



Lanka Rating Agency

Rating Report

Vallibel Finance PLC - LKR 3Bn Subordinated - Unsecured - Redeemable Debenture

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
20-Aug-2024	BBB	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Vallibel Finance PLC (VFIN or the Company) is a licensed finance company (LFC) primarily focusing on, vehicle loans, auto drafts, gold loans and leases in Sri Lanka. It is a mid-sized player in the LFC industry with assets comprising ~5.2% of the total industry. The rating of the entity reflects the Company's extensive outreach, superior asset quality (VFIN NPLs are well below the industry average) and improving profitability. Although VFIN's profitability has improved on YoY basis, it still remains below its profitability in FY22. The profitability is expected to remain stable given reduced interest rates and potential repricing of assets/liabilities leading to better interest margin. On the product mix side, auto drafts, vehicle loans and leases make up ~73% of the total lending portfolio. The Company intends to build its vehicle loan and gold loan portfolio further as a strategic move. The gross NPL remains lower than the industry, but the NPL of the leasing portfolio remains relatively high due to stagnation of the product. Majority of the loan portfolio is short-term in nature and would be repriced accordingly. The gearing ratio remains high (3MFY25: ~6.0; FY24: ~5.9x). The Company's Tier I Capital Adequacy Ratio stands at ~16.46% and total Capital Adequacy Ratio is ~19.18% as at 3MFY25. VFIN has obtained approval from the Central Bank of Sri Lanka (CBSL) to issue a subordinate, unsecured, Tier-II Debenture to further strengthen its capital. Subsequent to the Debenture issue, the Company's Tier 1 and total CAR will be ~14.15% and ~20.24%, respectively. This will provide cushion to VFIN for its growth plans and to increase its total asset base beyond LKR~100bn in 2024. The Company will invest the funds raised by this Debenture Issue in Government Securities in the interim period until such funds are disbursed for lending purposes gradually within 12 months from the date of issuance. The rating of the Debenture is one notch below the entity rating due to its subordinate nature and Tier II characteristics.

The rating is dependent on sustaining the asset quality and improving the profitability of the Company. Strengthening and expanding the capital base of the Company and adhering to capital adequacy requirements as stipulated by CBSL will be crucial.

Disclosure

Name of Rated Entity	Vallibel Finance PLC - LKR 3Bn Subordinated - Unsecured - Redeemable Debenture
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-22)
Related Research	Sector Study Leasing & Finance Companies(Aug-23)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099



Profile Vallibel Finance PLC (the "Company" or "VFIN") is a public limited liability company incorporated in Sri Lanka, regulated under the Finance Business Act No. 42 of 2011. It has been listed on the Colombo Stock Exchange since 2010. Prior to the acquisition by Vallibel Investment (Pvt) Limited (the parent company) in 2005, it was known as Rupee Finance Company Limited. VFIN has a wholly owned subsidiary, Vallibel Properties Limited, formed to manage the construction and maintenance of the new corporate office building. VFIN is engaged in providing financial solutions and offering products and services, such as leasing, vehicle loans, auto drafts, gold loan and fixed deposits.

Ownership Vallibel Investments (Pvt.) Limited is the major shareholder with ~51.44% stake, followed by Mr. Dhammika Perera (~21.4%) and Mr. Anuradha Perera (~3.62%), who is the current Chairman. Altogether the Perera family owns ~78% in the Company as at end-FY24. Vallibel Investments (the parent company) with equal proportions is owned by Ms. K. A. D. B. Perera and Ms. K. A. D. K. Perera, daughters of Mr. Dammika. The succession has taken place as the next generation of Mr. Dammika is about to reign over the business affairs, hence considered stable. The primary objective of Vallibel Investments is to offer financial services and activities. Vallibel Group is also well renowned in the financial sector. Vallibel Group is well established and positioned in the market. The Group has supported VFIN during the crisis period in order to strengthen the Tier II capital by way of subordinated debt.

Governance Vallibel Finance PLC board consists of six members. Out of which three are Independent, Non-Executive directors. Mr. K. D. A. Perera is the Chairman. The Board has appointed Mr. J. Kumarasinghe as a Senior Independent Director since the Chairman is Non-Independent. During the year two Directors completed their tenor and resigned while one director joined the Board. The Board consists of personnel with extensive knowledge, expertise and experience in different business fields giving the Company a competitive edge within the industry. The Chairman holds directorships under several private sector companies that fall under the Vallibel group. VFIN operates with four board committees. Twelve meetings were held during FY23 and the attendance was satisfactory. The external audit was carried out by KMPG Chartered Accountants, and they have issued an unqualified audit opinion with regard to the Company's annual financial statements for FY23.

Management The Company has a well-defined organizational structure with 8 divisions. The final authority lies with the Managing Director. The Management team is well experienced and knowledgeable, steered by Mr. S. B. Rangamuwa, who is the Managing Director. VFIN effectively manages the Company operations through 3 management committees. The Company uses "eFinancials" as the core system. Additionally, it uses a MIS system to generate MIS reports and run its everyday operations. In addition, KTMS is used to monitor transactions for anti-money laundering purposes. VFIN has a formal and comprehensive risk management policy in place and adherence is ensured by the IRMC and Audit Committee.

Business Risk At present, there are ~34 LFCs in Sri Lanka, out of which, ~27 are listed. The net interest income has declined in FY23 by ~10% to LKR~115bn and during 9MFY24 it has improved by ~20% to LKR~102bn compared to 9MFY23. Similarly profit after tax saw a decline of ~47% to LKR~31.5bn in FY23 and it was LKR~34.8bn in 9MFY24. The total asset base of the LFC sector stood at LKR~1.6tn and LKR~1.7tn as at FY23 and FY24 respectively. The gross and net NPLs deteriorated to ~14.7% and ~9.4% by FY24 mainly due to change in NPL classification to ~90 days past due (DPD) from ~120 DPD. VFIN represents ~3% of equity in the LFC industry for 9MFY24. The Company's asset base contributes to ~5.2% of the industry assets in FY24 which is an improvement from ~4.7% in FY23. VFIN loan and advance in FY23 was ~5.3% and this increased to ~5.6% in FY24. The deposit base also increased to ~5.9% in FY24 compared to ~5.5% in FY23. The Net Interest Income (NII) of the Company indicates a growth of (~50.30%) to LKR~7,007mn in FY24. Further, in 3MFY25 the NII has improved by ~24.02% on YoY basis to LKR~1,876mn compared to 3MFY24. The average advance yield stands at ~18.9% for 3MFY25 (FY24: ~22.6%). Meanwhile, the average cost of deposits was ~12.1% for 3MFY25 (FY24: ~16.7%) while the average cost of borrowings also came down to ~10.5% for 3MFY25. This has resulted in better spread for FY24 (6%) and 3MFY25 (6.7%) as the Company repriced its advances and funding base. Resultantly, VFIN's profitability (PAT) depicts a YoY growth of 60% to LKR~2,142mn in FY24 (FY23: LKR~1,340mn). The Company's ROA recorded at ~2.4% in the FY24 and ~2.2% during 3MFY25. Moreover, the ROE increased to ~17.8% and ~15.7% in FY24 (FY23: ~12.3%) and 3MFY25, respectively. According to the four-year strategic plan, the NII is expected to grow by ~36% and ~34% for the next two financial years, while the PAT is projected to grow by ~60% and ~45%. The lending portfolio is expected to expand by ~20% and ~12%. The major focus will be on vehicle loans, auto drafts and gold loans (gold loans are expected to be kept below ~30% of the lending portfolio). The Company aims to maintain its gross NPLs at ~6% and ~6.5%, ensuring sound asset quality. VFIN has plans to open eight new branches each year and to introduce savings products to general public and digital services by FY25.

Financial Risk VFIN's NPL levels remained significantly below the industry average during the past three years. Gross and Net NPLs stood at ~5.88% and ~0.88%, respectively in FY24. The top 20 advances amounted to ~3.3% showing granular lending portfolio. The Company's has increased its investments in Government securities during 3MFY25 to LKR~11.5bn. VFIN has invested ~7.2% in T-bills (FY24: ~3.2%) while ~% are invested in T-bonds. Moreover ~5.4% of total assets were placed with Banks and other finance companies. In addition to the interest rate risk, the Company is exposed to gold price fluctuations as well. VFIN's majority funds are from customer deposits. In 3MFY25, it represented ~77% of total funding (FY24: ~76%) but the growth of deposit base has slowed down as the Company does not intend to carry high cost deposits or borrowings. The top 20 depositors in 9MFY24 accounted for ~23%, a relatively higher number. The Tier I capital was ~16.46% and the total Capital was ~19.18%, respectively, in 3MFY25. The total debt to equity ratio was 6.0x as at 3MFY25, showing high leverage. The Company expects to maintain a 1/3 dividend payout policy in line with the related companies.

Instrument Rating Considerations

About The Instrument Vallibel Finance PLC intends to raise a listed, rated, subordinated, unsecured, redeemable debenture of LKR~3bn. The initial issue would be of LKR~2bn with an option to issue up to a further LKR~1bn (Total LKR~3bn) in the event of an over subscription. The debenture has a tenor of 5 years. The issue has two types of debentures, namely Type 'A' and Type 'B'. The issue will have Type 'A' and Type 'B' Debentures. Coupon interest will be paid Bi-annually (Type A) and Annually (Type B).

Relative Seniority/Subordination Of Instrument The claims of the Debenture Holders shall, in the event of winding up of the Company, rank after all the claims of secured creditors and preferential claims under any Statutes governing the Company but pari passu to the claims of unsecured creditors of the Company. The claims shall rank in priority to and over any subordinated debt of the Company and the ordinary and preference shareholder/s of the Company.

Credit Enhancement It is an unsecured and subordinate debt instrument. The capital repayment will be done at the end of the tenor with any interest accruing up to that time.



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LKR mln

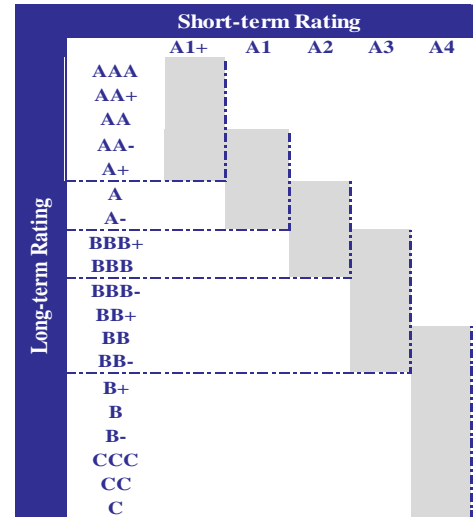
Vallibel Finance PLC Listed Public Limited	Jun-24 3M	Mar-24 12M	Mar-23 12M	Mar-22 12M
A BALANCE SHEET				
1 Total Finance-net	70,977	67,643	60,537	66,726
2 Investments	13,928	9,878	6,848	3,332
3 Other Earning Assets	1,103	8,323	9,861	5,938
4 Non-Earning Assets	7,612	6,690	4,215	2,756
5 Non-Performing Finances-net	891	634	863	(1,061)
Total Assets	94,512	93,168	82,324	77,690
6 Funding	77,721	76,665	69,185	64,989
7 Other Liabilities	3,778	3,529	2,052	2,046
Total Liabilities	81,499	80,194	71,237	67,035
Equity	13,013	12,974	11,087	10,655
B INCOME STATEMENT				
1 Mark Up Earned	4,145	18,372	15,676	9,930
2 Mark Up Expensed	(2,269)	(11,365)	(11,014)	(4,235)
3 Non Mark Up Income	499	1,658	1,029	2,136
Total Income	2,375	8,665	5,690	7,832
4 Non-Mark Up Expenses	(1,113)	(3,582)	(2,830)	(2,461)
5 Provisions/Write offs/Reversals	(106)	(438)	(98)	(592)
Pre-Tax Profit	1,156	4,645	2,763	4,778
6 Taxes on Financial Services	(295)	(1,189)	(697)	(784)
Profit Before Income Taxes	861	3,455	2,065	3,994
7 Income Taxes	(351)	(1,314)	(726)	(1,082)
Profit After Tax	510	2,142	1,340	2,912
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	46.9%	41.3%	49.7%	31.4%
b ROE	15.7%	17.8%	12.3%	30.9%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	97.2%	93.7%	93.2%	105.6%
b Accumulated Provisions / Non-Performing Advances	80.6%	85.0%	78.3%	156.6%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	18.0%	20.0%	23.7%	13.3%
b Borrowings from Banks and Other Financial Institutions / Funding	19.1%	20.8%	26.8%	35.5%
4 MARKET RISK				
a Investments / Equity	107.0%	76.1%	61.8%	31.3%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	13.8%	13.9%	13.5%	13.7%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	1.2%	17.2%	8.2%	31.2%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

- Note.** This scale is applicable to the following methodology(s):
- a) Broker Entity Rating
 - b) Corporate Rating
 - c) Debt Instrument Rating
 - d) Financial Institution Rating
 - e) Holding Company Rating
 - f) Independent Power Producer Rating
 - g) Microfinance Institution Rating
 - h) Non-Banking Finance Companies Rating

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 3MFY25 (LKR)
Listed, Rated, Subordinated, Unsecured, Redeemable Debenture	3,000,000,000.00	5 Years	Unsecured	N.A	N.A	HNB	N.A

Name of Issuer	Vallibel Finance PLC						
Issue Date	September 20, 2024 (Tentitive)						
Maturity	November 19, 2024 (Tentitive)						
Coupon Basis	Bi-annual/ Annual (Fixed)						
Repayment	Capital redemption at maturity						
Option							

Vallibel Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding	
	LKR				YYYY-MM-DD	LKR	
Type A	1,500,000,000				Fixed		
			20-Mar-25	12.95%	96,326,712		
			20-Sep-25	12.95%	97,923,288		
			20-Mar-26	12.95%	96,326,712		
			20-Sep-26	12.95%	97,923,288		
			20-Mar-27	12.95%	96,326,712		
			20-Sep-27	12.95%	97,923,288		
			20-Mar-28	12.95%	96,858,904		
			20-Sep-28	12.95%	97,923,288		
			20-Mar-29	12.95%	96,326,712		
			20-Sep-29	12.95%	97,923,288		
Type B	1,500,000,000			Fixed Rate	Fixed		
			20-Sep-25	13.37%	200,538,844		
			20-Sep-26	13.37%	200,538,844		
			20-Sep-27	13.37%	200,538,844		
			20-Sep-28	13.37%	201,088,265		
		-1,500,000,000	20-Sep-29	13.37%	200,538,844		

* Kindly note that the issue date is subject to approvals from regulatory bodies and the interest rate shall depend on the 5Yr Treasury Bond on date of signing the Trust Deed