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Key rating assessment factors

ACRA upgrades “TransFin-M” PC to BBB+(RU), changes outlook to Stable, and upgrades its bond issues to BBB+(RU)

The credit rating of [“TransFin-M” PC](#) (hereinafter, TransFin-M, or the Company) has been upgraded to BBB+(RU), outlook Stable, due to changes in the assessment of the Company’s business profile following the significant strengthening of its market positions as a result of an increase in the fleet of freight cars in operation in 2020 and taking into account Transfin-M’s plans to maintain this trend in early 2021.

The credit ratings of the Company’s bond issues, which are senior unsecured debt, have been upgraded to the issuer’s credit rating of BBB+(RU).

TransFin-M is a specialized leasing company focused on operational and (to a lesser extent) financial leasing of transportation. The Company is among the largest Russian leasing companies in terms of lease portfolio. TransFin-M is 70% owned by A. Taycher via JSC TFM-Garant. The Company’s senior executives control the remaining 30% in equal stakes.

TransFin-M’s business profile assessment has been upgraded to adequate due to the strengthening of the Company’s market positions mainly in operating leasing as a result of an increase in the fleet of railway cars in 2020 to about 50,000 units (in 2021 this trend will continue and the fleet may increase to 75,000 units). In April 2020, the Russian Ministry of Transport included TransFin-M in the list of the country’s systemically important transport enterprises. At the same time, the Company’s strategy envisages further development of the existing areas of activity (operational leasing of rolling stock and special equipment, leasing of port equipment) due to the fact that TransFin-M’s managers have many years of expertise in these areas. The concentration of the portfolio on rolling stock remains high at around 80%. ACRA also notes the poor diversification of the lease portfolio by clients, as the share of the ten largest lessees is around 90%. In addition, the majority of customers, which account for at least 70% of the lease portfolio, are affiliated with the Company. At the same time, the ultimate asset structure is more diversified, as the majority of clients enter into subleasing transactions with a wide range of counterparties.

Adequate capital adequacy assessment. Transfin-M’s capital adequacy ratio (CAR) amounted to 24.5% as of June 30, 2020. The Company’s ability to generate capital is adequate (the average capital generation ratio (ACGR) for 2015–2019 amounted to approximately 80 bps). No dividend payments are expected for 2020.

The high risk profile assessment is primarily based on the Company maintaining a low share of problem and potential problem debt in the lease portfolio (no more than 5%). Furthermore, in 2020 the Company sold a considerable part of its non-core assets, which also improved its financial performance. However, ACRA notes that a loan was provided to a shareholder (RUB 55.6 bln or a third of assets), which will be repaid using dividends from the Company. This may lead to increased credit risks in the long-term.

The Company’s funding structure remains highly concentrated in terms of sources and lenders. As of June 30, 2020, the Company’s main source of funding was debt securities (60% of liabilities), while loans accounted for another 11%. The largest creditor accounted for no less than 30% of liabilities.

Satisfactory liquidity position. Considering the significant share of encumbered fixed assets and investments in leasing on the balance sheet of TransFin-M, the amount of available assets that can be used to raise additional liquidity is limited. The Company has satisfactory cash reserves at the end of each quarter over the next year in ACRA’s

base case scenario, as the forecasted ratio of current liquidity averages 1.05. In ACRA's stress scenario, the Company's need to raise emergency liquidity is elevated.

Key assumptions

- Maintaining the current business model within the 12 to 18-month horizon;
- CAR above 15% within the 12 to 18-month horizon;
- Annual growth rate of the lease portfolio within 10%.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Higher capital generation while maintaining high CAR;
- Considerable increase in the diversification of the funding structure;
- Pronounced improvement in the liquidity position.

A negative rating action may be prompted by:

- Weakened market positions;
- Lower capital generation in the case of dividend payments and/or substantial decrease in CAR due to active business expansion, increase in the cost of risk, or M&A deals;
- Deterioration of lease portfolio quality;
- Significant deterioration of liquidity position.

Rating components

SCA: bbb+.

Adjustments: none.

Support: none.

Issue ratings

[“TransFin-M” PC, 001P-02-6o6 series \(RU000A0JXK99\)](#), maturity date: February 22, 2027, issue volume: RUB 5 bln — **BBB+(RU)**.

[“TransFin-M” PC, 001P-03-6o6 series \(RU000A0JXVB1\)](#), maturity date: June 28, 2027, issue volume: RUB 500 mln — **BBB+(RU)**.

[“TransFin-M” PC, 001P-04 series \(RU000A0ZYEB1\)](#), maturity date: October 14, 2027, issue volume: RUB 10 bln — **BBB+(RU)**.

[“TransFin-M” PC, 001P-05 series \(RU000A0ZYFS2\)](#), maturity date: November 3, 2027, issue volume: RUB 600 mln — **BBB+(RU)**.

[“TransFin-M” PC 001P-06 series \(RU000A100TS6\)](#), maturity date: September 3, 2029, issue volume: RUB 5 bln — **BBB+(RU)**.

Rationale. The bonds listed above represent senior unsecured debt of “TransFin-M” PC. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the reimbursement rate for unsecured debt is category II. Therefore, the bond issues are assigned the credit rating of **BBB+(RU)**, i.e. on par with [“TransFin-M” PC](#).

Regulatory disclosure

The credit ratings have been assigned to “TransFin-M” PC and the bonds (ISIN RU000A0JXK99, RU000A0JXVB1, RU000A0ZYEB1, RU000A0ZYFS2, RU000A100TS6) issued by “TransFin-M” PC under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Leasing Companies Under the National Scale for the Russian Federation](#), the [Methodology for Analyzing Member Company](#)

[Relationships within Corporate Groups](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of "TransFin-M" PC and the bonds (ISIN RU000A0JXK99, RU000A0JXVB1, RU000A0ZYEB1, RU000A0ZYFS2, RU000A100TS6) issued by "TransFin-M" PC were published by ACRA for the first time on August 2, 2017, August 23, 2017, August 23, 2017, November 14, 2017, February 20, 2018, and September 16, 2019, respectively. The credit rating of "TransFin-M" PC and its outlook and the credit ratings assigned to the abovementioned bonds issued by "TransFin-M" PC are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by "TransFin-M" PC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS consolidated statements of "TransFin-M" PC and the financial statements of "TransFin-M" PC drawn up in compliance with RAS. The credit ratings are solicited, and "TransFin-M" PC participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by "TransFin-M" PC in its financial statements have been discovered.

ACRA provided additional services to "TransFin-M" PC. No conflicts of interest were discovered in the course of credit rating assignment.

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