

ICRA Lanka places the ratings of Unisons Capital Leasing Limited on Watch with Positive Implications

June 06, 2019

Update- Unisons Capital Leasing Limited

Amalgamation of Unisons Capital Leasing Limited (UCL) with Citizens Development Business Finance PLC (CDB) after obtaining the required approvals, to comply with the regulatory requirements.

Rating action

In view of the above development, ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has taken the rating action indicated in the table below;

Instrument*	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	N/A	[SL]BBB-; Rating placed on watch with Positive implications; Negative outlook removed
Proposed Senior, Unsecured, Unlisted, Redeemable debenture Programme	500	500	[SL]BBB-; Rating placed on watch with Positive implications; Negative outlook removed

Rationale

The rating action factors in the expected improvement in UCL's credit profile following the amalgamation with CDB (rated BBB+/Negative). ICRA Lanka would closely monitor the amalgamation process and take further rating actions, as required. The ratings continue to take note of the Company's modest scale (gross portfolio at LKR 2.5 Bn as of Dec-18), its exposure to riskier asset classes with close to 94% of the portfolio consisting of 2-wheelers and 3-wheelers, and limited funding diversity.

The previous detailed rationale was dated February 22, 2019.

Update- Citizens Development Business Finance PLC

Instrument*	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating		NA	[SL]BBB+ (Negative); Outstanding
Subordinated, unsecured, listed redeemable debentures programme	1,250	928	[SL]BBB (Negative); Outstanding
Trust Certificates Programme of Citizens Development Business Finance PLC Trust-03	1,000	628	[SL]A-(SO) (Negative); Outstanding
Subordinated, unsecured, listed redeemable debentures programme	2,000	2,000	[SL]BBB (Negative); Outstanding
Subordinated guaranteed listed redeemable debentures	1,000	1,000	[SL]A-(SO) (Stable); Outstanding

In October 2018, ICRA Lanka revised the outlook of the issuer and the non-guaranteed issue ratings of CDB to Negative from Stable. The revisions factored in the weakening in CDB's capitalisation and asset quality profiles during H1FY2019.

ICRA Lanka notes that during H2FY2019, CDB's gearing ratio (adjusted for revaluation reserve) stood high at 9.4 as of Mar-19 (9.9 times as of Sep-18 and 9.5 times as of Mar-18) largely because of the portfolio growth of 16% during FY2019 (38% in FY2018). The company's core and total capital adequacy ratios (CAR), stood at 7.8% and 11.1% as of Mar-19; the improvement in the total CAR from 10.2% as of Sep-18 was on account of the issuance of tier II debt (about LKR 928 Mn) and inclusion of approved revaluation reserve (LKR 215 Mn) for computing tier II. ICRA Lanka notes that the ongoing amalgamation of subsidiaries and the proposed rights issue programme would positively impact CDB's capital profile. ICRA Lanka however notes that CDB would need regular capital infusion in order to support its envisaged portfolio growth (16-20% per annum), while maintaining an adequate capital buffer (2%) over the regulatory threshold. CDB is expected to become a systemically important NBFC (with total assets over LKR 100 Bn) by FY2020/2021 and thereafter increased CAR ratios would also come into effect. CDB's gross NPA ratio (GNPA%) increased to 6.6% as of Mar-19 vis a vis 6.2% as of Sep-18 (3.1% as of Mar-18) because of continued macro-economic challenges. The GNPA% excluding the repossessed assets stood at 4.0% as of Mar-19 (4.2% as of Sep-18 and 2.0% as of Mar-18).

Going forward, CDB's ability to improve its capitalization and asset quality while maintaining an adequate earnings profile would be crucial from a rating perspective.

The previous detailed rationale was dated October 26, 2018.

Links to applicable criteria: [ICRA Lanka Credit Rating Methodology for Non-Banking Finance Companies](#)

About the Company- Unisons Capital Leasing Limited (UCL)

Unisons Capital Leasing Limited (UCL) is a Specialized Leasing Company largely focusing on 2-wheeler and 3-wheeler financing presently. The Company was initially set up by Vanik Incorporation PLC. The ownership was then transferred to the Softlogic Group. Laugfs Gas PLC acquired it from Softlogic group and subsequently CDB acquired it from Laugfs Gas PLC in October 2014, as part of the consolidation of the finance and leasing companies in Sri Lanka. CDB currently holds 90.4% of the equity capital of UCL as at December 31, 2018.

During the year ended March 31, 2018, UCL reported a net profit of LKR 55 Mn on a total asset base of LKR 1,749 Mn, as compared to net profit of LKR 20 Mn on a total asset base of LKR 693 Mn in the previous fiscal year. For the nine months ended December 31, 2018 UCL reported a net profit of LKR 68 Mn on a total asset base of LKR 3,053 Mn.

About the Company- Citizens Development Business Finance PLC (CDB)

Citizens Development Business Finance PLC, a registered finance company, offers leasing, hire purchase, mortgage loans, gold loans and other personal loans apart from accepting deposits (fixed and savings). The company was established in 1995 as Ceylinco Development Bank Limited. In 2009 CDB was registered

under the Finance Companies Act and re-branded as Citizens Development Business Finance PLC. It was listed on the Colombo Stock Exchange in September 2010. As of Jun-18, CDB's largest shareholders were Ceylinco Insurance PLC (with an effective holding of 40%), CDB's corporate management (about 16%) and Janashakthi group (about 12%). The company operates 71 outlets (including service centres) and has access to over 600 ATMs (in alliance with Commercial Bank) across the island as of June 2018. The company acquired controlling stake in Unison Capital Leasing (previously known as Laughs Capital Limited) in October 2014 and currently holds about 90% shares of the company.

During the year ended March 31, 2019 CDB (stand-alone) reported a net profit of LKR 1,710 Mn on a total asset base of LKR 89.4 Bn as compared to net profit of LKR 1,401 Mn on a total asset base of LKR 75.5 Bn in the previous fiscal year.

Guarantor Profile:

Seylan Bank PLC (Seylan) with total asset base of LKR 475 Bn as on March 31, 2019 (LKR 467 Bn on December 31, 2018) accounted for about 4.0% of sector assets; it also accounted for 4.5% of sector loans and advances and 4.3% of the sector deposits as on March 31, 2019. 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 (8.7%) and Bank of Ceylon (7.5%) are the major voting shareholders of the bank.

The bank recorded a total interest income of LKR 13,628 Mn for the Q1CY2019 and LKR 49,229 Mn for CY2018 (LKR 49,174 Mn for CY2017). The net profits of the bank amounted to LKR 902 Mn during Q1CY2019 and LKR 3,189 Mn for the CY2018 (LKR 4,430 Mn for CY2017), which resulted in RoA (PAT as a proportion of average assets) of 0.77% and 0.73% (1.16% in CY2017) for the respective periods. The bank had a gross NPA ratios of 5.96% and 5.98% as of Mar-19 and Dec-18 (4.42% as of Dec-17) and net NPA ratios of 4.57% and 4.40% respectively for the said periods (3.10% as of Dec-17). The bank had a net worth of LKR 35,921 Mn as on March 30, 2019 with tier 1 capital adequacy ratio of 9.71% and total capital adequacy ratio of 12.57%.

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