

## Vallibel Finance PLC

February 16, 2016

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]BBB- with stable outlook; Assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service has assigned the issuer rating of [SL]BBB- (pronounced SL triple B minus) with stable outlook to Vallibel Finance PLC (VFP or the Company). The rating takes 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 (RoA<sup>1</sup> at 2.8% and RoNW<sup>2</sup> 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.

VFP's portfolio stood at LKR 16,967 Mn as of Dec-15, with exposures largely towards cars (34%), vans (18%), Lorries (16%) and 3-wheelers (9%). The company has steadily reduced its exposures on the risky segments like Lorries, which stood high at about 23% in Mar-14. VFP's gold loans/pawning exposure was quite modest at about 2% as in Dec-15. Going forward, the company is expected to focus on cars/Vans and also extend personal loans and micro loans.

The company has been able to maintain gross and net NPA ratios below the systematic averages. As of Dec-15, VFP's gross & net NPA was 4.3% and 0.7%. VFP has steadily reduced its exposures to the lorry segment which was faced with high delinquencies in the past. The company has moderate exposures of 9% and 2% to 3-wheelers and gold loans/pawning, which to an extent has enabled the company to limit the recent macro impact on these asset classes, resulting in a reasonable asset quality profile. In the first 9 months of FY2016, VFP was able to curtail their slippages to LKR 447 Mn when compared to LKR 1,973 Mn in FY2015 and LKR 1,570 Mn in FY2014. High slippages were identified during FY2014 and FY2015 due to poor macroeconomic conditions that prevailed during the same period. VFP has been able to manage the deteriorating asset quality by improving recoveries and limiting incremental slippages by reducing exposures to risky asset classes. VFP has also increased their provision coverage from 56.1% in Mar-12 to 84.2% in Dec-15 (81.3% in Mar-15, 60.1% in Mar-14).

The company's overall earnings profile is characterised by a decline in the NIMs to about 8.8% for 9MFY2016 (FY2015 - 9.9%, FY2014 - 10.2%) notwithstanding the moderation in the cost of funds, as VFP shifted its focus to lower yielding asset classes like cars/vans and due to the systemic reduction in the interest rates. VFP's operating costs in relation to the total assets have remained range-bound at about 5-5.5% over the last few years. The company's credit costs moderated to about 0.2% in 9MFY2016 (1.6% in FY2015, 1.9% in FY2014) as incremental slippages reduced and as it was able to undertake effective recoveries. VFP's reported RoA of about 2.8% for 9MFY2016 as compared to 2.5% in FY2015 and 2.8% in FY2014 as the moderation in the NIM was steeper, than the improvement in the credit costs. Ability of the company to control credit costs and improve operating efficiency as the business expands and, as it ventures to newer asset classes would be critical from a profitability perspective.

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<sup>1</sup>RoA- Return on average assets (Annualised)

<sup>2</sup>RoNW-Return on average networth (Annualised)

VFP's funding is steered through fixed deposits, which accounted for 79% of the total borrowings as of Dec-15, followed by debentures (11%) and bank funds (10%). The ALM mismatches in the shorter term time brackets (less than 1 year mismatches 19% of total assets) as of Dec-15 is higher than the peers. ICRA Lanka takes note of the management's plans to mobilize longer tenure funding to reduce the cost of funds, diversify its funding profile and improve liquidity.

VFP's capital profile is characterised by high gearing of 10.0 times as in Dec-15; while ICRA Lanka takes note of the good internal generation<sup>3</sup> of about 20-21%, the company would require regular external capital support for its envisaged business expansion for maintaining an adequate risk adjusted capital structure.

### **Company Profile**

VFP was incorporated in 1974 as Rupee Finance Limited. In 2005, Vallibel Investment (Pvt) Ltd acquired the company and renamed it as Vallible Finance PLC. Vallibel Investment (Pvt) Ltd holds 72.9% shareholding as in Sep-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 includes extending finance leases, hire purchase, 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 Mn on a total asset base of LKR 16.8 Bn as compared to a net profit of LKR 304 Mn on a total asset base of LKR 12.5Mn in the previous financial year. For 9MFY2016, VFP reported a PAT of LKR 349 Mn on a total asset base LKR 20.1Bn.

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<sup>3</sup> Profit after tax net of dividend as a proportion of networth



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