



RATING ACTION COMMENTARY

Fitch Revises Outlook on Abans Finance to Negative; Affirms 'BB+(lka)'

Mon 20 Apr, 2020 - 3:08 AM ET

Fitch Ratings - Colombo - 20 Apr 2020: Fitch Ratings Lanka has revised the Outlook on Abans Finance PLC to Negative from Stable and affirmed its National Long-Term Rating at 'BB+(lka)'.

KEY RATING DRIVERS

The rating action follows the revision of the Outlook on the parent Abans PLC's 'BBB+(lka)' rating to Negative from Stable on 10 April 2020.

Abans Finance's rating reflects Fitch's view that support would be forthcoming from the parent, if needed. Our expectation stems from Abans being the largest shareholder in Abans Finance, the parent's involvement in strategic decisions through board representation and a common brand name.

Abans Finance is rated three notches below its parent because of its limited contribution to the group's core businesses. The company financed less than 1% of Abans' consumer durables revenue in the financial year ending March 2019 (FY19). It mainly provides vehicle financing, with 47% of its lending channelled through the sale of two-wheelers by Abans Auto (Pvt) Limited, a company owned by Abans' shareholders but positioned outside of the

Abans group. Abans Finance only contributed 4% of group operating profit in 9MFY20. Our assessment of Abans Finance's limited importance also incorporates Abans' decreasing shareholding in its subsidiary, which has fallen to 50%, from 89% in FY16, due to capital infusions, mostly via its private-equity investor.

Abans Finance's intrinsic financial strength is significantly weaker than its support-driven rating due to its small franchise, limited operating history and high-risk appetite. Its reported regulatory gross non-performing loan ratio over six months had further deteriorated to 23.1% at end-September 2019 (FY19: 18.0%), significantly above the industry average of 9.7%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

Fitch believes an upgrade would be most likely to result from an upgrade of Abans' rating or a significant increase in Abans Finance's strategic importance to its parent. However, we do not expect such a change in the near term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

Any reduction in perceived support from Abans through, for instance, further dilution in the parent's shareholding to meet higher regulatory capital requirements or an increase in the scale of the business relative to the parent through organic or inorganic growth could be negative for its rating. The removal of parental support could result in a downgrade of the rating to Abans Finance's Standalone Credit Profile, which is multiple notches below its current rating.

A downgrade of Abans' National Long-Term Rating could also trigger a rating downgrade on Abans Finance.

Issuer Disclosure on Regulatory Action

Abans Finance is in compliance with the minimum core capital set out in the Finance Business Act, following the decision by Central Bank of Sri Lanka (CBSL) to defer the requirement of LKR2 billion until end-2020. As such, CBSL approved on 10 April 2020 for

Abans Finance to freely canvas deposits up to LKR6 billion and upon reaching that limit may apply to CBSL to canvas additional deposits.

The 'Issuer Disclosure on Regulatory Action' heading was provided by the issuer and is included pursuant to applicable regulatory requirements. Fitch Ratings Lanka is not responsible for the contents of such information.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The rating of Abans Finance is driven by support from the parent, Abans.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
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ENTITY/DEBT	RATING	PRIOR
Abans Finance PLC	Natl LT	BB+(lka) Rating Outlook Negative Affirmed
		BB+ (lka) Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Ratings Criteria - Effective from 18 July 2018 to 8 June 2020 \(pub. 18 Jul 2018\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Abans Finance PLC

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Non-Bank Financial Institutions Asia-Pacific Sri Lanka
