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Research Update:

Credivalores 'B+/B' Ratings Affirmed On New Criteria Implementation; Outlook Remains Stable

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Overview

- Standard & Poor's Ratings Services published on Dec. 9, 2014, its revised criteria for rating nonbank financial institutions and debt issued by such companies.
- Upon applying the new criteria, we are affirming our 'B+/B' issuer credit ratings on Colombia-based nonbank financing company, Credivalores.
- We continue to assess Credivalores' business position, capital and earnings, and risk profile as "adequate" and its funding as "moderate" with "adequate" liquidity.
- The stable outlook reflects our expectations that Credivalores will maintain a concentrated funding structure with relatively low financial flexibility.

Rating Action

As previously announced on Dec. 10, 2014, Standard & Poor's Ratings Services affirmed its long-term 'B+' and short-term 'B' issuer credit ratings on Credivalores - Crediservicios S.A.S. (Credivalores). The outlook remains stable. See S&P Applies Its Revised Nonbank Financial Institutions Methodology To Four Latin American Entities, published Dec. 10, 2014.

Rationale

The issuer credit ratings on Credivalores reflect our "adequate" assessments of its business position, capital and earnings, and risk position, and our view of its "moderate" funding and "adequate" liquidity. The stand-alone credit profile (SACP) is 'b+'.

We initially set the anchor for finance companies three notches below the anchor for banks in the same country to reflect the typical lack of central bank access, lower regulatory oversight, and higher competitive risk for finance companies relative to banks. We may modify that standard three-notch adjustment for finance companies in countries or in sectors where these differences do not exist or are less pronounced (i.e. the finance company can access funding from the central bank, are regulated to some degree, or have unique competitive positions, such as monopolistic or oligopolistic businesses). In the case of Colombia, we apply the standard three notches below the anchor.

Credivalores' business position is "adequate" reflecting its adequate business mix, good market share and no significant client, sector, or geographical concentrations. The company continues to face intense competition; nevertheless, Credivalores has maintained steady and diversified loan portfolio growth. The firm provides payroll discount loans, credit cards, and, to a lesser degree, insurance deferred premium services and microlending in Colombia. As of Sept. 30, 2014, its top 20 clients represented less than 1% of its total credit portfolio, as its loan portfolio is focused primarily on consumer lending. Additionally, the company operates in more than 40 cities and municipalities. The management team is experienced and has a good track record in the industry and in their main business lines. Top management is closely involved in all operations and in decision-making. We don't expect any changes in the current business profile.

Our capital and earnings assessment is "adequate" reflecting good internal capital generation and completed capital injections, which have strengthened its capital base. We expect the projected risk-adjusted capital (RAC) ratio, to be above 7.5% for the next two years. Our financial forecasts incorporate our base-case scenario assumptions, which include:

- Loan portfolio average growth of 18% in 2014 and 2015, respectively;
- Net interest margin to total loans similar to previous years of 4.5%-5%.
- Nonperforming assets (NPAs) to total loans slightly lower due to better origination and collection procedures with no charge offs;
- Reserve coverage below 100%;
- Core earnings to adjusted assets hovering between 1.5%-1.8% reflecting our growth expectations and capped interest rate; and
- No dividend payout.

The company has below-average profitability metrics compared with other finance companies; however, in Colombia, interest rates on consumer loans are capped, which, in our view, limits profitability and constrains net interest margins. As of Sept. 30, 2014, Credivalores' core earnings to average assets was 1.36%, which is similar to the average for the past three fiscal years but below its main peers' average of above 2% for the same period. During the next two years, core earnings to adjusted assets will likely be 1.5% due to our expectations for credit cards and payroll growth, which also includes a net interest margin projection below 6%.

In our opinion, the firm's risk position is "adequate" based on its lending and underwriting standards, manageable asset quality and diversified risk exposure by sector, and single name in the loan portfolio. The company's NPAs remain manageable; however, its reserve coverage to NPAs is below that of other finance companies we rate. As of Sept. 30, 2014, NPAs were 7.6% and the average for the last past three fiscal years was 8% with a loan loss reserves-to-NPAs ratio of 87% and 73%, respectively, compared with the more than 100% reserve coverage of its peers. During the next 18 months, we expect NPAs at 7.5%, which is slightly lower than that of 2013, and a reserve coverage which should remain below 100% but which could gradually increase.

The firm does not have significant risk exposures by sector and single name in the loan portfolio. As of Sept. 30, 2014, its top clients represented less than 1% and 5% of total loans and adjusted total equity, respectively-. Also, the company operates in more than 40 cities or/and municipalities, three cities represent about 50% of total portfolio, which is similar to other rated finance companies. We don't expect significant changes regarding Credivalores' risk exposures.

We view Credivalores' funding as "moderate" stemming primarily from their concentrated funding structure, as more than 90% of total funding comes from banking lines through different vehicles such as trusts, portfolio sales, and direct credits. These funding sources require collateral to provide credit lines. Although the company works with several banks, in our opinion, its high encumbered assets significantly reduces the company's financial flexibility, which, during market fluctuations, could reduce funding alternatives. During the next 12 months, we expect a slight increase in market debt; however, the company's funding structure will remain concentrated and less stable during volatile market conditions, in our view.

Credivalores' liquidity is "adequate." This assessment includes our positive forecast for cash flow, under a base case and stress test scenario, and a debt maturity structure, which is mainly composed of long-term loans and benefits the company's liquidity for the next 12 months. For the next 18 months, we do not expect significant deterioration on in the company's cash flow and liquidity metrics.

Outlook

The stable outlook reflects our expectations that Credivalores will maintain a concentrated funding structure with relatively low financial flexibility. The outlook also incorporates our expectation that the company will keep its adequate capital levels, "adequate" business position--reflected in market position and business diversification--and manageable asset quality.

We could raise the ratings or revise the outlook to positive if the firm continues to diversify its funding.

We could lower the ratings if the company takes on a more aggressive risk appetite, or significantly reduces liquidity or capitalization.

Ratings Score Snapshot

Issuer Credit Rating	B+/Stable/B
SACP	b+
Anchor	bb-
Business Position	Adequate (0)

Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Moderate and Adequate (-1)
Support	0
GRE Support	0
Group Support	0
Government Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec 9, 2014
- Nonbank Financial Institution Ratings Methodology, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics for Rating Banks Globally: Methodology and Assumptions, July 17, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Ratings Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology and Assumptions, Dec. 6, 2010

Related Research

- S&P Applies Its Revised Nonbank Financial Institutions Methodology To Four Latin American Entities, Dec. 10, 2014

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