

## ICRA Lanka assigns the issuer rating of [SL]BBB+ with Stable outlook for Senfin Asset Management (PVT) Limited

May 11, 2021

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL] BBB+ (Stable); assigned

### Rating action

ICRA Lanka Limited has assigned the issuer rating of [SL]BBB+ (Pronounced SL triple B plus) with Stable outlook for Senfin Asset Management (Pvt) Limited (SENFIN or the Company).

### Rationale

ICRA Lanka has taken the consolidated view of SENFIN and its parent company Senkadagala Finance PLC (SENK), given the significant strategic and operational linkages between them. Senfin Asset Management (PVT) Limited is a 100% owned subsidiary of Senkadagala Finance PLC.

The rating primarily factors the Senkadagala Group's position as an established financial institution with a vintage of over 50 years, with its established market presence with an extensive branch network. The rating also factors the fairly secured lending profile, with 100% asset-backed exposures, well-diversified funding profile, and the comfortable capitalization profile of SENK. Risk-adjusted capitalization levels of the NBFIs remain well above the regulatory norms and the recent capital infusion provides further support. The rating also takes cognizance of the healthy liquidity profile of SENK, where the short-term (less than 1 year) asset-liability mismatch was positive 6.4% as in Dec-20.

However, the rating takes cognizance of the asset quality deterioration of SENK, where both 180+ days and 90+ days delinquency levels have increased over the last 2 years; ICRA Lanka notes that the same is largely attributable to the non-conducive macro-outlook that prevailed during the period. The rating also factors the moderate profitability indicators of the Group where ROA<sup>1</sup> has moderated to 0.72% in FY2020, vis-à-vis 2.46% in FY2019 and 3.01% in FY2018, however the same has somewhat improved to about 1.15% as in 9MFY2021. Going forward, SENK's ability to improve asset quality levels by arresting slippages in softer buckets and maintaining an adequate profitability profile will be crucial, from a rating point of view.

### Outlook: Stable

ICRA Lanka believes Senkadagala Group's current capitalization and earnings profile supports its medium-term growth plans, while its liquidity profile is expected to remain comfortable. The outlook may be revised to 'Positive' in case of steady improvement in the asset quality and profitability of the Group. The outlook may be revised to 'Negative' in case of a further deterioration of the asset quality indicators and profitability.

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<sup>1</sup> ROA = PAT/ Average Total Assets

## Key rating drivers

### Credit strengths

**Established franchise with a long track record:** Senkadagala Finance PLC has its presence in the country for over 50 years, having an extensive branch network covering 100 locations and over 800 employees. ICRA Lanka notes that the group has maintained a consistently profitable track-record over the last 25 – 30 years. As on Dec-20, the group had a total asset base of LKR 38,924 Mn vis-à-vis LKR 33,995 as on Mar-20. Senfin Asset management (Pvt) Limited had a total AUM of LKR 2,884 Mn as on Mar-21 with 3 Fixed income funds and 2 Equity funds under management. The Senfin Money Market Fund (Rated [SL]A+ mfs by ICRA Lanka), Senfin Dynamic Income Fund and the Senfin Shariah Income Fund are the fixed income funds managed by SENFIN and the funds reported AUMs of LKR 1,654 Mn, LKR 210 Mn and LKR 47 Mn respectively as on Mar-21.

**Comfortable capitalization profile:** SENK comfortably meets the minimum regulatory core capital requirement for NBFIs with LKR 5,630 Mn as on Dec-20 against the regulatory minimum requirement of LKR 2,000 Mn. Furthermore, the recent capital infusion of LKR 362 Mn via a right's issue will further improve the capital structure. In terms of risk-weighted capital adequacy ratios, SENK maintains a comfortable position with Tier 1 core capital ratio and total capital ratio of 14.63% and 19.46% respectively as on Dec-20 in comparison to 14.76% and 20.88% respectively as on Mar-20. (Regulatory requirement of Tier 01 - 6.50% and Total CAR- 10.50%).

**Well-diversified funding base:** The group has a diversified funding profile, which is less reliant on short-term public deposits. The funding profile mainly consisted of Securitized borrowings (38% of total debt), Public deposits (35%), Long term bank funding (21%), and debentures (6%) as on Dec-20. The gearing remains low; however, somewhat increased to 5.63 as in Dec-20 from 5.03 as on March-20 as a result of the USD 25 Mn (~LKR 5,000 Mn) facility received from Nederlandse Financierings- Maatschappij Voor Ontwikkelingslanden N.V (FMO) in June 2020. ICRA Lanka notes that the capitalization profile of SENK is likely to improve in the immediate to short term with the recent rights issue and the subsequent capital enhancement plans in the pipeline.

**Comfortable liquidity profile:** As opposed to most of the NBFIs, SENK has a Positive ALM for the short-term category of 6-12 months, which was reported at 6.36% as on Dec-20. The liquidity profile of the company is supported by the diversified funding base which includes long-term funding lines such as loans from banks and multilateral institutions, securitizations, and debentures. Furthermore, SENK has a healthy deposit franchise where a significant portion of the large-ticket deposits are contributed by the promoter and related parties.

### Credit challenges

**Moderate asset quality with improving collections in the last 12 months:** Historically, SENK has maintained healthy asset qualities in comparison to industry averages. Company's GNPA ratio was 1.84% in Mar-17, 2.63% in Mar-18 and 5.57% in Mar-19, compared to the NBFIs sector's GNPA ratios of 5.20%, 5.93% and 7.82% respectively during the same periods. GNPA's increased to about 7.94% as in Mar-20, due to the challenges in macro environment since the Easter events in April 2019. ICRA Lanka notes that the 90+ days past due (dpd) increased in Dec-20 to about 17% from 14% in Mar-20; however, notes that due to the recovery efforts at the 90+ dpd, the company has been able to curb the slippages into NPA. As a result of healthy collection levels since Jul-20, the GNPA ratio somewhat improved to 7.08% as in Dec-20, from a high of 7.94% as on Mar-20. The NBFIs sector reported gross NPA ratios of 13.87% as on Dec-20 vis-à-vis

11.56% as on Mar-20. The rating also takes comfort from healthy provision coverage of 81.45% as on Dec-20 (68.69% as on Mar-20 and 71.48% as on Mar-19), given the portfolio being entirely asset backed.

**Moderated profitability levels:** SENK reported a consolidated operating profit of LKR 1,090 Mn in FY2020 vis-à-vis LKR 1,358 Mn in FY2019; For 9MFY2021, Group reported an operating profit of LKR 580 Mn. The Operating profit/ATA has moderated to an annualized 2.06% in Dec-20 in comparison to 3.07% in Mar-20 and 3.64% in Mar-19. As a result of the muted loan growth amidst the lackluster economic conditions and the debt moratorium Programmes, compressions in NIMs were witnessed. The group reported an annualized NIM of 6.13% as on Dec-20, a moderation from 8.12% in Mar-20 and 8.99% in Mar-19. However, on account of the low employee expenses and lower establishment expenses due to curtailed branch expansion, the operating expenses have reduced. The operating expenses/ATA reduced to an annualized 5.16% as on Dec-20 vis-à-vis 5.73% in Mar-20 and 6.08% in Mar-19. The credit cost (Provisioning/ATA) has reduced to an annualized 0.91% in Dec-20 from 1.42% in Mar-20 (1.23% in Mar-19).

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

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

## About the Company

### Senfin Asset Management (Pvt) Limited

Senfin Asset Management (Pvt) Ltd (SNFIN) was incorporated in 2010 and operates as a Unit Trust Fund Manager which is licensed and regulated by the Securities and Exchange Commission of Sri Lanka (SEC). SENFIN was previously known as Candor Asset Management (Pvt) Ltd, and was renamed following acquisition by Senkadagala Finance PLC in March 2020. Senfin Asset Management (Pvt) Ltd had total assets under management (AUM) of LKR 2.9 Bn as at March 2021. Senfin Asset Management has 3 Fixed income funds and 2 Equity funds under management.

### Senkadagala Finance PLC

Senkadagala Finance PLC (SENK) is a publicly listed Non-Banking Financial Institution (NBFI) in Sri Lanka, being established in 1968. E W Balasuriya and Company (Private) Limited is the immediate and ultimate parent of SENK. The main products offered by the company include leasing, hire purchase and trade loans. SENK has 2 fully owned subsidiaries; Senkadagala Insurance Brokers (Pvt) Ltd and Senfin Asset Management (Pvt) Ltd.

During FY2020, Senkadagala Finance PLC reported a consolidated Profit After Tax (PAT) of LKR 252 Mn on a total asset base of LKR 33,995 Mn as compared to a PAT of 886 Mn in FY2019 on a total asset base of LKR 36,353 Mn. For 9M ended December 2020, the group reported a PAT of LKR 316 Mn on a total asset base of LKR 38,924 Mn was reported.

## Key financial indicators: Senkadagala Finance PLC (Consolidated)

In LKR Mn	FY2018	FY2019	FY2020	9MFY2021*
Net Interest Income	3,069	3,242	2,856	1,677
Profit after Tax	1,002	886	252	316
Reported Networth	4,984	5,185	5,322	5,637
Loans and Advances	27,802	29,070	27,233	28,531
Total Assets	35,779	36,353	33,995	38,924
Return on Equity	23.31%	17.43%	4.79%	7.68%
Return on Assets	3.01%	2.46%	0.72%	1.15%
Gross NPA <sup>2</sup>	2.63%	5.57%	7.94%	7.08%
Capital Adequacy Ratio (Tier 1) <sup>2</sup>	16.86%	14.46%	14.76%	14.63%
Gearing (times) <sup>2</sup>	5.82	5.66	5.03	5.63

\*Unaudited Financials

## Rating history for the last three years:

Instrument	Current Rating			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (LKR Mn)	Date & Rating FY2021	Date & Rating FY2021	Date & Rating FY2020	Date & Rating FY2019
			May-21			
Issuer Rating	N/A	N/A	[SL]BBB+ (Stable)	-	-	-

<sup>2</sup> Figures are at Standalone Level.



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