

## RATING ACTION COMMENTARY

### Fitch Affirms Credivalores IDRs at 'RD'

Mon 06 May, 2024 - 1:17 PM ET

Fitch Ratings - Rio de Janeiro/Bogota - 06 May 2024: Fitch Ratings has affirmed Credivalores - Crediservicios S.A.'s (Credivalores) Long- and Short-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'Restricted Default' (RD) and its long- and short-term National Scale Rating at 'RD(col)'. Fitch has also affirmed Credivalores' USD210 million senior unsecured notes due 2025 at 'C'/RR4' and the company's partial credit guarantee (PCG) local issuance national rating at 'CCC+(col)'/RR4'.

#### KEY RATING DRIVERS

Credivalores' IDRs are based on its Standalone Credit Profile (SCP), which is below the implied SCP due to Fitch's assessment of the company's funding, liquidity and coverage at the lowest possible level on our scale. The rating reflects the restricted default on Credivalores' USD210 million senior unsecured notes due 2025.

**Restructuring Continues:** Credivalores made progress on the exchange offer of its 2025 notes for new senior secured notes due 2029, backed by a loan portfolio of USD168 million with step-up interest. The company confirmed that discussions with bondholders have been completed and will continue with regulatory filings. In Fitch's opinion, the reprofiling of its debt is part of the company's strategy to strengthen its capital structure and contribute to its long-term financial sustainability. Credivalores continues facing execution risks related to the restructuring plan.

Fitch believes this offer constitutes a distressed debt exchange (DDE) under our criteria, as the transaction will lead to a material reduction in terms and, in our view, is being conducted to avoid a default. Fitch will reevaluate the IDRs based on the new capital structure and credit profile upon completion of the exchange offer.

**Funding, Liquidity and Coverage Remain a Constraint:** Fitch has maintained the Funding, Liquidity and Coverage score at 'rd' with high importance as the company has not completed the debt agreement. The debt restructuring will include an increase in secure debt as the exchange will be guaranteed with a portion of the loan portfolio, supporting the funding strategy based on asset-backed securities. Fitch expects the ratio of unsecured debt to total debt to decline from 69.4% in December 2023 to below 20%, while the core ratio of liquid assets and undrawn committed facilities to short-term funding should remain below 0.4x.

**Business Profile Affected by Leverage, Funding and Profitability:** Credivalores is the largest NBFi in Colombia engaged in consumer lending to the low to mid-income population that is not served by traditional banks in small and mid-sized cities. The company business profile has been affected by structural issues regarding leverage, funding and profitability together with a higher risk loan portfolio. The company has been able to generate relatively stable total operating income (TOI) in the last four years with an average of USD31 million from 2019 to 2023 amid a challenging operating environment and the restructuring of its financial liabilities.

**Weak Asset Quality:** Asset quality remains a challenge as the level of impaired loans, at Stage 3 to total loans further deteriorated to 21.8% at YE 2023. The reserve coverage ratio increased to 112% given the semi-secured portion of the portfolio and the decrease in the credit card business. The economic slowdown and the gross portfolio contraction are likely to affect the metrics, mainly for the unsecured segment. Fitch expects non-performing loans remain above 17% and asset quality gradually improve once the company's strategy on payrolls starts to weigh on the loan portfolio.

**Weak Profitability:** The company reported low but positive results during 2023 after significant losses reported during 2022. The pre-tax ROAA of 0.4% as of December 2023 is similar to the average of 2018-2021 of 0.4%. A strong contraction on business volumes as a consequence of its restructuring plan, 2022 payment of the financial commitments, Colombian economy deceleration and high provision expenses, were not offset by the increase on interest rate and the positive impact of foreign exchange. Fitch expects limited profitability improvements, contingent to the materialization of the new debt strategy and the resume of the payroll strategy.

**Tight Capitalization and Leverage:** At YE 2023, the company's debt to tangible equity ratio of 11.6x reversed the negative result of 2022 due to the capital injection and earnings generation in 2023. Fitch expects the DDE, if agreed, to result in an improved debt maturity

structure and a gradual improvement in internal capital generation, with a debt to tangible equity ratio below 7x at YE 2024.

## **RATING SENSITIVITIES**

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

--The IDR will be downgraded to 'D' if a bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business and debt is still outstanding.

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

--Fitch will reassess the IDRs upon the completion of a debt restructuring process; the updated IDRs will reflect the new capital structure and credit profile of the issuer.

## **DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS**

### **Partial Credit Guarantee (PGC) Issuance**

Credivalores' partial guarantee bond local issuance for COP160.000 million is rated four notches above its national long-term rating. The level of enhancement above the base recovery corresponds to the additional recovery that the guarantee gives to the notes, which improves the recovery rate for the bond holders in case of default. The notes have an irrevocable partial guarantee for 70% for payment of interest or principal from Fondo Nacional de Garantias rated 'AAA(col)'.

Credivalores' senior unsecured debt is in line with its respective corporate rating level, as the debt is senior unsecured. The 'RR4' Recovery Rating assigned to Credivalores' senior unsecured issuance reflects average recovery prospects.

## **DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES**

--The company's senior unsecured debt is expected to move in line with the Long-Term IDR, although a material increase in the proportion of secured debt could result in the unsecured debt being notched down from the IDR;

--The four-notch relativity of the PCG issuance above Credivalores' Long-Term National Scale rating could be reduced by future increases in the issuer rating or by an improvement in its intrinsic recovery according to Fitch's methodology;

--A downward move in Credivalores' Long-Term National Scale rating would negatively affect the PCG ratings.

## **ADJUSTMENTS**

The SCP has been assigned below the implied SCP due to the following adjustment reason(s): Weakest Link - Funding, Liquidity & Coverage (negative).

The Business Profile score has been assigned below the implied score due to the following adjustment reason(s): Business model (negative), Historical and future developments (negative).

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason(s): Historical and future metrics (positive).

The Capitalization & Leverage score has been assigned below the implied score due to the following adjustment reason(s): Risk profile and business model (negative).

## **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.

## **ESG CONSIDERATIONS**

Credivalores has an ESG Relevance Score of '4' for Management Strategy due to risks associated with the company's ability to execute its strategy to pay and refinance its senior unsecured debt. These execution risks have a negative impact on the credit profile and are relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

[www.fitchratings.com/topics/esg/products#esg-relevance-scores](https://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

## **RATING ACTIONS**

ENTITY / DEBT ↕	RATING ↕			RECOVERY ↕	PRIOR ↕
Credivalores- Crediservicios S.A.	LT IDR	RD	Affirmed		RD
	ST IDR	RD	Affirmed		RD
	LC LT IDR	RD	Affirmed		RD
	LC ST IDR	RD	Affirmed		RD
	NatI LT	RD(col)	Affirmed		RD(col)
	NatI ST	RD(col)	Affirmed		RD(col)
	senior unsecured	LT	C	Affirmed	RR4
guaranteed	NatI LT	CCC+(col)	Affirmed	RR4	CCC+(col)

[VIEW ADDITIONAL RATING DETAILS](#)

**FITCH RATINGS ANALYSTS**

**Pedro Carvalho**

Director

Primary Rating Analyst

+55 21 4503 2602

pedro.carvalho@fitchratings.com

Fitch Ratings Brasil Ltda.

Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

**Sergio Pena**

Director

Secondary Rating Analyst

+57 601 241 3233

sergio.pena@fitchratings.com

**Monica Ibarra Garcia**

Senior Director

Committee Chairperson

+52 81 4161 7050

monica.ibarragarcia@fitchratings.com

## **MEDIA CONTACTS**

**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Third-Party Partial Credit Support Rating Criteria - Effective from 11 June 2021 to 3 May 2024 \(pub. 11 Jun 2021\)](#)

[Metodología de Calificación de Soporte Parcial de Crédito por Terceras Partes \(pub. 25 Aug 2021\)](#)

[Metodología de Calificación de Instituciones Financieras No Bancarias– Efectiva del 25 de julio de 2023 al 19 de marzo de 2024 \(pub. 25 Jul 2023\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 17 Jan 2024\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Credivalores-Crediservicios S.A.

EU Endorsed, UK Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) 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.

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. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## **SOLICITATION STATUS**

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

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.