



Fitch Affirms Singer Finance at 'BBB(lka)'

Fitch Ratings-Colombo-22 February 2019: Fitch Ratings has affirmed Singer Finance (Lanka) PLC's (SFL) National Long-Term Rating at 'BBB(lka)'. The Outlook is Stable. The agency has also affirmed SFL's senior debentures at 'BBB(lka)'.

Key Rating Drivers

NATIONAL RATING

The rating of SFL reflects its small franchise and and heightened risk appetite at a time when operating conditions are likely to stay challenging, which may exert pressure on some of its financial metrics.

Fitch expects SFL's asset quality to remain under pressure from challenging operating conditions and exposure to customers who are more susceptible to economic downturns. SFL's reported regulatory six-month NPL ratio had increased to 2.8% by end-September 2018 from 2.5% at FYE18 (end-March 2018). Fitch expects SFL's loans to remain dominated by vehicle financing, which accounted for 79% of total loans at end-September 2018.

SFL's capitalisation has been supported through rights issues, with the most recent being the LKR551 million in FY18. SFL's capitalisation is higher than that of similar rated peers, but may decline and converge with the Sri Lankan peer average should strong loan expansion continue. SFL continued to record a strong increase in loans - of 20% in 9MFY19 (25% in FY18) - reflecting management's greater focus on growth.

The rating is supported by Fitch's view that the rating of SFL's parent, retail company Singer (Sri Lanka) PLC (Singer; A-(lka)/Stable) provides a floor for SFL's rating that is two notches lower, at 'BBB'. This reflects Singer's majority ownership in SFL and the shared Singer brand.

DEBT RATINGS

The rating on the senior debentures is in line with SFL's National Long-Term Ratings, as they constitute unsubordinated obligations of the company. Fitch has not provided any rating uplift for the collateralisation of SFL's secured notes as their recovery prospects are considered to be average and comparable with those of unsecured notes in a developing legal system.

Rating Sensitivities

NATIONAL RATING

An upgrade of SFL's ratings from an improvement in its standalone strength is unlikely, in our view, as we expect its franchise to remain materially weaker than that of its more established, higher-rated peers. The more likely driver of an upgrade of SFL's rating would be an increase in its strategic importance to its parent Singer.

A sustained deterioration in SFL's standalone credit profile relative to similarly rated peers would not result in a downgrade of SFL's rating, unless our assessment of parental support were also to change.

DEBT RATINGS

The ratings on the senior debt of SFL will move in tandem with the National Long-Term Rating.

Singer Finance (Lanka) PLC; National Long Term Rating; Affirmed; BBB(lka); RO:Sta
----senior secured; National Long Term Rating; Affirmed; BBB(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
National Scale Ratings Criteria (pub. 18 Jul 2018)
Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

Additional Disclosures

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