

ICRA Lanka revises the issuer rating of Multi Finance PLC

August 13, 2019

Instrument*	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	N/A	Revised to [SL]B- (Negative) from [SL]B (Stable)

Rating action

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

Rationale

The rating revision factors in the continued weakness in MFP's capital, earnings and stretched liquidity profile. The Company's core capital of about LKR 0.72 Bn as of Mar-19 continued to remain below the regulatory minimum capital requirement (LKR 1.5 Bn effective from Jan-19), as the Company was unable to raise equity capital during the period. The Company's envisaged capital raising plan of LKR 200 Mn via a private placement with its parent, Fairway Holdings (Pvt) Ltd., also did not materialise as expected and during FY2019, MFP's losses widened to LKR 63 Mn (loss of LKR 17 Mn in FY2018), further eroding its capital base. The failure to meet the regulatory capital has led to the imposition of lending and deposit taking restrictions by the Central Bank of Sri Lanka (CBSL). The CBSL has imposed lending cap of LKR 1.3 Bn in May-19 and deposit cap of LKR 600 Mn in Jun-19 (tightened from LKR 800 Mn initially imposed in Mar-19). The restrictions imposed by CBSL is expected to significantly constrain MFP's financial flexibility. As of Mar-19, MFP's lending book and deposit base stood at about LKR 1.2 Bn and LKR 661 Mn respectively.

MFP's Board composition currently is not in compliance with the required minimum number of Independent Directors, which is expected to be addressed by the Company with new appointments after obtaining regulatory approvals. The Company was also non-compliant with Finance Companies Direction on Liquid Assets since Dec-18, but the same has been rectified in Jul-19. Given the Company's concentrated resource profile and the imposed restriction on deposits, MFP's liquidity position would be highly stretched thereby making it vulnerable to any large ticket outflows.

The rating continues to factor in MFP's modest scale and franchise, and weak asset quality indicators (gross NPA ratio of 13.1% as of March 2019).

The previous detailed rationale was dated September 28, 2018.

Outlook: Negative

The Negative outlook reflects MFP's increased risk profile post the restrictions on securing incremental deposits, and the continued weakness in the various financial and 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, liquidity and asset quality profiles going forward. The rating may be downgraded in case of MFP failing to meet the regulatory capital requirement in the near to medium term and continued restrictions on lending and deposit sourcing.

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, Factoring 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 63.0 Mn on a total asset base of LKR 1.5 Bn as compared to net loss of LKR 16.9 Mn on a total asset base of LKR 1.6 Bn in the previous fiscal year.

Key financial indicators (Audited)

Amount in LKR Mn	FY2017	FY2018	FY2019
Net Interest Income	77	139	171
Profit after Tax	(40)	(17)	(63)
Net worth	824	806	718
Loans and Advances	595	1,197	1,181
Total Assets	1,302	1,634	1,485
Return on Equity	-7.1%	-2.1%	-8.3%
Return on Assets	-3.4%	-1.2%	-4.0%
Gross NPA	7.7%	9.9%	13.1%
Net NPA	2.0%	5.6%	4.5%
Capital Adequacy Ratio	148.9%	66.4%	40.0%*
Gearing (times)	0.5	0.9	1.0

*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 in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
Issuer rating	N/A	N/A	Jul-19 [SL]B- (Negative)	Sep-18 [SL]B (Stable)	- N/A	- N/A

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