



## Fitch Assigns Senfin Asset Management First-Time 'BBB-(lka)' Rating; Outlook Stable

Fitch Ratings - Colombo - 25 Nov 2024: Fitch Ratings has assigned Sri Lanka-based Senfin Asset Management (Private) Limited a first-time National Long-Term Rating of 'BBB-(lka)' with a Stable Outlook.

Senfin is a 100%-owned subsidiary of a mid-sized finance and leasing company, Senkadagala Finance PLC (SFCL, BBB(lka)/Stable). The company manages unit trusts and provides discretionary portfolio services for institutional and high-net-worth investors. It was the ninth-largest unit trust manager in Sri Lanka by assets under management (AUM) at end-June 2024, with 1.8% of the sector's total AUM.

For more information on SFCL, see our rating action commentary "[Fitch Affirms Senkadagala Finance at 'BBB\(lka\)'; Outlook Stable](#)", dated 14 August 2024.

### KEY RATING DRIVERS

**Support-Driven Rating:** Senfin's National Long-Term Rating reflects our expectation of extraordinary support from SFCL, if required. This is premised on the subsidiary's complementary role in SFCL's diversified financial product strategy, its operational and financial integration with the group, and SFCL's ability to provide extraordinary support. The rating also takes into consideration Senfin's relatively modest financial contribution to its parent.

**Strategic Alignment:** Senfin forms part of SFCL's multi-product financial services platform, which includes lending, deposit-taking, and insurance and equity brokerage. Senfin's unit trust offerings provide alternative investment opportunities for SFCL's customers and complement the parent's other products. This suggests stronger strategic alignment between Senfin and its parent group's core business and customer base relative to most other local peers. This is notwithstanding the limited cross-sales of Senfin and SFCL at present, as the sales strategy is relatively new.

**Strong Group Support:** Senfin also serves a secondary role as the parent group's investment platform. This is evident from the company's significant share of fund subscriptions from SFCL and other related companies. SFCL alone contributes 18% of Senfin's total unit trust AUM, which was equivalent to 20% of SFCL's equity at end-March 2024. This underscores the parent's ordinary support for Senfin's business and highlights the close financial integration between the entities.

**Group Oversight; Operational Support:** SFCL maintains close control over Senfin's strategy and governance. The board, which includes SFCL's second highest-ranking executive, a member of the founding family and two former non-executive directors of SFCL, meets quarterly to address major issues. Senfin reports key performance metrics and material risks to SFCL on a monthly basis. SFCL's controlling shareholder E.W. Balasuriya & Co. (Pvt) Limited supports Senfin operationally by providing a secondee to manage its compliance function, and shared IT and human resource services.

**Parent's Ability to Support:** SFCL's ability to support Senfin is underpinned by the subsidiary's small size and asset-light business model. Senfin accounted for 0.5% and 1.9% of SFCL's consolidated assets and equity, respectively, at end-FY24 (end-FY23: 0.4% and 1.5%). It had no debt at end-FY24 and intends to remain debt-free in the near term. Our assessment only incorporates SFCL's support for Senfin's liabilities, and not its funds under management, as the investment risks are borne by the underlying investors with no recourse to Senfin.

**Weak Standalone Profile:** Senfin's standalone credit profile does not drive its rating and is assessed to be weaker than its support-driven rating. This reflects the company's modest franchise within an already-niche unit trust sector, basic operational and risk management frameworks, and concentrated investor base. These factors counterbalance Senfin's satisfactory profitability, debt-free status and ongoing parental support in the form of fund subscriptions.

## **RATING SENSITIVITIES**

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

Senfin's rating is sensitive to changes in SFCL's credit profile as well as our opinion of SFCL's ability and propensity to extend timely extraordinary support. Developments that could lead to negative rating action include:

- Material weakening in SFCL's credit profile
- Significant increase in Senfin's relative size to the parent's balance sheet, which impedes SFCL's ability to provide support
- Meaningful reduction in the parent's ownership, control or influence that could weaken its propensity to support the subsidiary
- Poor profit or fund-raising performance that diminishes Senfin's contribution to the parent's investment returns and multi-product strategy

Such developments, if severe, could reduce shareholder support prospects significantly and may lead to the ratings being based on Senfin's standalone credit profile. This would result in a multi-notch downgrade.

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

Senfin's rating could be upgraded if similar action were taken on SFCL's rating, provided that factors underpinning shareholder support also remain intact. The following developments may also lead to positive rating action:

- Meaningful increase in contribution to SFCL's pre-tax profit (FY24: 2.8%) and its strategic goal of being a multi-product financial services provider
- Materially stronger synergies with SFCL's core business, such as a significant increase in cross-sales through greater customer overlap or shared distribution arrangements

However, we believe the above are not likely to materialise in the medium term due to the nascency of unit trust products locally.

## Date of Relevant Committee

20 November 2024

## 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

Senfin's rating is linked to SFCL's National Long-Term Rating.

### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕
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Senfin Asset Management (Private) Limited	Natl LT BBB-(Ika) ● New Rating

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[VIEW ADDITIONAL RATING DETAILS](#)

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

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## APPLICABLE CRITERIA

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Non-Bank Financial Institutions Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

## **ENDORSEMENT STATUS**

Senfin Asset Management (Private) Limited -

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