

**ICRA Lanka Assigns [SL]BB+ rating to the subordinated
Debentures and [SL]AA-(SO) rating to the Guaranteed
Debentures of Vallibel Finance PLC**

March 29, 2016

Instrument	Amount	Rating Action
Unsecured Subordinated Redeemable Debentures Programme	LKR 500 Million	[SL]BB+ with stable Outlook assigned
Guaranteed Subordinated Redeemable Debentures Programme	LKR 1,000 Million	[SL]AA-(SO) with stable Outlook assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service has assigned the [SL]BB+ (pronounced SL double B plus) rating with stable outlook to the LKR 500 Million Unsecured Subordinated Redeemable Debentures Programme and [SL]AA-(SO) (pronounced SL double A minus Structured Obligation) rating with stable outlook to the LKR 1,000 Million Guaranteed Subordinated Redeemable Debentures Programme of Vallibel Finance PLC (VFP or the Company). The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO ratings do not represent ICRA Lanka's opinion on the general credit quality of the issuers concerned. ICRA Lanka has the issuer rating of [SL]BBB- (pronounced SL triple B minus) with stable outlook on VFP.

The rating for the Guaranteed Subordinated Redeemable Debentures is based on the strength of the unconditional and irrevocable guarantee from Hatton National Bank PLC (HNB) covering the principal and two interest instalments (Semi-Annual) and, the undertaking from the Trustee to declare the entire guaranteed amount as payable in the event the issuer does not meet the scheduled interest payment on any due date or in the event the issuer does not redeem the Debenture in full on any redemption date to redeem the instrument in full. The Guarantor undertakes the obligation to pay, on demand from the Trustee, LKR 1,102.5 Million, being the total principal sum and two half-yearly interest instalments of the proposed Guaranteed Subordinated Redeemable Debentures. The rating also assumes that the guarantees will be duly invoked by the Trustee, as per the terms of the underlying Trust deed, Trustee's undertaking and guarantee agreements, in case there is a default in payment by VFP (Issuer).

The issuer rating and the subordinated debt rating take note of the expected financial and managerial support from the Vallibel group of companies, its experienced senior management team along with adequate internal controls and monitoring processes, which helped the company to maintain a reasonable asset quality profile (gross NPA at 4.3% as in Dec-15) and its good profitability indicators (RoA¹ at 2.8% and RoNW² at 32.5% in 9MFY2016) notwithstanding the moderation witnessed over the recent past. The rating however takes note of the highly competitive business environment in VFP's target product segment (Cars/vans), exposure to customers with moderate credit profile, its high gearing level (10.0 times in Dec-15) and high dependence on deposits. Going forward, VFP's ability to manage the envisaged growth of about 30-40% over the medium term by keeping asset quality under control and maintaining a conservative capital structure, as it increases its exposure to newer products, including micro loans, personal loans and property loans, would be crucial from a rating perspective.

Please refer to ICRA Lanka Rationale dated February 16, 2016 on the issuer for more details on the issuer.

Company Profile:

VFP was incorporated in 1974 as Rupee Finance Limited. In 2005, Vallibel Investment (Pvt) Ltd acquired the company and renamed it as Vallibel Finance PLC. Vallibel Investment (Pvt) Ltd holds 72.9% shareholding as in Sep-

¹ RoA- Return on average assets (Annualised)

² RoNW-Return on average network (Annualised)



15. The company is listed on the main board of the Colombo stock exchange. VFS currently operates through 27 branches. The principal activities of the company include extending finance leases, hire purchases, assets financing, granting of mortgage loans, gold loans and mobilization of deposits. VFP envisages extending microfinance facilities, auto backed overdraft facilities etc going forward.

During the year ended March 2015, VFP reported a PAT of LKR 373 Million on a total asset base of LKR 16.8 Billion as compared to a net profit of LKR 304 Million on a total asset base of LKR 12.5Million in the previous financial year. For 9MFY2016, VFP reported a PAT of LKR 349 Million on a total asset base of LKR 20.1Bilion.

Guarantor Profile:

Hatton National Bank PLC

Hatton National Bank PLC (HNB) is one of the largest private sector commercial banks in the country with total assets amounting to LKR 725 Billion as at Dec 2015. It accounted for 8.9% of sector assets, 11.0% of sector loans and advances and 9.7% of sector deposits as at Dec 2015. The bank was incorporated in the present form in the year 1970. Stassen's group with 17.95%, Sri Lanka Insurance Corporation Ltd with 14.68% and Employee Provident Fund with a 9.81% are the major shareholders of the bank. The bank recorded a total income of LKR Rs.61.1 Billion for the FYE Dec 2015 and LKR 59.5 Billion for the FYE Dec 2014. The net profits of the bank amounted to LKR 10.4 Billion for the FYE Dec 2015 and LKR 9.0 Billion for the FYE Dec 2014, which resulted in ROAA of 1.6% and 1.7% for the respective periods. The bank had gross NPA ratios of 2.43% and 3.16% as at FYE Dec 2015 and FYE Dec 2014 and net NPA ratios of 0.84% and 1.43% respectively for the said periods. The bank had a net worth of LKR 65.0 Billion for the FYE 2015 with tier 1 capital adequacy ratio of 10.53% and total capital adequacy ratio of 12.70%.

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