudited) as compared to a PAT of LKR 72 Mn on a total asset base of LKR 11.2 Bn in the previous financial year.

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