FitchRatings

Fitch Affirms International Personal Finance plc at 'BB+'; Outlook Stable

Fitch Ratings-London-21 July 2016: Fitch Ratings has affirmed International Personal Finance Plc's (IPF) Long-Term Issuer Default Rating (IDR) at 'BB+', Short-Term IDR at 'B' and senior unsecured debt at 'BB+'. The Outlook on the Long-Term IDR is Stable.

KEY RATING DRIVERS
IDRS AND SENIOR DEBT
IPF's IDRs reflect the group's IPF's significant exposure to credit risk and adverse regulatory developments in its major markets. They also reflect IPF's profitable franchise in unsecured consumer lending in emerging markets and its low - albeit increasing - balance sheet leverage.

Conducting unsecured lending to consumers of low credit standing in emerging market countries carries inherent risks. Loan impairment is consistently high, and the group can at times be exposed to unexpected regulatory pronouncements, as demonstrated in 2015 by the introduction of new rate-capping legislation in both Poland and Slovakia.

In Poland, IPF's largest single market, this has required reworking of the group's local product offering, while in Slovakia the group has elected to withdraw from new lending altogether, but group management has significant experience in adapting its business model around such circumstances.

IPF's performance remained stable in 2015. Reported pre-tax profit was stable at GBP100.2m, but prior to exchange rate movements, incremental investment costs in the group's digital business and exceptional costs (principally in relation to the closure of the Slovakian business), showed a 10% improvement. Significant arrears are a feature of IPF's business model, with the group maintaining a target impairment-to-revenue ratio of 25%-30%. However, there is limited volatility in impairment, which is adequately provided for and priced into the group's lending.

Revenue growth was most significant in Mexico in 2015, and this remains one of the group's geographic areas of greater growth potential, as some of its European markets are by now more mature. Expansion is also expected in IPF's digital business, a combination of the group's own 2014 'hapiloans' development in Poland and the geographically wider operations of MCB Finance, a consumer finance company acquired in 2015. IPF does not hedge accounting profits or losses on its overseas earnings, which had a net negative impact in 2015, but which could draw benefit from recent sterling weakness.

IPF has calculated that applying the new Polish pricing regime to its loan portfolio written in the 12 months to 30 June 2015 would have reduced its profit by approximately GBP30m, but estimates that mitigating strategies within its subsequently revised product structure could offset up to half the negative financial impact. The legislation was signed in August 2015, but only became operative from March 2016, so has yet to impact reported results, with customer and competitor responses further influences on the total final effect.

IPF's total equity declined 9.5% in 2015 to GBP327m, as dividends, the repurchase of own shares and exchange losses on foreign currency translation exceeded net income. In conjunction with incurring GBP20.4m of goodwill on the acquisition of MCB Finance, this increased the ratio of debt-to-tangible equity to 1.98x (from 1.36x), but Fitch regards this as still adequately conservative for a lending business, notwithstanding the risks inherent within IPF's customer base.

Funding is wholesale market-focused, but geographically diversified via local currency bonds and bank facilities. In 2015 the group raised a further EUR100m (due 2021) under its euro medium term note programme and PLN200m (due 2020) under its Polish medium term note programme, contributing to year-end headroom under borrowing facilities of GBP133m. Liquidity and refinancing risks are significantly mitigated by the short duration of the customer loans made (1-2 years) relative to that of IPF's own borrowings, which the group seeks to renew on a rolling basis.

The rating of IPF's senior unsecured notes is in line with the group's Long-Term IDR, reflecting Fitch's expectation for average recovery prospects given that IPF's funding is predominantly unsecured.

The Stable Outlook on IPF's Long-Term IDR reflects our view that IPF should continue to report adequate profitability while maintaining leverage at current levels.

RATING SENSITIVITIES
IDRS AND SENIOR DEBT
The high-cost credit business and associated consumer protection issues remain subject to political and regulatory scrutiny in many countries. Should mitigation of the effects of the recent Polish law prove more difficult than expected, or further new legislation either in Poland or in other countries in which IPF operates place pressure on the capacity of its business model to generate the revenues required to counterbalance the group's operating costs and impairment risks, a downgrade could result.

Fitch does not expect a rating upgrade in the near term, in view of the changes taking place within the business, both in adapting to recent legislation and in developing the group's digital operations. However, in the longer term the rating could benefit from proven success in these areas, while maintaining a conservative balance sheet structure.

The senior debt rating is primarily sensitive to a change in IPF's Long-Term IDR.

Contact:

Primary Analyst
David Pierce
Director
+44 20 3530 1014
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Silvana Gandolfo
Analyst
+44 20 3530 1301

Committee Chairperson
Christian Kuendig
Senior Director
+44 20 3530 1399

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884128&cft=0)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1009216&cft=0)
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