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Research Update:

Credivalores 'CCC+' Ratings Affirmed And Off CreditWatch Negative On Easing Refinancing Pressures, Outlook Negative

October 31, 2022

Overview

- On Oct. 28, 2022, Colombia's non-bank financial institution (NBFI) Credivalores - Crediservicios SAS paid off its $50 million 8.5% notes under its euro commercial paper (ECP) program. Credivalores funded the payment through an exchange offering, a secured credit line from shareholders, and the company's cash resources.
- We're removing ratings from CreditWatch with negative implications, and affirming ratings at 'CCC+'. The outlook is negative. This is because, despite the company's ability to honor all of its 2022 debt commitments, it will continue facing challenges in 2023.
- The negative outlook on our rating on Credivalores reflects our expectations that its weak funding profile could erode liquidity in the next six months because of upcoming debt maturities.

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Rating ActionRationale

Credivalores was able to service its debt in 2022. Despite difficulties during 2022, the company honored all of its debt obligations in a timely manner. The company had two major maturities this year: $164 million of senior unsecured notes in July and $50 million under its ECP program in October. However, given investors' souring sentiment towards the regional NBFI sector and given the amount of Credivalores' maturities, the company was forced to roll over these maturities by using mainly secured debt. The new funding profile weakened Credivalores' operating profile as it pledged most of its eligible payroll portfolio given the rising proportion of secured debt and diminishing financial flexibility. Additionally, profitability has been under pressure as funding costs rose following adjustments to Colombia's monetary policy rate and the negative carry the company had to suffer to pay its July maturity. Furthermore, the company's profitability was already reeling from an increasing cost of risk for credit cards, the share of which rose to slightly below 50% of Credivalores' total portfolio from nearly 30% from years ago following the sale of some of its payroll portfolio that was used as an alternative funding source. We forecast the company will focus its origination on its payroll products rather than its credit cards.

Moreover, Credivalores faced some pressures to service the October ECP maturity because the amount of unencumbered assets to be used as collateral diminished after the July maturity payment. In response, the company offered a debt exchange to its ECP bondholders that extended the maturity by 12 months and offered a premium value to creditors. The aggregate amount of new notes totaled $15 million, which along with a $20 million secured facility from one of the shareholders and the company's own cash, enabled Credivalores to cover the $50 million maturity.

We don't view Credivalores exchange as distressed. The company's exchange of its October 2022 ECP $50 million notes didn't meet all conditions of a distressed exchange, according to our ratings definitions. This is because we don't believe there's clear evidence that creditors received less value than the notes' original promised, according to the subscription notice. Part of the premium Credivalores offered to its bondholders in its new October 2023 notes included the rise in interest rate to 12.5% from 8.5%.

Credivalores will face refinancing risks for the next 12 months, but the repayment of its ECP notes could alleviate some of immediate pressures. Moreover, in our opinion, Credivalores' financial flexibility remains limited, and it will continue grappling with significant challenges. In 2023, the company will have two interest payments due in February and August totaling $40 million, $25 million in ECP notes in March, $15 million in new ECP notes in October, and the payments on bank loans throughout the year. However, Credivalores receives monthly loan collections of about $25.5 million that could help strengthen its liquidity if the loan origination volume is lower than this amount on a monthly basis. However, the slower lending growth is not part of our base-case scenario.

Following the harsh funding conditions for regional NBFIs in LATAM, Credivalores has shifted back to its previous funding strategy that relied primarily in secured funding sources until financing conditions improve. In this sense, Credivalores secured four new credit facilities, which could provide some degree of financial flexibility and funding alternatives. However, the company needs to originate new payroll loans to pledge them as collateral for some of the borrowings. The first of these credit lines is a revolving warehouse facility for up to $11 million. The second one is a secured payroll facility for nearly $67 million. The third one is a committed secured facility from one of the shareholders. The fourth one is a $11 million secured facility for which Credivalores pledges future recoveries of its non-performing loans. Currently, Credivalores has a lower amount of unencumbered payroll loans that it could use as collateral following the refinancing of the July 2022 bonds. We will closely monitor the amount of payroll portfolio Credivalores could use as collateral and how this could benefit the business continuity.

Increased funding costs and interest rates will continue hampering Credivalores' credit profile. Efforts to refinance debt and higher interest rates have caused Credivalores' funding costs to increase. In this sense, the company posted a loss of $0.17 million in the second quarter. Additionally, asset quality remains weak and could lift costs of risk and reduce the amount of assets to be used as collateral. To mitigate these risks and ensure the business continuity, Credivalores announced that its shareholders intend to pledge $20 million of fresh capital to the company, which represents an increase of nearly 37% of its total adjusted capital. We will closely monitor Credivalores' operating profile and profitability metrics in order to determine the future payment ability and assess the business continuity.

Outlook

The negative outlook on our rating on Credivalores reflects our expectations that its funding profile will remain pressured and that it could deteriorate the company's liquidity within the next six months considering the debt maturities the company has for that timeframe.

Downside scenario

We could lower the ratings if liquidity shrinks to the point that it jeopardizes business continuity. This could occur if the company is unable to secure sufficient funding for its liquidity needs and/or if the company is overly aggressive in its loan portfolio growth or debt repurchases.

Upside scenario

We could take a positive rating action if the company is able to secure new lines of funding that ensure its future debt repayments while it regains its profitability and growth perspectives. The compound effect of these factors would ensure the company's business continuity and improve its financial metrics.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Credivalores - Crediservicios SAS		
Issuer Credit Rating	CCC+/Negative/C	CCC+/Watch Neg/C

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Credivalores - Crediservicios SAS		
Senior Unsecured	CCC+	CCC+/Watch Neg