

Siyapatha Finance PLC

Key Rating Drivers

Support Drives Rating: Siyapatha Finance PLC's National Long-Term Rating reflects Fitch Ratings' expectation that the parent, Sampath Bank PLC (AA-(Ika)/Stable), would provide extraordinary support to its subsidiary, if needed. This view is based on Sampath's 100% shareholding, a record of ordinary support and Siyapatha's brand, which reflects that of the parent. The rating also captures Siyapatha's limited operational and management integration with its parent.

Limited Importance to the Group: Siyapatha is rated two notches below its parent because of its limited role in the group's core business. Siyapatha's limited role is based on the subsidiary's core business line – vehicle financing via leasing – which represented only an 8.7% share of total group loans at end-September 2020, and Siyapatha originated only half of this amount. Furthermore, its profit contribution to the group was a low 6.0% of the group's pretax profit.

Weaker Standalone Profile: Siyapatha's intrinsic credit profile is constrained by a modest franchise and high-risk appetite, which puts pressure on capital buffers and asset quality. The company accounted for only 3% of sector assets at end-3Q20. It has demonstrated an appetite for aggressive loan expansion (CAGR of 25% over 2016-2019). The Tier 1 ratio of 8.0% at end-3Q20 was lower than 13.6% for the sector, while the six-month non-performing loan ratio spiked to 15.7% in 3Q20, from 10.1% in 2019, and was higher than the sector's 12.8%.

Higher than Peer Leverage: Siyapatha's debt/tangible equity ratio of 8.3x at end-3Q20 (2019: 8.8x) was at the highest end of that of Fitch-rated peers. We expect Sampath to infuse capital into Siyapatha to enable it to maintain regulatory minimum requirements.

Significant Secured Funding: Siyapatha's financial flexibility remains low compared with that of standalone-driven Fitch-rated peers, given its low share of unsecured debt in the funding mix as it depends mainly on secured borrowings for funding. Nevertheless, Siyapatha's deposit base has expanded over the years (3Q20: 47.6% of total funding) but remains highly concentrated among the top 20 deposit holders.

Weakening Profitability: Siyapatha's rising credit costs are likely to exert pressure on profitability in the medium term. Return on assets (pretax) has been declining, with the 1.8% at end-3Q20 below the company's average of 3.5% in 2016-2019. Siyapatha's credit cost has absorbed 63.5% of its pre-impairment profits at end-3Q20 compared with 47% at end-2019.

Small Market Share: Siyapatha's franchise has benefited from being part of the Sampath Bank Group. Its business model is likely to remain focused on vehicle financing, mainly four wheelers, accounting for around 80% of total loans as of end-3Q20, although the company has increased exposure to gold-based lending and micro leasing products.

Rating Sensitivities

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

Change in Parent's Support Propensity: Siyapatha's rating is sensitive to a change in Fitch's assumptions around Sampath's propensity to provide support. An upgrade could come from a meaningful increase in the significance of Siyapatha's role in the group, with enhanced integration. 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 the subsidiary's lower importance and could be rating negative.

Deterioration in Siyapatha's standalone credit profile is unlikely to affect its National Rating due to the support-driven nature of the rating, unless large losses change the propensity of the parent to provide support.

Ratings

National
National Long-Term Rating A(Ika)

Sovereign Risk
Long-Term Long-Term Foreign-Currency IDR CCC
Long-Term Local-Currency IDR CCC
Country Ceiling B-

Outlooks
National Long-Term Rating Stable
Sovereign Long-Term Foreign-Currency IDR
Sovereign Long-Term Local-Currency IDR

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (February 2020)

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Revises 9 Sri Lankan Financial Institutions' Ratings on Recalibration; 2 Downgrades (January 2021)

Fitch Ratings 2021 Outlook: APAC Emerging-Market Finance and Leasing Companies (November 2020)

Analysts

Sugath Alwis
+94 11 2541 900
sugath.alwis@fitchratings.com

Rukshana Thalgodapitiya
+94 11 2541 900
rukshana.thalgodapitiya@fitchratings.com

Income Statement

| | 9 Months - 3rd Quarter USDm Unaudited | 30 Sep 2020 9 Months - 3rd Quarter LKRm Unaudited | 31 Dec 2019 Year End LKRm Audited - Unqualified | 31 Dec 2018 Year End LKRm Audited - Unqualified | 31 Dec 2017 Year End LKRm Audited - Unqualified |
|--|--|---|--|--|--|
| Revenue | | | | | |
| Operating and finance lease income net of depreciation | 22 | 4,041.4 | 4,951.7 | 4,251.6 | 2,965.7 |
| Gross interest, leasing and dividend income | 28 | 5,180.6 | 7,229.6 | 6,395.9 | 4,599.5 |
| Total interest expense | 16 | 3,028.6 | 4,230.7 | 3,680.1 | 2,764.3 |
| Net interest income | 12 | 2,152.0 | 2,999.0 | 2,715.8 | 1,835.2 |
| Total non-interest operating income | 3 | 546.1 | 677.5 | 565.3 | 462.6 |
| Expenses | | | | | |
| Total non-interest expenses | 6 | 1,105.3 | 1,433.4 | 1,328.5 | 1,048.3 |
| Pre-impairment/provision operating profit | 9 | 1,592.8 | 2,243.0 | 1,952.6 | 1,249.5 |
| Impairment charges | 4 | 1,008.0 | 1,050.7 | 829.8 | 236.7 |
| Securities and other credit impairment charges | 1 | 3.7 | 0.3 | 0.0 | n.a. |
| Operating profit | 3 | 581.1 | 1,192.1 | 1,122.9 | 1,012.7 |
| Pretax income | 3 | 581.1 | 1,204.9 | 1,125.0 | 1,016.1 |
| Net income | 2 | 297.8 | 480.2 | 516.5 | 498.9 |
| Fitch comprehensive income | 2 | 297.8 | 479.9 | 569.1 | 554.5 |
| Memo: EBITDA | 20 | 3,674.2 | 5,516.9 | 4,871.6 | 3,836.4 |
| Exchange rate | | USD1 = LKR185.5224 | USD1 = LKR181.634 | USD1 = LKR182.2783 | USD1 = LKR152.8548 |

Source: Fitch Ratings, Fitch Solutions, Siyapatha

Balance Sheet

| | 9 Months - 3rd Quarter USDm | 30 Sep 2020 9 Months - 3rd Quarter LKRm | 31 Dec 2019 Year End LKRm | 31 Dec 2018 Year End LKRm | 31 Dec 2017 Year End LKRm |
|--|-----------------------------------|--|---------------------------------|---------------------------------|---------------------------------|
| Assets | | | | | |
| Loans and leases | | | | | |
| Gross loans and leases | 216 | 39,890.3 | 37,878.3 | 34,680.7 | 27,944.2 |
| Loan loss allowances for receivables and loans | 14 | 2,504.9 | 1,651.5 | 1,519.9 | 536.3 |
| Net loans and leases | 202 | 37,385.4 | 36,226.8 | 33,160.7 | 27,407.9 |
| Other earning assets | n.a. | n.a. | 343.2 | 215.0 | 163.2 |
| Total earning assets | 211 | 39,176.8 | 39,074.9 | 35,148.5 | 28,776.5 |
| Total assets | 226 | 41,947.4 | 40,947.3 | 36,166.3 | 29,810.6 |
| Liabilities and equity | | | | | |
| Debt and deposits | | | | | |
| Total customer deposits | 91 | 16,912.5 | 13,221.0 | 9,672.0 | 9,333.6 |
| Total deposits | 91 | 16,912.5 | 13,221.0 | 9,672.0 | 9,333.6 |
| Total short-term debt funding | 2 | 409.4 | 10,198.8 | 9,523.9 | 6,187.3 |
| Total long-term funding | 98 | 18,204.9 | 11,505.1 | 12,189.3 | 10,579.5 |
| Total debt and deposits | 191 | 35,526.8 | 34,924.8 | 31,385.2 | 26,100.4 |
| Total interest-bearing liabilities | 191 | 35,526.8 | 34,924.8 | 31,385.2 | 26,100.4 |
| Total liabilities | 203 | 37,633.8 | 36,931.5 | 32,625.3 | 27,332.3 |
| Total equity | 23 | 4,313.6 | 4,015.8 | 3,541.0 | 2,478.3 |
| Total equity less non-controlling interest/minority interest | 23 | 4,313.6 | 4,015.8 | 3,541.0 | 2,478.3 |
| Total liabilities and equity | 226 | 41,947.4 | 40,947.3 | 36,166.3 | 29,810.6 |
| Exchange rate | | USD1 = LKR185.5224 | USD1 = LKR181.634 | USD1 = LKR182.2783 | USD1 = LKR152.8548 |

Source: Fitch Ratings, Fitch Solutions, Siyapatha

Summary Analytics

| | 30 Sep 2020 9 Months - 3rd Quarter | 31 Dec 2019 Year End | 31 Dec 2018 Year End | 31 Dec 2017 Year End |
|--|---------------------------------------|-------------------------|-------------------------|-------------------------|
| Asset quality ratios (%) | | | | |
| Impaired loans and leases/gross loans and leases | n.a. | 15.2 | 14.1 | n.a. |
| Growth of gross loans and leases (yoy) | 5.4 | 9.8 | 24.1 | 42.9 |
| Loan loss allowances for impaired loans and leases/impaired loans and leases | n.a. | 28.9 | 31.1 | n.a. |
| Impairment to capital ratio | n.a. | 110.6 | 113.5 | -24.4 |
| Earnings and profitability ratios (%) | | | | |
| Pretax income/average assets | 1.8 | 3.1 | 3.3 | 4.0 |
| Non-interest expense/gross revenue | 19.3 | 18.1 | 19.1 | 20.7 |
| Pretax income/average equity | 18.6 | 32.3 | 37.5 | 46.1 |
| Impairment charges/pre-impairment operating profit | 63.5 | 46.9 | 42.5 | 18.9 |
| Capitalisation and leverage ratios | | | | |
| Debt+deposits/tangible equity | 8.3 | 8.8 | 9.1 | 10.6 |
| Tier 1 Capital Ratio | 8.0 | 9.0 | 9.4 | 9.4 |
| Fitch Core Capital/tangible assets | 10.2 | 9.7 | 9.6 | 8.3 |
| Debt+off balance sheet funding/Fitch Core Capital | 8.3 | 8.8 | 9.1 | 10.6 |
| Funding, liquidity and coverage ratios | | | | |
| Customer deposits/funding | 47.6 | 37.9 | 30.8 | 3.8 |
| Loans/customer deposits | 236.7 | 288.0 | 357.0 | 298.2 |

Source: Fitch Ratings, Fitch Solutions, Siyapatha

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.