FitchRatings

Fitch Affirms Credivalores' LT IDR at 'B+'; Revises Outlook to Negative

Fitch Ratings - New York - 09 July 2019: Fitch Ratings has affirmed Credivalores Crediservicios S.A.S.'s (Credivalores) Long-Term (LT) Foreign Currency Issuer Default Rating (IDR) at 'B+' and Short-Term Foreign Currency IDR at 'B'. The Rating Outlook was revised to Negative from Stable. Fitch also affirmed Credivalores' senior unsecured notes at 'B+'/'RR4'.

The Outlook revision to Negative reflects deterioration of asset quality metrics, which has added pressure on already modest profits and loss absorption capacity. The entity has recently taken on several strategies to reduce impairments and charge-offs such as reducing credit card portfolio proportion of loans, tightening cut off levels and underwriting adjustments in the most impacted regions. Fitch believes if these actions are not strong enough to revert asset quality and profitability trends, which could add some stress to leverage metrics, ratings could be downgraded.

Key Rating Drivers

Credivalores' IDRs are highly influenced by the company's profile and concentrated nature within the financial system, which, despite is small size, benefits from its role as one of the largest non-bank financial institutions engaged in consumer lending to the low-to-mid income population not usually served by banks in small and mid-sized cities, and its pressured asset quality metrics. The ratings also consider the company's relatively ample risk appetite due to its focus on low to middle income segments, modest profitability and increased leverage along with the company's funding flexibility.

Recent quarters have seen an increase in non-performing loans and charge-offs, especially in the credit card segments. This, along with the adoption of IFRS 9, has resulted in higher credit costs that affected the company's profitability. To mitigate the deterioration in asset quality, the company has imposed tighter underwriting policies and made additional system improvements that Fitch expects will reverse the impairment trend.

Credivalores' ratio of non-performing loans past due over 60 days (NPL) deteriorated to 15% as of March 2019 mainly due to the credit card portfolio affected by insufficiently tight cut off levels and weaknesses in certain cities' unemployment affected by immigration. The overall loan loss coverage ratio also declined to 87% from 94%, but still remains satisfactory in view of the lower risk of its payroll loan segment, which represents nearly 59% of the total managed loan portfolio.

Credivalores' profitability remained modest for 2018 and the first quarter of 2019 with pre-tax income to average assets ratios of 0.7% and 0.1%, respectively, affected by higher credit costs, lower loan growth and higher investments. The company expects the remainder of 2019 to be lacklustre in terms of profitability.

To mitigate the low level of internal capital generation and effects from IFRS adoption on tangible leverage, the company's shareholders made a capital infusion of COP15 billion combined during the last quarter of 2018 and the first quarter of 2019. Despite this increase, the rating also considers Credivalores' relatively higher leverage ratios for its concentrated and higher-risk business model. Fitch believes future leverage metrics could be relatively pressured due to expected on-balance sheet loan growth if the modest earnings levels fail to generate additional capital growth.

Current funding and liquidity metrics remain at satisfactory levels with average maturity tenors of close to three years. The company has been able to expand its sources of funding from both domestic and foreign lenders. The main source of funding comes from its U.S. dollar medium-term note issuances that come due in July of 2022. Sources of funding appear sufficient to cover upcoming 2019 debt amortizations and fund future growth.

Fitch believes management needs to prove effective in executing its strategies in enhancing asset quality, profitability and leverage metrics that have deteriorated over the past few years. Tightening of its underwriting policies, the addition of a new chief risk officer, new alliances with utility companies, together with an increased credit granting agility should prove to be strong enough to enhance financial performance. However, these improvements are subject to the continued strengthening of the operating environment, the degree of competition and other unforeseen events.

Rating Sensitivities

IDRs AND SENIOR DEBT
Credivalores' IDRs could be downgraded if deterioration in asset quality metrics do not revert, resulting in a low capacity to internally generate profits or from an increase in leverage that reduces the company's ability to absorb unexpected losses (Tangible Leverage sustainably above 8.5x).

The Rating Outlook could be revised to Stable if asset quality metrics improve and allow the company to increase profits and capital metrics. Ratings continue to be sensitive to significant changes in Credivalores' company profile.

Senior unsecured debt is at the same level as the IDR, and will mirror any change to the IDR. Fitch is maintaining the existing Recovery Rating at 'RR4', which is considered average.

RATING ACTIONS

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Credivalores Crediservicios S.A.S.	LT IDR B+ Affirmed		B+
	ST IDR B Affirmed		B
senior unsecured	LT B+ Affirmed	RR4	B+

Additional information is available on www.fitchratings.com

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Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

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