



Date

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Applicable Criteria

- Methodology | Non-Banking Finance Companies Rating | Jun-22

Related Research

- Sector Study | Leasing & Finance Companies | Aug-23

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LRA Maintains Entity Ratings to Commercial Credit and Finance PLC, outlook "Positive"

Rating Type	Entity	
	Current (26-Feb-24)	Previous (07-Feb-23)
Action	Maintain	Initial
Long Term	BBB	BBB
Outlook	Positive	Stable
Rating Watch	-	-

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 rating depends on the management's ability to improve asset quality and stem rising NPL trend. Any further increase in NPLs that dampen profitability will have a negative impact on the rating. Meanwhile, growth in loan portfolio with improving profitability and a strong capital structure will impact the rating positively.

About the Entity

Commercial Credit and Finance PLC was established as a limited liability company in 1982 under the provisions of the Companies Ordinance No. 17 of 1982 and later re-registered under the Companies Act No. 07 of 2007. In 2011, CCFP was listed on the Colombo Stock Exchange (CSE). The Company's main business activities include accepting deposits, providing lease facilities, hire purchase, term loans, personal loans, microloans, pawning, other credit facilities, real estate development, and related services. The main shareholder is B. G. Investments (Pvt) Ltd (50.25%) and is governed by a Board of Directors comprising ten members. The CEO, Mr. R. S. Egodage, is supported by a capable management team.

The primary function of LRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. LRA comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. LRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.