taprobane

NEWS ROUND UP

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Contents

First consignment of glyphosate by mid-August

The Government yesterday said it was expecting the first consignment of the controversial weedicide glyphosate to be released to the tea and rubber industry by mid next month, a top official confirmed.

The Cabinet of Ministers in May approved of lifting of the ban on the glyphosate weedicide only for tea and rubber industries for a period of 36 months, however the Registrar of Pesticides has lifted the ban on glyphosate for all crops throughout the country via a Special Gazette dated on 11 July.

“The first shipment of glyphosate is expected around 15 August. The Ceylon Petroleum Cooperation (CPC) has been given the sole authority to import and distribute glyphosate to the tea and rubber industries,” Plantation Industries Ministry Secretary J. Ranjith told Daily FT.

Noting that the CPC had already commenced the procurement process, he however said that the delivery of first consignment would depend on the time taken for the procurement process.

Ranjith said the controversial weedicide would only be released to the industry twice a year considering the industry requirement which will then be strictly monitored by various institutions.

“We hope to issue glyphosate twice a year. The Registrar of Pesticides, Plantation Industries Ministry, Tea Small Holdings Development Authority and Tea Research Institute will strictly monitor its use,” he added.

While welcoming the Government’s decision to lift the ban on glyphosate, the plantation industry and tea exporters however expressed concerns on getting the first consignment of weedicide on time to be utilised for the next season and overcoming the issues the industry had gotten into without the use of the pesticide.

Tea Exporters Association (TEA) Chairman Jayantha Karunaratne pointed out that as the Special Gazette dated on 11 July had lifted the ban on glyphosate for all crops, the industry now expected the Government to issue a further gazette restricting the use of the controversial weedicide to tea and rubber.

“We hail the Government’s decision to remove the ban on glyphosate,” he added.

Tea is Sri Lanka’s largest foreign exchange earning crop, accounting for about $ 1.5 billion annually. Sri Lanka produces about 300 million kilogrammes of tea each year.

Karunaratne emphasised that withdrawing glyphosate from the market during the past three years had resulted in a massive economic cost and posed a threat to the sustainability of the tea export market, which generates much-needed foreign income to the country.

“With no access to glyphosate, planters used various other alternative weedicides which got the tea industry into trouble. The Japanese and the European Union (EU) countries have already flagged red as they have detected that the accepted level of weedicide had been exceeded in our exported teas,” he stressed.

He noted that there was a threat of losing the Japanese market to competitive markets like Kenya.

"The Government, exporters and other stakeholders have assured the issue will be sorted soon and adhere to the accepted level of weedicide use according to the Japanese use. We hope that we will be able to resolve the issue in the near future," Karunaratne expressed confidence.

Planters' Association Chairman Sunil Poholiyadde also welcomed the decision taken by the Government to lift the ban on glyphosate.

He however raised concerns in getting the first shipment of glyphosate on time to be utilised for the next season.

"We are not fully aware how the whole procedure is going to be with the distribution and the arrival date of the first consignment. The distribution will be handled via CPC, so there are practical concerns which we are worried about. The unavailability of glyphosate caused us great loss and put tea exports into distress," he pointed out.

Poholiyadde said adhering to Japanese rules would be critical as time was ticking fast.

According to the Plantation Industry Ministry, the tea industry alone has incurred a loss of Rs. 26 billion per year due to the ban imposed on glyphosate.

In 2015, President Maithripala Sirisena banned glyphosate, fearing it was causing Chronic Kidney Disease (CKD) after some researchers published a paper linking glyphosate to the disease, which is prevalent in the North Central Province of the country.

The National Economic Council (NEC) decided to lift the arbitrary ban imposed on glyphosate in March 2018, in light of overwhelming scientific consensus that the substance was not harmful to human health. (Daily FT)

Dept. of Commerce wins historic export judgment in US trade court

Sri Lanka has won the first ever revocation of countervailing duty imposed in the US for a Lankan export, under a case filed by the Department of Commerce to assist its tyre exports.The US Court of International Trade on 11 July ruled that the 0.95% countervailing duty attributed to the guaranteed price scheme on the import of off-road OTR tyres from Sri Lanka be removed.

As a result, not only is the 0.95% duty out but a larger 2.18% countervailing duty on the imports of off-the-road (OTR) rubber tyres from Sri Lanka to the United States will also be eliminated due to the operation of WTO Agreements once the 0.95% duty is removed.

Sri Lanka's solid tyre exports to the US has been on a growing trend with $ 58.21 million in 2012, expanding to $ 69.04 million last year. Total Lankan exports to US last year was almost close to $ 3 billion.

Total bilateral trade with the US increased by 12% to $ 3.7 billion last year, from 2016's $ 3.3 billion.

Based on a countervailing duty petition filed by the US industry at the US Department of Commerce (USDOC) and US International Trade Commission (USITC) alleging that producers of off-the-road tires in Sri Lanka benefit from subsidies provided by the government and the subsidised imports cause injury to the domestic rubber industry of the United States, the US Department of Commerce initiated a subsidies and countervailing duty (CVD) investigation aiming at imposing countervailing duty on imports of OTR tyres from Sri Lanka to the United States.

The USDOC has used the subsidy programs of 'Exemptions on fiscal levies on capital and intermediate goods', 'Tax Concessions for exporters of non-traditional products', and 'Guaranteed price scheme for rubber given to rubber small holders by the Sri Lankan government' to calculate the countervailing duty margin. After the investigations, the US Department of Commerce on 4 January 2017 announced its affirmative final determinations in the countervailing duty (CVD) investigations and imposed 2.18% countervailing duty on imports of OTR tyres from Sri Lanka. This margin consists of 0.41% duty on 'Exemptions on fiscal levies on capital and intermediate goods', 0.95% on 'Guaranteed price scheme for rubber given to rubber small holders' and 0.82% duty on 'Tax Concessions for exporters of non-traditional products'.

On behalf of the Sri Lanka Government, the Department of Commerce of Sri Lanka, in collaboration with the Attorney General's Department and Camso Loadstar (the affected exporter in Sri Lanka), made a number of submissions to the US Department of Commerce and the International Trade Commission in the investigation stage rebutting the petitioner's claims.

After the imposition of the countervailing duty of 2.18%, the Department of Commerce of Sri Lanka, with the assistance of other line agencies and the local company, took necessary measures to challenge the decision by the USDOC at the US Court of International Trade. As a result of effective interventions by the Department of Commerce in the appeal procedures, the US Court of International Trade ruled that the 0.95% countervailing duty attributed to the guaranteed price scheme be removed.

With this removal, the overall countervailing duty rate on the import of OTR tyres from Sri Lanka to the US imposed by the USDOC has now fallen below the minimum threshold of 2% to impose countervailing duty on developing countries as specified in the WTO Agreements. Therefore, the imposition of 2.18% countervailing duty on the export of OTR Tyres from Sri Lanka to the US shall now be terminated and not applied anymore.

"I praise the officials of the Department of Commerce for their committed work to win this judgment in favour of Sri Lanka," said the Industry and Commerce Minister Rishad Bathiudeen. "This will greatly help our ministry's efforts to enhance manufacturing exports, especially rubber products."

Commerce Department Director General Sonali Wijeratne agreed that the latest win strengthens US-Sri Lanka trade. "This is Sri Lanka's first international victory on countervailing duties, especially for a well-known rubber product export." (Daily FT)

Hayleys to raise Rs. 4 b via listed debentures

Diversified blue chip Hayleys Plc will be raising Rs. 4 billion via the issuance of a listed debenture, the subscriptions for which are open from today.

It will offer 30 million listed, rated, unsecured, senior, redeemable five-year debentures of Rs. 100 each with an option to issue a further 10 million debentures at the discretion of the company in the event of an oversubscription of the original amount. The joint mangers to the issue are Capital Alliance Partners Ltd, NDB Investment Bank Ltd. and People's Bank's Investment Banking Unit.(DailyFT)

Ceylon Chamber starts academy to bridge Sri Lanka corporate skills gap

The Ceylon Chamber of Commerce has started a 'Chamber Academy', an institute that provides work-based training programmes to help train workers and bridge a skills gap that means firms cannot fill thousands of vacancies.

"It is expected that Chamber member companies and other private sector organisations can benefit through this initiative by nominating their employees for training programmes to uplift the skill sets," a statement said.

School leavers and job seekers too can enroll for these programmes for better career prospects.

The Ceylon Chamber said the Chamber Academy is for 'high-impact' work-based training programmes.

"In current times it has become evident that the gap between employer expectations and employee readiness has increased significantly," it said.

"The lack of skilled workforce for corporates surfaced as a problematic issue for several years. As a result, the human resource available in the country is not fully exploited. This has a negative impact on both employers and employees."

This situation drives the Ceylon Chamber of Commerce to intervene and bridge the gap, by identifying potential courses to suite the job market demands, developing suitable curriculums accordingly and conduct relevant and high impact courses. (Economy Next)

Trading suspended in Sri Lanka's Swarnamahal Financial shares

Sri Lanka's Swarnamahal Financial Services PLC said trading of its shares had been suspended from 1 July 2018 because of non-compliance with stock exchange listing rules.

A statement said its appeal to the Securities and Exchange Commission to defer the suspension had been rejected.

The company, which is being restructured under central bank supervision, said it was negotiating with a potential investor to inject fresh capital and change ownership.
(Economy Next)

US trade court rules against countervailing duties on Sri Lankan tyres

A United States trade court has ruled against countervailing duties imposed on Sri Lankan solid tyre exports after local authorities and a top tyre maker challenged the move, the Ministry of Industry & Commerce said.

"This is Sri Lanka's first international victory on countervailing duties especially for a well-known rubber product export," said Sonali Wijeratne, Director General of the Commerce Department.

The Department of Commerce, in collaboration with the Attorney General's Department and Camso Loadstar, a big solid tyre exporter in Sri Lanka, made a number of submissions to the US Department of Commerce and the International Trade Commission against the duties.

US industry had filed a countervailing duty petition at the US Department of Commerce (USDOC) and US International Trade Commission (USITC) alleging that producers of off-the-road tires in Sri Lanka benefit from subsidies provided by the government and the subsidized imports cause injury to the domestic rubber industry of the United States.

The US Department of Commerce then initiated a subsidies and countervailing duty (CVD) investigation aiming at imposition of countervailing duty on imports of OTR tyres from Sri Lanka to the United States, the Ministry of Industry & Commerce said in a statement.

The USDOC has used the subsidy programs of “exemptions on fiscal levies on capital and intermediate goods”, “Tax Concessions for Exporters of non-traditional products”, and “guaranteed price scheme for rubber given to rubber small holders by the Sri Lankan government” to calculate the countervailing duty margin.

After the investigations, the US Department of Commerce on January 4, 2017, announced its affirmative final determinations in the CVD investigations and imposed 2.18 per cent countervailing duty on imports of OTR tyres from Sri Lanka.

The margin consisted of 0.41% duty on ‘Exemptions on fiscal levies on capital and intermediate goods’, 0.95% on ‘Guaranteed price scheme for rubber given to rubber small holders’ and 0.82% duty on ‘Tax Concessions for Exporters of non-traditional products’.

The statement said the US Court of International Trade, on 11th July 2018, ruled that the 0.95 percent countervailing duty attributed to the guaranteed price scheme on import of off-road OTR tyres from Sri Lanka be removed.

“As a result, not only 0.95% duty is out but a larger, 2.18% countervailing duty on the imports of OTR rubber tyres from Sri Lanka to the United States too will be eliminated as a result due to the operation of WTO Agreements once the 0.95% duty is removed,” the statement said. (Economy Next)

Sri Lanka finance company bad loans rising; 9 ratings confirmed: Fitch

Fitch Ratings has confirmed ratings of nine Sri Lanka finance companies saying the credit profile of the sector will remain under pressure for the medium term with bad loans starting to go up and slower vehicle leasing.

"Competition in leasing from banks and a deceleration in vehicle financing has pushed finance companies to look beyond their core businesses and venture into term financing, microfinance and lending against gold," Fitch said.

"Fitch believes the shift in business mix has raised the companies' risk profiles in the absence or poor quality of collateral, challenges to the recoverability of collateral and a lack of experience in the new segments. "

By end March 2018, total non-performing loans (six months arrears) has increased to 5.8 percent of assets, from 4.9 percent in 2017.

The sector also faces more stringent capital requirements and potential earning headwinds stemming from higher credit costs.

Extracts from the statement is reproduced below:

KEY RATING DRIVERS IDRS, NATIONAL RATINGS

The rating actions follow Fitch's periodic review of Sri Lanka's large and mid-sized finance companies.

Fitch expects the credit profiles of the country's licensed finance company sector to remain under pressure in the medium term.

Competition in leasing from banks and a deceleration in vehicle financing has pushed finance companies to look beyond their core businesses and venture into term financing, microfinance and lending against gold.

Fitch believes the shift in business mix has raised the companies' risk profiles in the absence or poor quality of collateral, challenges to the recoverability of collateral and a lack of experience in the new segments.

This has already resulted in the industry's reported non-performing loan (NPL) ratio (based on six month arrears) increasing to 5.8% at end-March 2018 (FYE18), from 4.9% at FYE17. The sector also faces more stringent capital requirements and potential earning headwinds stemming from higher credit costs.

The ratings of the finance companies in the peer group are driven by their business models and franchises. Risk appetite, another rating driver, reflects the companies' predominant exposures to more vulnerable customers and non-core business segments.

Finance Companies with Intrinsic Strength-Driven Ratings

Central Finance Company PLC (CF)

CF's rating reflects its modest franchise and strong capitalisation, which is supported by above-industry profitability and earnings retention. These factors counterbalance its weaker asset quality compared with similarly rated peers, owing to its higher exposure to the risky three-wheeler segment. CF remains the highest capitalised among peers, with regulatory Tier 1 and total capital ratios of 32.9% and 32.1%, respectively, at FYE18. It has demonstrated an ability to maintain better-than-industry net interest margins through the interest-rate cycle and its profitability ratio, as measured by pre-tax net income/average assets, improved to 10.5%, from 7.9% in FYE15, on wider net interest margins, better cost efficiency and lower credit costs.

- LB Finance PLC (LB)

LB's rating reflects its established franchise and satisfactory capital level, which is supported by sound profitability from high-yielding products. This is counterbalanced by the company's higher risk appetite due to high exposure to gold-backed lending and elevated liquidity risk, with gross loans accounting for 87% of total assets at FYE18 (FYE17: 89%). LB has the highest leverage ratio among peers, with debt/tangible equity of 6.6x (FYE17: 6.9x). However, its Tier 1 ratio was a satisfactory 17.3% at FYE18 (FYE17: 16.1%). Fitch believes risk from gold-backed lending (FYE18: 19% of gross loans, FYE17: 18%) has been managed through active monitoring and risk-control measures, but a sharp decline in gold prices could pressure asset quality.

- Senkadagala Finance PLC (Senka)

Senka's rating reflects its strong franchise and well-matched maturity gaps. This is counterbalanced by a low proportion of deposit funding compared with higher-rated peers. We expect Senka's Tier-1 ratio of 17.0% at FYE18 to come down in the absence of capital infusion, as internal capital generation has not kept pace with above-industry loan growth. The company's reported NPL ratio increased to 2.3%, from 1.6% at FYE17, but remained below higher-rated peers amid challenging operating conditions.

- Singer Finance (Lanka) PLC (SFL)

SFL's rating reflects its small franchise and overall stable financial indicators. Capitalisation has been supported through rights issues, the most recent being in FY18. The company's reported NPL ratio increased, like that of peers, to a still-modest level of 2.1% at FYE18 and asset-quality pressure is likely to persist. SFL's profitability is better than that of peers', supported by higher-yielding assets. The rating is underpinned by Fitch's view that the rating of SFL's parent, retailing company Singer (Sri Lanka) PLC (A-(lka)/Stable), provides a floor for SFL's rating that is two notches lower. This reflects Singer's majority ownership in SFL and the common Singer brand.

- Mercantile Investments and Finance PLC (MIF)

MIF's rating reflects its long operating history and satisfactory capitalisation. It also captures MIF's high risk appetite, stemming from relatively weak underwriting standards, evolving risk controls that have affected asset quality and high reliance on concentrated short-term funding that has led to considerable negative maturity mismatches. We expect MIF's relatively weaker profitability to improve marginally in the medium term, aided by its high-yielding, non-lease products, and for the reported NPL ratio (FYE18: 7.6%) to remain elevated until the resolution of its single-largest NPL account (backed by collateral), which forms half of total NPLs. We attribute MIF's below-peer NPL provision coverage to the low allowances set aside for its largest NPL account. Finance Companies with Institutional Support-Driven Ratings

- People's Leasing & Finance PLC (PLC)

PLC's Issuer Default Rating (IDR) and National Long-Term Rating reflect Fitch's view that its parent, the state-owned and systemically important People's Bank (Sri Lanka) (AA+(lka)/Stable), would provide PLC with extraordinary support, if required. People's Bank's propensity to support PLC stems from PLC's group role as a strategically important subsidiary and the high reputational risk to People's Bank should PLC default, as the bank owns 75% of PLC and shares a common brand. People's Bank's ability to provide support to PLC is limited and stems from Sri Lanka's rating of 'B+'/Stable.

PLC plays an important role in the group, accounting for 10.3% of People's Bank's assets and 11.6% of loans at FYE18. PLC also has 101 window offices within People's Bank branches and board representation from People's Bank. PLC's reported NPL ratio increased to 2.7% at FYE18, from 1.3% at FYE17, due to unsecured term loans - a segment PLC has aggressively grown over FY15-FY17. Nevertheless, its NPL ratio remained better than that peer average.

- HNB Grameen Finance Limited (HGL)

HGL's rating reflects Fitch's expectation of support from its parent, Hatton National Bank PLC (HNB; AA-(lka)/Stable), Sri Lanka's fourth-largest domestic commercial bank. This view is based on HNB's majority 51% shareholding, its involvement in HGL's strategic direction through board representation and the common HNB brand. The two-notch differential reflects HGL's limited role in the group. HGL is mainly engaged in microfinance, which is not a significant product for HNB. Furthermore, there is limited operational integration between the entities.

- AMW Capital Leasing And Finance PLC (AMWCL)

AMWCL's rating reflects Fitch's view that support would be forthcoming from Associated Motorways Private Limited (AMW), which owns 90% of AMWCL, given the finance company's strategic importance to its parent, a large importer of motor vehicles in Sri Lanka. This is based on AMWCL's role in the group, the common AMW brand and the existence of common creditors, which contribute to high reputational risk for AMW if AMWCL were to default. Fitch sees the synergies between the two companies as high, since almost half of AMWCL's advances comprise facilities that are provided to clients who purchase AMW products. AMWCL also benefits from business referrals from its parent.

- Siyapatha Finance PLC (Siyapatha)

Siyapatha's rating reflects Fitch's expectation that support would be forthcoming from its 100% parent, Sampath Bank PLC (A+(lka)/Stable), which is involved in the strategic direction of the subsidiary through board representation. Siyapatha is rated two notches below its parent because of its limited role to the group's core business and different branding. Sampath Bank's leasing book accounted for just 7% of group loans at FYE18, of which half came from Siyapatha. Siyapatha also only accounted for 5% of group pre-tax profit in 2017.

DEBT RATINGS

The ratings on the senior debentures of PLC, CF, LB, Senka, SFL, MIF and Siyapatha are in line with the companies' National Long-Term Ratings, as they constitute their direct, unconditional, unsecured and unsubordinated obligations.

Fitch has not provided any rating uplift for the collateralisation of CF's and SFL's secured notes, as we consider recovery prospects as average and comparable with that of unsecured notes in a developing legal system. Subordinated debentures of LB, Senka and Siyapatha are rated one notch below the companies' National Long-Term Ratings to reflect their subordination to senior unsecured creditors.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS

Finance Companies with Intrinsic Strength-Driven Ratings

CF's ratings could be upgraded if its risk appetite moderates, which Fitch does not expect in the medium term. However, the rating could be downgraded if capital buffers are substantially eroded due to weakening asset quality and a prolonged rapid growth in the more vulnerable customer segments.

Downgrade triggers for LB include capital pressure from weaker profitability, increased liquidity risk or heightened risk appetite. This could be indicated through aggressive loan growth or deterioration in asset quality. An upgrade of LB's rating is contingent on the company achieving stronger capitalisation, lower risky asset exposure and a more comfortable liquidity position.

An upgrade of Senka's rating is contingent upon the company sustaining stronger capital levels and a more robust deposit franchise. Senka's rating could be downgraded if asset quality weakens, leading to a significant decline in capitalisation or excessive asset encumbrance.

We do not expect an upgrade of SFL's ratings from an improvement in its standalone strength, as its franchise is likely to remain significantly weaker than that of its more established, higher-rated peers. The more likely upgrade driver would be a stronger relationship with its parent, in particular, its strategic importance to Singer. A sustained deterioration in SFL's standalone credit profile in terms of capitalisation and asset quality relative to similarly rated peers would not result in a downgrade of SFL's rating, unless our assessment of parental support also changed.

MIF's ratings could be downgraded if its large maturity mismatches were to increase or if it experiences higher capital impairment risk due to sustained deterioration in profitability and asset quality. An upgrade of MIF's ratings is contingent upon a moderation of its risk appetite, as seen through better underwriting standards and risk controls alongside sustained improvement in asset quality and profitability.

Finance Companies with Institutional Support-Driven Ratings

A downgrade of PLC's IDR and National Ratings would occur if People's Bank's ability to support PLC was to weaken, if People's Bank's was to cede its majority ownership in PLC or if PLC's strategic importance to its parent was to diminish over time, reflecting a reduced propensity to support PLC. However, Fitch does not anticipate this in the foreseeable future. PLC's ratings are also sensitive to changes in the sovereign rating, as this would affect People's Bank's ability to provide support to PLC.

The ratings on HGL, AMWCL and Siyapatha are similarly sensitive to changes in Fitch's assessment of their respective parents' ability and propensity to provide support, none of which Fitch expects to change significantly in the short to medium term.

DEBT RATINGS

The ratings on the senior debt of CF, LB, Senka, SFL, MIF, PLC and Siyapatha will move in tandem with the companies' National Long-Term Ratings.

The assigned subordinated debt ratings will move in tandem with the National Long-Term Ratings.

FULL LIST OF RATING ACTIONS

Central Finance Company PLC: National Long-Term Rating affirmed at 'A+(lka)'; Outlook Stable Senior secured National Long-Term Rating affirmed at 'A+(lka)' Senior unsecured National Long-Term Rating affirmed at 'A+(lka)'

LB Finance PLC:

National Long-Term Rating affirmed at 'A-(lka)'; Outlook Stable Senior unsecured National Long-Term Rating affirmed at 'A-(lka)' Subordinated debt National Long-Term Rating affirmed at 'BBB+(lka)'

Senkadagala Finance PLC

National Long-Term Rating affirmed at 'BBB+(lka)'; Outlook Stable Senior unsecured National Long-Term Rating affirmed at 'BBB+(lka)' Subordinated debt National Long-Term Rating affirmed at 'BBB(lka)'

Singer Finance (Lanka) PLC

National Long-Term Rating affirmed at 'BBB(lka)'; Outlook Stable Senior secured National Long-Term Rating affirmed at 'BBB(lka)' Senior unsecured National Long-Term Rating affirmed at 'BBB(lka)'

Mercantile Investments and Finance PLC

National Long-Term Rating affirmed at 'BBB-(lka)'; Outlook Stable Senior unsecured National Long-Term Rating affirmed at 'BBB-(lka)'

People's Leasing & Finance PLC:

Long-Term Foreign-Currency Issuer Default Rating affirmed at 'B'; Outlook Stable Long-Term Local-Currency Issuer Default Rating affirmed at 'B'; Outlook Stable National Long-Term Rating affirmed at 'AA-(lka)'; Outlook Stable Senior unsecured National Long-Term Rating affirmed at 'AA-(lka)'

HNB Grameen Finance Limited:

National Long-Term Rating affirmed at 'A(lka)'; Outlook Stable AMW Capital Leasing And Finance PLC National Long-Term Rating affirmed at 'BBB+(lka)'; Outlook Stable

Siyapatha Finance PLC

National Long-Term Rating affirmed at 'A-(lka)'; Outlook Stable Senior unsecured National Long-Term Rating affirmed at 'A-(lka)' Subordinated debt National Long-Term Rating affirmed at 'BBB+(lka)'(Economy Next)

Sri Lanka's Melsta Regal Finance downgraded 8 notches after sale

Melsta Regal Finance (MRF) has been downgraded eight notches to 'B(lka)' from 'A+(lka)', after being placed on rating watch when it was sold to a unit of Fairfax Financial Holdings Limited by Sri Lanka's Melstacorp group.

The outlook is stable.

Fitch said the earlier higher rating came from the support from its parent.

Fitch said support from the new parent Fairfax Financial Holdings Limited (Fairfax), cannot be relied upon.

"Fitch believes Fairfax's stake in MRF is part of its portfolio of investments and does not have a strategic significance," the rating agency said.

"Fairfax is MRF's largest shareholder, with effective control of 70% via Bluestone1 (Private) Limited, an SPV (special purpose vehicle) established for the acquisition of MRF.

Melsta Regal Finance is now rated on its stand alone profile which involves a small franchise of 5 percent of finance company sector assets at end March 2018.

"MRF's ratings could be upgraded if the company increased its operating scale while maintaining asset quality and capitalisation at levels of higher-rated peers," Fitch said.

"However, a significant reduction in loss absorption buffers owing to asset-quality slippage could lead to a rating downgrade." (Economy Next)