

# Siyapatha Finance PLC

## Key Rating Drivers

**Parental Support:** Siyapatha Finance PLC's National Long-Term Rating reflects Fitch Ratings' expectation that parent Sampath Bank PLC (A+(lka)/Stable) would provide extraordinary support for its wholly owned subsidiary, if needed. Siyapatha's ratings are driven by institutional support from Sampath, the fifth-largest domestic commercial bank in Sri Lanka.

**Limited Importance to the Group:** Siyapatha is rated two notches below its parent's National Long-Term Rating to reflect the subsidiary's limited synergies with the Sampath group. Our assessment captures Siyapatha's core line of business – leasing, which accounted for only 8.0% of the group's loans at end-September 2019 (3Q19), with around half of this originating from Siyapatha. The rating also captures Siyapatha's limited operational and management integration with its parent.

**Weak Capital Buffers:** Siyapatha's continues to operate with thin regulatory capital buffers (Tier 1 ratio at 8.6% at end-3Q19) compared with its peers. Siyapatha would require additional equity capital to meet enhanced Tier I capital ratios of 8.5% by 1 July 2021 because of its rapid loan growth, as the company's internal capital generation seems unlikely to be adequate. We expect Sampath to provide capital, when required.

**Rapid Loan Expansion:** Siyapatha's high risk appetite is reflected in its aggressive loan expansion, which we believe is likely to continue in the medium term. The company recorded loan growth of 9.4% in 9M19 (CAGR of 35.8% in 2015–2018) against the sector's -0.6% growth (CAGR of 12.9% in 2015–2018).

**Weakened Asset Quality:** Pressure on asset quality is likely to remain with the seasoning of its rapidly expanded loan book over the last few years amid a challenging operating environment. That said, management's decision to scale down its exposure to factoring and personal loans may support a slowdown in the pace of new non-performing loans (NPLs). Its regulatory non-performing loan ratio (NPLs with arrears over six months) spiked to 10.0% by end-3Q19 (2018: 7.8%), which is higher than that of the sector's 9.7%.

**Pressure on Profitability:** Rising credit costs are likely to weigh on Siyapatha's profitability in the medium term. Its return on assets (pretax) ratio declined to 2.4% by end-3Q19, from 5.2% at end-2015. Around 50% of Siyapatha's pre-impairment profit has been consumed by increased credit costs in 2018 and 9M19.

**Wholesale Funding Dominates:** Siyapatha's funding mix mainly comprises of secured wholesale funding, which may restrict its financial flexibility in a distressed market. The share of deposits in the funding mix has been increasing and stood at 40.6% at end-3Q29, but remained lower than that of large peers.

**Small Market Share:** Siyapatha accounted for only 2.8% of the sector assets at end-3Q19, and operates with 35 branches. Siyapatha's franchise has benefited from being a part of the Sampath Bank Group. Its business model is likely to remain focused on vehicle financing, accounting for around 79% of total loans as of end-3Q19.

## Rating Sensitivities

**Change in Parent's Rating:** Siyapatha's rating could change if Sampath's rating changes, as this would reflect the parent's ability to support the subsidiary.

**Change in Parent's Support Propensity:** An upgrade of Siyapatha's rating could come from a meaningful increase in the significance of its role in the group, with enhanced integration. Conversely, Fitch may downgrade Siyapatha's rating if linkage between the parent and the subsidiary weakens. A material dilution of the parent's ownership could also indicate a reduction of importance and could be rating negative.

## Ratings

<b>National</b>	
National Long-Term Rating	A-(lka)
Senior Unsecured Debt	A-(lka)
Subordinated Debt	BBB+(lka)

<b>Sovereign Risk</b>	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B

<b>Outlooks</b>	
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

## Applicable Criteria

- [Non-Bank Financial Institutions Rating Criteria \(October 2018\)](#)
- [National Scale Ratings Criteria \(July 2018\)](#)
- [Bank Rating Criteria \(October 2018\)](#)

## Related Research

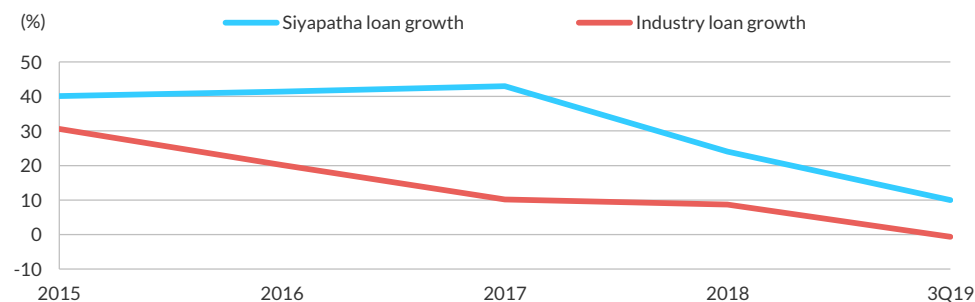
- [Fitch Ratings: Rising NPLs to Weigh on Sri Lankan FLCs' Credit Profiles \(November 2019\)](#)
- [Fitch Ratings 2020 Outlook: APAC Emerging Market Finance and Leasing Companies \(November 2019\)](#)

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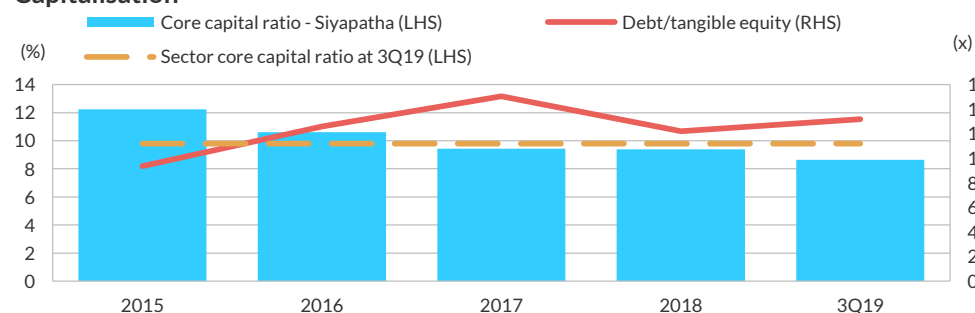
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### Loan Growth



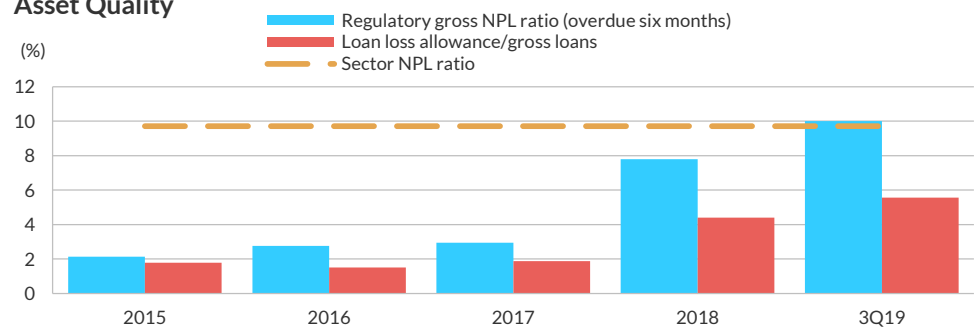
Source: Fitch Ratings, Fitch Solutions, Siyapatha

### Capitalisation



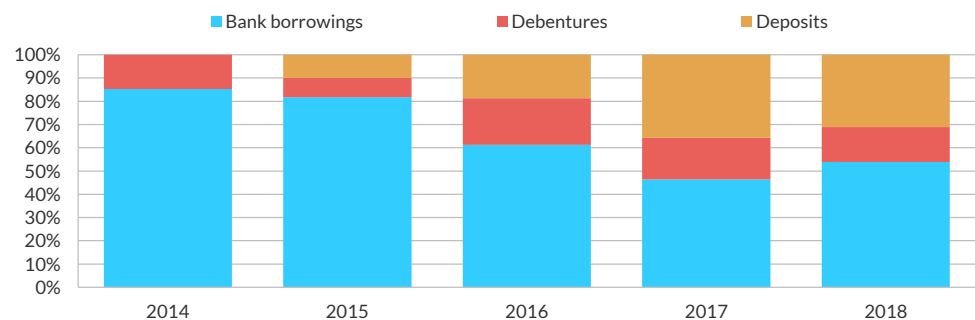
Source: Fitch Ratings, Fitch Solutions, Siyapatha

### Asset Quality



Source: Fitch Ratings, Fitch Solutions, Siyapatha

### Funding Structure



Source: Fitch Ratings, Fitch Solutions, Siyapatha

Siyapatha's loan growth has slowed similarly to the trend in the sector due to the weak operating environment.

Notwithstanding that, its loan growth remained higher than the sector's growth.

Siyapatha's leverage is likely to remain on an upward trend with its appetite for rapid loan growth.

Siyapatha's core capital ratio was on a declining trend and stood at 8.6% at end-3Q19, which is below that of the sector's 11.2%.

Siyapatha's capital impairment risk is likely to remain high due to a sharper increase in NPLs than its loan loss allowance.

Siyapatha has improved its deposit franchise gradually, supported by its linkages with Sampath Bank Group.

## Summary Financials and Key Ratios

	9 months - 3rd quarter (USDm)	30 Sep 19 9 months - 3rd quarter (LKRm) Unaudited	31 Dec 18 Year end (LKRm) Audited - unqualified	31 Dec 17 Year end (LKRm) Audited - unqualified	31 Dec 16 Year end (LKRm) Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	12.0	2,169.3	2,715.8	1,835.2	1,218.2
Net fees and commissions	1.2	223.5	278.6	243.2	137.3
Other operating income	1.4	260.9	57.2	221.0	175.2
Total operating income	14.7	2,653.7	3,051.6	2,299.4	1,530.7
Operating costs	6.0	1,084.6	1,361.9	1,048.3	807.7
Pre-impairment operating profit	8.7	1,569.1	1,689.7	1,251.1	723.0
Loan and other impairment charges	4.9	881.4	794.0	236.7	79.2
Operating profit	3.8	687.7	895.7	1,014.4	643.8
Other non-operating items (net)	n.a.	n.a.	229.3	1.7	-0.1
Tax	2.4	425.7	608.5	517.2	316.4
Net Income	1.4	262.0	516.5	498.9	327.3
Other comprehensive income	n.a.	n.a.	52.6	55.6	-2.3
Fitch comprehensive income	1.4	262.0	569.1	554.5	325.0
<b>Summary balance sheet</b>					
Gross loans	208.7	37,769.4	34,532.9	27,836.4	19,475.6
- Of which impaired	n.a.	n.a.	4,884.5	0.0	0.0
Loan loss allowances	10.6	1,914.7	1,519.9	523.1	294.2
Net loans	198.1	35,854.7	33,013.0	27,313.3	19,181.4
Interbank	n.a.	n.a.	n.a.	65.7	0.0
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	12.8	2,311.0	1,987.9	1,368.6	890.6
Total earning assets	210.9	38,165.7	35,000.9	28,747.6	20,072.0
Cash and due from banks	0.8	144.9	191.5	297.9	169.3
Other assets	8.8	1,586.6	973.9	765.1	549.4
Total assets	220.5	39,897.2	36,166.3	29,810.6	20,790.7
<b>Liabilities</b>					
Customer deposits	76.6	13,867.1	9,672.0	9,333.6	3,362.7
Interbank and other short-term funding	2.3	417.5	321.8	2,037.9	5,370.8
Other long-term funding	110.0	19,902.0	21,391.4	14,728.9	9,276.9
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	188.9	34,186.6	31,385.2	26,100.4	18,010.4
Other liabilities	10.6	1,912.7	1,240.1	1,231.9	849.9
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	21.0	3,797.9	3,541.0	2,478.3	1,930.4
Total liabilities and equity	220.5	39,897.2	36,166.3	29,810.6	20,790.7
Exchange rate	USD 1 = LKR180.963				

Summary Financials and Key Ratios (Cont.)

	30 Sep 19 9 months - 3rd quarter (%)	31 Dec 18 Year end (%)	31 Dec 17 Year end (%)	31 Dec 16 Year end (%)
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Pre-tax net income/average assets	2.4	2.6	3.9	3.6
Operating profit/RWA	n.a.	n.a.	4.0	3.5
NII/average earning assets	7.8	8.3	7.4	7.2
Non-interest expense/gross revenue	40.9	44.6	45.6	52.8
Net Income/average equity	9.6	17.2	23.1	18.6
<b>Asset quality</b>				
Impaired loans ratio	n.a.	14.1	0.0	0.0
Growth in gross loans	9.4	24.1	42.9	41.4
Loan loss allowances/impaired loans	n.a.	31.1	n.a.	n.a.
Loan impairment charges/average gross loans	3.3	2.5	1.0	0.5
<b>Capitalisation</b>				
Fitch Core Capital ratio	n.a.	n.a.	6.9	8.1
Tangible common equity/tangible assets	9.4	9.6	6.1	7.3
Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/FCC	n.a.	97.3	-29.5	-20.0
<b>Funding and Liquidity</b>				
Loans/customer deposits	272.4	357.0	298.2	579.2
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	40.6	30.8	35.8	18.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

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