

## ICRA Lanka reaffirms the issuer rating of Multi Finance PLC

Feb 05, 2020

Instrument*	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	N/A	[SL]B- (Negative); Reaffirmed

### Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of Multi Finance PLC (MFP or the Company) at [SL]B- (Pronounced S L B minus) with Negative outlook.

### Rationale

The rating factors in the continued weakness in MFP's capital adequacy, earnings, and asset quality profile. The Company's tangible net worth (adjusted for deferred tax) of about LKR 0.6 Bn as of September 2019 continued to remain well below the minimum regulatory capital requirement of the Central Bank of Sri Lanka (CBSL), as the Company was unable to raise the required equity capital during the period. The failure to meet the regulatory capital has led to the imposition of lending and deposit-taking restrictions by the CBSL. The rating takes some comfort from the ongoing capital raising exercises to meet the regulatory capital requirement; however, timely completion of the same will be crucial, from a rating point of view. The rating also factors in the deteriorating of asset quality indicators, where the gross NPA ratio has increased to about 18.8% in September 2019 vis-à-vis 11.6% in March 2019 and 9.8% in March 2018. While the rating takes cognizance of continued weak earnings profile of the company as a result of failing to increase the lending portfolio, losses have widened during the 6M ended September 2019, where MFP made a net loss of LKR 61 Mn vis-à-vis the net loss of LKR 63Mn reported in FY2019. Going forward, the company's ability to control incremental slippages and improve its profitability indicators will be crucial.

The rating also factors in the adequate liquidity profile of MFP, where the Company reported a favourable asset liability management (ALM) mismatch of 8% as in September 2019, compared to the positive ALM of 6% reported in June 2018.

### Outlook: Negative

The Negative outlook reflects MFP's increased risk profile, post the CBSL restriction on securing incremental deposits, and the continued weakness in the asset quality indicators. MFP's ability to raise capital to meet the regulatory requirement on a timely basis would be a key rating sensitivity in the near term. The outlook may be revised to "Stable" in case of steady improvement in MFP's capital, and asset quality profiles going forward. The rating may be downgraded in the case of MFP failing to meet the regulatory capital requirement in the near term.

### Key Rating Drivers

#### Credit Challenges

**Sizeable external capital required to meet regulatory core capital requirement:** As in September 2019, tangible net worth (adjusted for deferred tax) of Multi Finance (MFP) stood at about LKR 600 Mn, which is significantly below the minimum core capital requirement of LKR 2.0 Bn by January 2020, as stipulated by

the regulator. Non-compliance on minimum capital by Multi has led to the CBSL imposing a lending cap and a deposit cap, a measure that has affected the growth of the company. The company is currently working on two mutually exclusive fundraising exercises with two institutional investors, where these transactions are expected to bridge the minimum capital requirement in full, upon completion. Timely completion of the fundraising exercises will be a key monitorable, going forward.

**Significant deterioration of asset quality indicators:** The rating of MFP continues to factor in the weak asset quality indicator of the company, where gross NPA ratio stood high at 10.5% in June 2018 (9.8% in March 2018); NPA ratio as in March 2019 stood at about 11.6%. Subsequently, MFP witnessed a sharp increase in NPA levels, largely due to macro-political challenges in the market; the gross NPA ratio went up to about 18.8% in September 2019. The sharp increase in NPAs primarily came from SME related exposures of the company, as the SME sector was particularly affected during the period. ICRA Lanka notes that the moderation of the overall portfolio has also contributed to the sharp increase in NPA ratios during the period. MFP's ability to control incremental slippages and improve its overall asset quality indicators will be crucial, going forward.

**Sustained weak profitability:** MFP has posted sustained losses for the last 5 years. For the 6M ended September 2019, Multi Finance reported a net loss of LKR 61 Mn, vis-à-vis LKR 63 Mn loss reported during FY2019. Widened losses for the 6M period were primarily due to reduction in interest income and higher credit cost on account of asset quality deterioration. MFP witnessed a NIM compression during the period, from 12.5% in FY2019 to 10.4% for the 6M ended September 2019, due to the degrowth of the loan portfolio. Also, the Company witnessed a sharp increase in credit cost during the period to about 5.7% for the 6M, from about 2.7% in FY2019; the increase in credit cost is primarily due to higher provisioning for non-performing SME/ business loans during the period.

**Analytical approach:** For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below.

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

## About the Company:

Multi Finance PLC (MFP) is a licensed Finance Company providing an array of products such as Leasing, Hire Purchase, Business loans, Multi draft, SME financing, Pawning, Micro Finance, and Trader financing etc. The Company was incorporated on October 14, 1974 as a limited liability company in Kandy. The ordinary shares of the Company were listed on the Colombo Stock Exchange in 2011. In February 2017, Fairway Holdings (Pvt) Ltd., a diversified conglomerate acquired 65% of MFP.

During the year ended March 31, 2019, MFP reported a net loss of LKR 63 Mn on a total asset base of LKR 1.5 Bn as compared to net loss of LKR 17 Mn on a total asset base of LKR 1.6 Bn in the previous fiscal year.

For the 6M ended September 30, 2019, MFP reported a net loss of LKR 61 Mn on a total asset base of LKR 1.4 Bn.

## Key financial indicators (Audited)

Amount in LKR Mn	FY2018	FY2019	6MFY2020 (Unaudited)
Net Interest Income	139	171	66
Profit after Tax	(17)	(63)	(61)
Net worth (adjusted)	774	661	601
Loans and Advances	1,197	1,181	978
Total Assets	1,634	1,485	1,443
Return on Equity	-2.1%	-8.3%	-17.8%
Return on Assets	-1.2%	-4.1%	-8.3%
Gross NPA	9.9%	13.1%	18.8%
Net NPA	5.6%	4.5%	6.6%
Capital Adequacy Ratio	66.4%	36.8%*	43.5%
Gearing (times)	0.9	1.1	1.1

\*based on new capital adequacy computation came into effect in Jul-18

## Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years		
		Amount Rated (LKR Mn)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018
Issuer rating	N/A	N/A	[SL]B- (Negative)	[SL]B- (Negative)	[SL]B (Stable)	N/A

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