



Lanka Rating Agency

Rating Report

Commercial Credit and Finance PLC - LKR 1.3bn Guaranteed Debenture

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
26-Feb-2024	A	Stable	Maintain	-
07-Feb-2023	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Commercial Credit and Finance PLC (CCFP or the Company) is a Licensed Leasing and Finance company in Sri Lanka that specializes in hire purchase, finance leases and gold loans. The Company's ratings reflect its medium-sized position in the leasing industry, sound profitability and asset-backed loan portfolio. The rising Non-Performing Loans (NPL) remain a concern but are below industry average. The total assets of the Company exceeded LKR 100Bn mark, resulting in a market share of around 7% of deposits. The net interest income of the Company reduced in FY23 to LKR 11.1Bn from LKR 11.9Bn in FY22, however, net interest income of 9MFY24 increased to LKR 8.3Bn compared to the same quarter of the previous year of LKR 7.4Bn. The profitability of CCFP declined by 42.5% in FY23 compared to FY22 due to considerable increase in interest expenses outpacing the growth in interest income as the deposit base was repriced to higher rates. The profitability for 9MFY24 shows a growth of 34.4% to LKR 2Bn from LKR 1.5Bn in 9MFY23. Although CCFP has maintained gross NPL ratio below industry levels, NPLs increased from around 4.67% based on loans 180 Days Past Due (DPD) in FY22 to 11.07% (on 120 DPD) in FY23 and 16.15% (on 90 DPD) in 9MFY24. The Company expects to maintain its profitability trends and intends to focus on microfinance loans and asset-backed loans. Given the current economic situation, growth prospects are considered modest for the sector. The Company has strong capitalization and CAR ratio, well above the regulatory requirement. The granular nature of its deposit base bodes well for the funding of the Company.

The debenture's rating is contingent on the continual written guarantee from Hatton National Bank. Any changes in HNB's rating or the removal of the guarantee will result in a negative effect on the debenture's rating.

Disclosure

Name of Rated Entity	Commercial Credit and Finance PLC - LKR 1.3bn Guaranteed 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)
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Profile Commercial Credit and Finance PLC (“CCFP” or “the Company”) was incorporated as a limited liability company in 1982 under the provisions of the Companies Ordinance No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. CCFP was listed on the Colombo Stock Exchange (CSE) in 2011. During the initial stages of operation, the Company was mainly focused on lending to the agricultural sector with this sector accounting for over 50% of the lending portfolio. The Company operated in 16 locations throughout the island including the traditional agricultural regions such as Anuradhapura and Dehiattakandiya. The principal business activities include acceptance of deposits, granting lease facilities, hire purchase, term loans, personal loans, microloans, pawning, other credit facilities, real estate development, and related services.

Ownership The largest shareholding of the Company is with BG Investments (Pvt) Limited, with an ownership of 50.25%. The ultimate ownership of BG investments lies with Mr. R. S. Egodage & Mrs. G. R. Egodage holding 50% each. Other major shareholder is Group Lease Holdings Pte Ltd with a shareholding of 29.99%. The ownership structure is likely to remain the same in the foreseeable future which provides stability to the Company. Mr. R. S. Egodage has been involved in the financial services sector for over fifteen years. Mr. R. S. Egodage, who is also the Chief Executive Officer (CEO) and an Executive Director, earned a BSc. Eng. degree from the University of Peradeniya. His business acumen and vision for the Company bodes well for providing strategic direction. CCFP draws stability from BG Investments Pvt. Ltd., holding the majority of shares.

Governance The Board has ten directors, out of which, five are Independent Non-Executive directors and three are Executive directors. The Chairman of the Company, Mr. G. B. Egodage, was appointed to the Board on 17th November 2022. The Board members have decades of experience in their respective fields. The Executive Director, who is also the Chief Operating Officer (COO) Mr. Rajiv Casie Chitty, has experience in Non-Banking Financial institutions (NBFI), investment banking, and in various private sectors. Other directors have experience in the fields of finance, entrepreneurship, education and IT. The Company has formed five board sub-committees, namely, i) Board Audit Committee, ii) Board Integrated Risk Management Committee, iii) Board Related Party Transactions Committee, iv) Board Remuneration Committee, and v) Board Nomination Committee. The external auditors of the Company, Ernst & Young, issued an unqualified audit opinion pertaining to the annual financial statements for FY23.

Management The highest level of authority of the organization remains with the Board of Directors. The Company has a well defined management hierarchy with clear roles and responsibilities. The management team is headed by the Chief Executive Officer (CEO) of the Company, Mr. R. S. Egodage. The CEO is supported by the Executive Director, Chief Operating Officer (COO), and Deputy CEO. A lot of emphasis is given on providing trainings to various management tiers to build strong succession in-house. CCFP has formed three management committees, namely, i) Assets and Liability Management Committee, ii) Executive Credit Committee, and iii) IT Security Committee. CCFP currently uses an inbuilt ERP system. The Company intends to replace and strengthen its ERP system as the operations scale. The functional updates to the ERP are applied based on approved change requests by business teams. The disaster recovery system is managed by the internal team and it is located at Dialog iDC Malabe. The Company has an independent risk management department, Board-approved risk appetite, and risk tolerance levels along with well-defined procedures to support risk management. CCFP needs to further strengthen this function and revisit guidelines to further improve asset quality.

Business Risk There are 36 Licensed Finance Companies (LFC) in Sri Lanka, out of which, 29 are listed on the CSE. The Profit After Tax (PAT) of LFC and Specialized Leasing Companies sector for 6MFY24 stood at LKR 16.4Bn. The interest income and interest expense stood at LKR 168.8Bn and LKR 105.4Bn in 6MFY24, respectively. The total asset base of the LFC sector stood at LKR 1.6Tn as at FY23 and 6MFY24 as well. Subsequent to FY18, the asset quality deteriorated to a gross Non-Performing Loan (NPL) ratio of 16.01%, in FY23 from 5.9% in FY18. However, as a result of the current macroeconomic challenges in the country, the gross and net NPL ratio deteriorated to 19.99% and 14.06%, respectively, during 6MFY24. CCFP is considered a mid-size LFC. CCFP accounts for 6.2% (FY23: 6.2%) of the assets, 7% (FY23: 6.6%) of the deposits as at 6MFY24 and net loans and advances account for 2% in FY23 in LFC and Specialized Leasing Companies sector. The Company is focusing more on asset-backed and micro loans for growth. The gross income of the Company stood at LKR 28.9Bn in FY23, a 32.7% increase compared to FY22, and stood at LKR 22.1Bn in 9MFY24 (9MFY23: LKR 19.8Bn), showing 11.6% growth. CCFP earned net interest income of LKR 11.1Bn in FY23, which is 7% lower compared to FY22. This decline was due to considerable increase in interest expenses outpacing the growth in interest income as the deposit base was repriced to higher rates. The net interest income in 9MFY24 stood at LKR 8.3Bn which increased from LKR 7.4Bn in 9MFY23. The core spread was maintained at 10.2% in 9MFY24. Although it is still adequate, the spread was lower compared to FY22 (FY23: 9.6%, FY22: 14.1%). It is expected to improve with re-pricing of deposit base in next 2 quarters. The PAT of the Company decreased by 42.5% in FY23 to LKR 2.6Bn, compared to LKR 4.5Bn in FY22. CCFP earned a PAT of LKR 2.0Bn in 9MFY24 (9MFY23: LKR1.5Bn), an increase of 33%. The ROE and ROA recorded at 12.7% and 2.6% in 9MFY24 which is an increase compared to of 10.4% and 1.9% respectively in 9MFY23. CCFP has formed a 3-year strategic plan starting from FY23. Major emphasis remains on employee development and leadership within the Company. CCFP intends to maintain its profitability trends and improve its asset-backed portfolio, going forward.

Financial Risk The Company's gross NPLs increased over the periods from FY21 to 9MFY24 and stood at 16.15% (on 90 DPD) in 9MFY24 (FY22: 4.67% on 180 DPD, FY23: 11.07% on 120 DPD). The deterioration in asset quality is mainly due to challenges faced amidst unfavorable economic situation in the country. However, CCFP's NPL ratios are still below the industry averages. The Company increased its investment in government securities to LKR 8.4Bn in FY23 (9MFY24: LKR 7.9Bn) from LKR 5.1Bn in FY22 to capitalize on rising interest rates. Further, the Company has successfully managed the interest rate risk via short-term investments and savings accounts with banks. CCFP is more dependent on deposits as it constitutes 77% (9MFY24: 78%) of funding in FY23 compared to 70% in FY22. The Company's deposit base increased by 23.22% to LKR 59.2Bn in FY23 (9MFY24: LKR 60.4Bn) compared to LKR 48.1Bn in FY22. The concentration of the top 20 depositors remains low at 7%, indicating granular deposit base. The Capital Adequacy Ratio (“CAR”) of the Company stood at 18.66% as at FY23 (FY22: 19.22%) against regulatory requirement of 14.0%. It stood at 17.42% as at 9MFY24. The Company has strong capitalization and room for growth.

Instrument Rating Considerations

About The Instrument CCFP issued a Senior, Listed, Redeemable, Rated, Guaranteed Debentures worth LKR 1,287mn on 24th February 2021. The tenure of debentures spans a maximum period of 5 years with bullet repayment. The objective of the issue was to provide a stable funding source for 5 years to further expand the lending portfolio of the entity.

Relative Seniority/Subordination Of Instrument The claims of the Debenture holders shall, in the event of winding up of the Company, rank above the subordinated debt, ordinary voting and non-voting shareholders and preference shareholders of the Company.

Credit Enhancement The Debentures are guaranteed by Hattori National Bank PLC (HNB) for LKR 2,360Mn, being the principal sum and two interest payments at 9.00% per annum payable annually, for two interest periods on the said Debentures. There has been a letter of guarantee issued by HNB to NSB Fund Management Co. Ltd. which is the trustee to the issue. Debenture holders will be entitled to claim the guarantee of HNB through the Trustee in the event the Company fails or neglects to redeem the said Debentures or pay the interest in terms of Clause 4.1 a) i, ii, iv, v and vi of the said Trust Deed or in the event there is an Event of Default as specified in Clause 10 of the said Trust Deed. HNB accounts for 9.36% of the total assets out of the total assets of the banking sector, with a rating of A (Ika). As of 9MFY23, the Bank reported a total equity base of LKR 181.8Bn, with a total asset base of LKR 1,858Bn.



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	#REF!				
COMMERCIAL CREDIT AND FINANCE PLC	Dec-23	Sep-23	Mar-23	Mar-22	Mar-21
#	9M	6M	12M	12M	12M
A BALANCE SHEET					
1 Total Finance-net	73,716	69,317	75,286	76,988	70,932
2 Investments	9,696	10,775	10,017	6,885	7,570
3 Other Earning Assets	3,948	3,659	3,527	2,166	5,965
4 Non-Earning Assets	12,676	12,068	12,439	10,586	9,028
5 Non-Performing Finances-net	5,331	6,683	885	(2,995)	(2,365)
Total Assets	105,367	102,502	102,154	93,630	91,130
6 Funding	77,349	76,557	76,799	68,603	71,879
7 Other Liabilities	5,957	4,855	4,996	5,834	3,855
Total Liabilities	83,306	81,412	81,795	74,437	75,734
Equity	22,061	21,091	20,359	19,193	15,396
B INCOME STATEMENT					
1 Mark Up Earned	19,619	12,551	25,055	18,365	16,087
2 Mark Up Expensed	(11,273)	(7,916)	(13,948)	(6,416)	(7,052)
3 Non Mark Up Income	1,834	1,201	3,136	2,466	1,437
Total Income	10,180	5,836	14,242	14,415	10,472
4 Non-Mark Up Expenses	(5,240)	(3,312)	(6,549)	(5,858)	(5,463)
5 Provisions/Write offs/Reversals	(537)	(172)	(2,612)	(764)	(1,004)
Pre-Tax Profit	4,404	2,353	5,081	7,792	4,005
6 Taxes on Financial Services	-	-	-	-	-
Profit Before Income Taxes	4,404	2,353	5,081	7,792	4,005
7 Income Taxes	(2,384)	(1,303)	(2,481)	(3,272)	(1,670)
Profit After Tax	2,020	1,050	2,600	4,520	2,335
C RATIO ANALYSIS					
1 PERFORMANCE					
a Non-Mark Up Expenses / Total Income	51.5%	56.8%	46.0%	40.6%	52.2%
b ROE	12.7%	10.1%	13.1%	26.1%	16.3%
2 CREDIT RISK					
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	113.7%	110.5%	110.2%	117.7%	104.3%
b Accumulated Provisions / Non-Performing Advances	62.5%	56.3%	90.5%	179.5%	158.5%
3 FUNDING & LIQUIDITY					
a Liquid Assets / Funding	18.4%	19.2%	18.8%	14.4%	16.8%
b Borrowings from Banks and Other Financial Institutions / Funding	20.1%	18.4%	21.2%	28.0%	31.4%
4 MARKET RISK					
a Investments / Equity	43.9%	51.1%	49.2%	35.9%	49.2%
b (Equity Investments + Related Party) / Equity	1.8%	1.7%	1.8%	1.7%	2.5%
5 CAPITALIZATION					
a Equity / Total Assets (D+E+F)	20.9%	20.6%	19.9%	20.5%	16.9%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	11.1%	10.3%	10.2%	24.2%	17.5%

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 6MFY24 (LKR)
Listed, Rated, Subordinated, Unsecured, Redeemable Debenture (Guaranteed by Hatton National Bank PLC)	1,287,590,000	5 years	No Securities	NA	NA	NSB Fund Management Company Ltd	1,287,590,000

Name of Issuer	Commercial Credit & Finance PLC
Issue Date	March 5, 2021
Maturity	March 4, 2026
Coupon Basis	5 Year, Fixed rate of 9% Interest Payable annually
Repayment	Bullet repayment at maturity
Option	NA

Commercial Credit and Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR					LKR		
Type A					Fixed			
05-Mar-21	1,287,590,000	-		9.00%	9.00%			1,287,590,000
04-Mar-22		-	04-Mar-22	9.00%	9.00%			1,287,590,000
04-Mar-23		-	04-Mar-23	9.00%	9.00%			1,287,590,000
04-Mar-24		-	04-Mar-24	9.00%	9.00%			1,287,590,000
04-Mar-24		-	04-Mar-24	9.00%	9.00%			1,287,590,000
04-Mar-25		-	04-Mar-25	9.00%	9.00%			1,287,590,000
04-Mar-26		1,287,590,000	04-Mar-26	9.00%	9.00%			-