

ICRA Lanka reaffirms the issuer rating of Multi Finance PLC

December 09, 2021

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL] C+ (Negative); Reaffirmed

Rating action

ICRA Lanka Limited has reaffirmed the Issuer Rating of Multi Finance PLC (MFP or the Company) at [SL]C+ (Pronounced S L C plus) with Negative outlook.

Rationale

The rating reaffirmation factors in the continued weakness in MFP's capital adequacy, asset quality and earnings profiles. The Company's tangible net worth (adjusted for deferred tax) of about LKR 462 Mn as of Sep-21, continues to remain well below the minimum regulatory capital requirement of the Central Bank of Sri Lanka (CBSL), as the planned capital raising initiatives were derailed by the challenging macro-environment that prevailed 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 also notes that the sharp contraction of the overall lending portfolio has resulted in the gross NPA ratio increasing to about 48.9% in Jun-21 vis-à-vis 45.0% in Mar-21 and 38.9% in Mar-20, even though the non performing accomadation got reduced to LKR 363 Mn in Jun-21 from LKR 418 Mn in Mar-20. MFP's overall profitability remains weak, where the Company reported a net loss of LKR 32 Mn during the 6M ended Sep-21, vis-à-vis LKR 83 Mn loss reported during FYE Mar 21. Going forward, it would be crucial for the Company to complete the ongoing merger in a timely manner, as regulatory restrictions, on account of non-compliance of core capital, are significantly affecting the overall business of the NBFI, and it is less likely, that the regulator will provide further extensions to the time-lines.

Outlook: Negative

The Negative outlook reflects the weak asset quality and earnings profile of the Company along with the contraction of the overall lending portfolio. The rating may be downgraded in case of further deterioration in asset quality, solvency, liquidity or earnings profiles and the inability of the Company to meet the minimum regulatory capital requirement in a timely manner.

Key Rating Drivers

Credit Challenges

Sizeable external capital required to meet regulatory core capital requirement: As of Sep-21, tangible net worth (adjusted for deferred tax) of Multi Finance (MFP) stood at about LKR 462 Mn, which is significantly below the current 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 MFP 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. However, the core CAR and total CAR ratios of the Company stood at 53.2% in Mar-21 and 61.4% in Sep-20, which is above the required level. ICRA Lanka notes that the planned capital raising initiatives that were in the pipe-line have got derailed due to the COVID-19 outbreak. However, ICRA Lanka notes that the Company has finalized an acquisition/merger under the CBSL master plan for

consolidation for NBFI sector. As per the management, the Company is currently at advanced stages of finalizing and obtaining approval from the regulator.

Significant deterioration of asset quality indicators: GNPA ratio of MFP stood high at 48.9% in Jun-21, compared to 45.0% in Mar-21 and 38.9% in Mar-20. ICRA Lanka notes that the moderation of the overall portfolio has also contributed to the sharp increase in NPA ratios during the period. Absolute gross NPAs of the Company stood at LKR 359.8 Mn as in Jun-21, compared to 343.2 Mn in Mar-21 and LKR 410.5 Mn in Mar-20. The Company is currently not involved in much active lending due to capital constraints and the on-going merger exercise.

Weak profitability: For the 6M ended Sep-21, Multi Finance reported a net loss of LKR 32 Mn, vis-à-vis LKR 83 Mn loss in FY21 and LKR 142 Mn loss reported during FY20. Sustained losses for the 6M period were primarily due to the portfolio reduction. ICRA Lanka notes that the Company has failed to post pre provision profit since FY16, and the poor earnings profile of the Company is largely due to the capital shortage and the resultant regulatory restrictions.

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, 2021, MFP reported a net loss of LKR 83 Mn on a total asset base of LKR 870 Mn as compared to net loss of LKR 142 Mn on a total asset base of LKR 1,195 Mn in the previous fiscal year. For the 6M ended September 30, 2021, MFP reported a net loss of LKR 32 Mn on a total asset base of LKR 806 Mn.

Key financial indicators (Audited)

Amount in LKR Mn	FY2019	FY2020	FY2021	6MFY2022 (Unaudited)
Net Interest Income	171	112	68	37
Profit after Tax	(63)	(142)	(83)	(32)
Reported Net worth	718	577	493	461
Loans and Advances	1,181	862	556	482
Total Assets	1,485	1,195	870	806
Return on Equity	-8.3%	-21.9%	-15.4%	-13.5%
Return on Assets	-4.1%	-10.6%	-8.0%	-7.7%
Gross NPA	11.6%	38.9%	45.0%	48.9%**
Net NPA	4.5%	18.4%	15.1%	17.3%**
Capital Adequacy Ratio	39.9%*	54.61%	53.18%	
Gearing (times)	1.1	1.0	0.6	0.6

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

** As at Jun-21

Rating history for last three years:

Instrument	Current Rating			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (LKR Mn)	Date & Rating FY2022	Date & Rating FY2021	Date & Rating FY2020	Date & Rating in FY2019
			Nov 2021	Jan 2021	Jan 2020	Jul 2019
Issuer Rating	N/A	N/A	[SL]C+ (Negative)	[SL]C+ (Negative)	[SL]B- (Negative)	[SL]B- (Negative)



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