

Rating of People’s Merchant Finance PLC placed on watch with developing implications

May 14, 2019

Update

People’s Merchant Finance PLC (PMF or “the Company”). received LKR 160 Mn equity infusion through private placement during March 2019 and raised LKR 1.2 Bn through a right issue in April 2019. The private placement was subscribed by Sterling Capital Investment (Pvt) Ltd (SCLPL), for a 19.98% equity stake in the Company. The rights issue was concluded on April 29, 2019. During the right issue Peoples’ Bank and Peoples Leasing & Finance PLC renounced their 69.79% rights to the new investor SCLPL. The rights issue was fully subscribed and SCLPL’s share ownership increased to 67.99%.

Rating action

In view of the above developments, ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody’s Investors Service, has taken the rating action indicated in the table below;

Instrument	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	N/A	[SL]B; rating put on watch with developing implications.

Rationale

The rating action factors in the expected improvement in PMF’ leverage post the equity infusions in March 2019 and April 2019; the gearing is expected to improve to 2-3 times (provisional) post equity infusion vis a vis 16 times in December 2018. ICRA Lanka notes that PMF’s core capital, even after the private placement and the rights issue, would continue to remain lower than the minimum capital requirement (LKR 1.5 Bn¹) for NBFCs; commitment from SCLPL to infuse equity to meet the current and future regulatory capital requirements, however provides comfort. ICRA Lanka would closely monitor the improvement in PMF’ capital structure and its overall financial performance going forward and take appropriate rating action, when required.

The rating continues to factor in PMF’s small scale and franchise, modest asset quality, limited funding diversity & liquidity and its weak profitability indicators.

The previous detailed rationale was dated October 17, 2018.

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](#)

¹ LKR 2.0 by Jan-20 and LKR 2.5 Bn by Jan-21

About the Company:

Peoples Merchant Finance was formerly known as Peoples Merchant Bank. The Company was incorporated in 1983 as the investment banking arm of Peoples Bank. Subsequently, the Company was registered under finance business act and became a licenced finance Company in 2012. Sterling Capital Investment (Pvt) Ltd, Peoples Bank and People's Leasing & Finance PLC are the main shareholders of the Company with 67.99%, 16.08% and 11.86% shareholdings respectively as on date. The Company has 10 branches and one service centre including its head office.

During the year ended March 31, 2018, PMF reported a net loss of LKR 148 Mn on a total asset base of LKR 2.9 Bn as compared to net loss of LKR 199 Mn on a total asset base of LKR 3.5 Bn in the previous fiscal year.

For the nine months ended December 2018, the Company reported a net loss of LKR 23 Mn on a total asset base of LKR 3.37 Bn.

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