

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

Feb 19, 2021

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

### Rating action

ICRA Lanka Limited has revised the issuer rating of Multi Finance PLC (MFP or the Company) to [SL]C+ (Pronounced S L C plus) from [SL]B- (Pronounced S L B minus) with Negative outlook.

### Rationale

The rating revision factors in the continued weakness in MFP's capital adequacy, earnings, and asset quality profiles. The Company's tangible net worth (adjusted for deferred tax) of about LKR 500 Mn as of Sep-20, 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. ICRA Lanka notes that the planned capital raising exercises got affected by the challenging macro-outlook that prevailed during the period. The rating also factors in the sharp deteriorating of asset quality indicators, where the gross NPA ratio has increased to about 40.1% in Sep-20 vis-à-vis 18.8% in Sep-19 and 11.6% in Mar-19. However, ICRA Lanka notes that the overall contraction of the lending portfolio has also contributed to the sharp increase in the GNPA ratio, during the period. MFP's overall profitability remains weak, where the Company reported a net loss of LKR 26 Mn during the 6M ended Sep-20, vis-à-vis LKR 142 Mn loss reported during FY20. Going forward, the company's ability to meet the regulatory capital requirement, control incremental slippages and improve its profitability indicators will be crucial.

However, the rating factors the adequate liquidity profile of the company, where the liquidity ratios remain above the regulatory requirements. As in Sep-20 Multi Finance reported a positive ALM mismatch of 13%, compared to the positive ALM of 8% reported in Sep-19, as the company has largely curtailed its lending activities.

### Key Rating Drivers

#### Credit Challenges

**Sizeable external capital required to meet regulatory core capital requirement:** As of Sep-20, tangible net worth (adjusted for deferred tax) of Multi Finance (MFP) stood at about LKR 500 Mn, which is significantly below the minimum core capital requirement of LKR 2 Bn (and LKR 2.5 Bn by January 2022), as stipulated by the regulator. Non-compliance on minimum capital by Multi has led to the CBSL imposing a lending cap of LKR 1.3 Bn and a deposit cap of LKR 600 Mn, a measure that has affected the growth of the company. The core Tier1 CAR and total CAR ratios of the company stood at 61.4% in Sep-20 and 54.6% in Mar-20, due to its smaller portfolio size. ICRA Lanka notes that the planned capital raising initiatives that were in the pipe-line have got derailed due to the COVID-19 outbreak. The rating takes cognizance of the on-going discussions with potential investors to infuse fresh capital to the company; however the timely completion of the same would be critical from a rating point of view.

**Significant deterioration of asset quality indicators:** GNPA 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 40.1% by Sep-20. However, ICRA Lanka notes that the absolute Gross NPA declined to LKR 337.7 Mn in Sep-20 compared to LKR 410.5 Mn in Mar-20 due to the improved recoveries. The increase in NPAs primarily came from SME related exposures of the company, as the SME sector was particularly affected during the period. ICRA Lanka also notes that the contraction of the overall portfolio has also contributed to the sharp increase in NPA ratios during the period.

**Weak profitability:** For the 6M ended Sep-20, Multi Finance reported a net loss of LKR 26 Mn, vis-à-vis LKR 142 Mn loss reported during FY20. Sustained losses for the 6M period were primarily due to moderation of NIM and higher credit cost, on account of asset quality deterioration. MFP witnessed a NIM compression during the period, from 12.5% in FY19, 10.5% in FY20 to 6.6% for the 6M ended Sep-20, due to the degrowth of the loan portfolio. ICRA Lanka also notes that the company has failed to post pre provision profit since FY16 and the poor earnings profile of the company is adversely affecting the capital base, which is already at a very modest level.

**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, 2020, MFP reported a net loss of LKR 142 Mn on a total asset base of LKR 1.2 Bn as compared to net loss of LKR 63 Mn on a total asset base of LKR 1.5 Bn in the previous fiscal year.

For the 6M ended September 30, 2020, MFP reported a net loss of LKR 26 Mn on a total asset base of LKR 1.0 Bn.

## Key financial indicators (Audited)

Amount in LKR Mn	FY2019	FY2020	6MFY2021 (Unaudited)
Net Interest Income	171	112	32
Profit after Tax	(63)	(142)	(26)
Reported Net worth	718	577	551
Loans and Advances	1,181	862	654
Total Assets	1,485	1,195	1,005
Return on Equity	-8.3%	-21.9%	-9.1%
Return on Assets	-4.1%	-10.6%	-4.7%
Gross NPA	11.6%	38.9%	40.1%
Net NPA	4.5%	18.4%	15.0%
Capital Adequacy Ratio	39.9%*	54.61%	61.43%
Gearing (times)	1.1	1.0	0.8

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

### Rating history for last three years:

Instrument	Type	Current Rating (FY2021)		Chronology of Rating History for the past 3 years		
		Amount Rated (LKR Mn)	Date & Rating Jan-21	Date & Rating Jan-20	Date & Rating Jul-19	Date & Rating in FY2019 Sep-18
Issuer rating	N/A	N/A	[SL]C+	[SL]B- (Negative)	[SL]B- (Negative)	[SL]B (Stable)



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#### 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](mailto:info@icralanka.com); Website: [www.icralanka.com](http://www.icralanka.com)

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## Analysts

Rasanga Weliwatte  
Head of Finance Sector Ratings  
+94-773553564  
[rasanga@icralanka.com](mailto:rasanga@icralanka.com)

## Contacts

W Don Barnabas  
Managing Director/CEO  
+94-773417517  
[wdbarnabas@icralanka.com](mailto:wdbarnabas@icralanka.com)

Rasanga Weliwatte  
Head of Financial Sector Ratings  
+94-773553564  
[rasanga@icralanka.com](mailto:rasanga@icralanka.com)

Lalinda Sugathadasa  
Head of Research &  
Business Development  
+94-774781343  
[lalinda@icralanka.com](mailto:lalinda@icralanka.com)

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