

11 Jul 2019 | Downgrade

## Fitch Downgrades Bimpuh Finance to 'BB-(lka)'; Outlook Stable

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Fitch Ratings-Colombo-12 July 2019: Fitch Ratings Lanka has downgraded Bimpuh Finance PLC's National Long-Term Rating to 'BB-(lka)' from 'BB(lka)'. The Outlook is Stable.

The downgrade stems from a sharp deterioration in Bimpuh's capital position, which we believe is no longer commensurate with its high-risk appetite. This is due to the significant decline in asset quality and sustained fall in pre-impairment operating profitability.

### Key Rating Drivers

Bimpuh's rating reflects its high-risk appetite stemming from its substantial exposure to microfinancing and SME lending, which tends to be more vulnerable to economic conditions.

The rating also captures Bimpuh's weakened capital buffers, despite our expectation of capital infusions in line with regulatory requirements. Bimpuh's regulatory core capital has fallen below the interim minimum threshold of LKR1.5 billion, which applied from 1 January 2019. Bimpuh will need at least another LKR1.35 billion in additional equity capital to meet the Sri Lankan regulator's enhanced capital requirement of LKR2.5 billion by 1 January 2021, and its internal capital generation is unlikely to be sufficient to meet the threshold. In addition, its share of unprovisioned non-performing loans (NPL) has increased, further pressuring its capitalisation.

Bimpuh's reported six-month regulatory gross NPL ratio deteriorated sharply to 16.8% in the financial year ending March 2019 (FY19) (FY18: 6.4%) and is now significantly higher than the sector's 7.7%. Furthermore, the company has already charged-off 10.8% of its average gross loans in last two years (FY19: 5.1%; FY18: 5.7%). We expect asset-quality pressure to persist in FY20, especially from its legacy portfolio, as a meaningful economic recovery is not probable in the short term.

The contraction of Bimpuh's high-yield micro-finance portfolio and regulatory interest-rate cap on micro-finance lending continued to exert pressure on its net-interest margin. Loan impairment charges increased to 222.8% of pre-impairment operating profit in FY19 (FY18: 60.8%), further eroding Bimpuh's already-small capital base. We expect profitability pressure to persist in the medium-term due to high credit costs. The company's pre-tax return on assets declined to -3.5% in

FY19, from a high of 11.4% in FY16.

Bimpuh's heavy reliance on secured funding is likely to further limit its financial flexibility, especially in distressed-market conditions. The Central Bank of Sri Lanka has imposed regulatory sanctions on Bimpuh by way of a deposit cap of LKR 2.2 billion due to its non-compliance with interim minimum capital requirement. Its unsecured debt/total debt ratio was only 41.1% in FY19 due to a low share of deposits (24.7% of total funding) in the funding mix compared with peers.

Bimpuh is a small finance company accounting for 0.6% of licensed finance-company and specialised leasing-company sector assets at FYE19 (FYE18: 0.7%). Fitch expects microfinance to remain a dominant product for Bimpuh, although lending to this segment declined to 45% of total lending in FY19.

#### Rating Sensitivities

A further weakening in capitalisation, due to, for instance, the absence of further capital infusions, alongside a sustained deterioration in credit quality may trigger negative rating action. The inability to raise new capital to meet regulatory requirements would also be negative for the rating, as this could lead to operational and funding-access constraints.

An upgrade is contingent on a sustained improvement in credit metrics, in particular, capitalisation.

Bimpuh Finance PLC; National Long Term Rating; Downgrade; BB-(lka); RO:Sta

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### **Applicable Criteria**

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 12 Oct 2018\)](#)

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