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Key rating assessment
factors

ACRA affirms A+(RU) to State Transport Leasing Company PJSC, outlook Stable, and A+(RU) to bond issues

The credit rating of [State Transport Leasing Company PJSC](#) (hereinafter, STLC or the Company) is based on a high likelihood of extraordinary support from the state. The standalone creditworthiness assessment (SCA) of the Company is satisfactory. Compared to other RF-based issuers, the Company's creditworthiness is assessed as high.

STLC is a specialized company focused on financial and operating lease of transportation vehicles. Being a 100% state-owned company (its sole shareholder is the Russian Government represented by the Ministry of Transport), STLC is instrumental in implementation of the state transportation development programs.

According to ACRA estimates, in 2017, STLC was among leading companies in terms of net lease investments and operating lease (IFRS lease portfolio).

High likelihood of extraordinary support from the federal government is attributable to the role STLC plays in the implementation of the state industrial and transportation development programs. The Company's capital was formed through a series of capital injections from the state (over RUB 69 bln in total, including RUB 11.3 bln in 2017) used to finance transport vehicle leases granted to certain industries, which the government views as its priorities but whose growth is held back by high costs of corporate funding. In ACRA's opinion, the likelihood of state support to STLC is high, taking into account growing importance of STLC in the transportation industry of Russia and potential further capital inflow from the government (RUB 14.8 bln by late 2018). At the same time, ACRA notes that in case the financial standing of the Company deteriorates, budgetary injections would be high enough but not burdensome for the national economy. The ACRA's opinion about state support is expressed in that the resulting Company rating is four notches below the rating of the Russian Federation.

Adequate business profile is based on the Company's very strong standing at the Russian leasing market (STLC is among top leasing companies in Russia in terms of IFRS lease portfolio) and the vehicle lease segment. The factor's assessment is limited by the persistent concentration of the Company's lease portfolio on lessees (as of end-2017, the share of top 10 clients was 64% of the IFRS lease portfolio) and leased aircraft (51% of the portfolio), although ACRA notes that the concentration has been declining over the last two years. The Company will further diversify its portfolio through wider lease of rolling stock and ships.

Substantial loss absorption buffer is coupled with limited capital generation capacity. STLC has a sizable capital cushion due to multiple capital increases in 2015–2017 aimed at implementing the SSJ100 aircraft leasing program and other state-run projects. As of end-2017, the Company's capital adequacy ratio (CAR) amounted to 19.9% (in 2017, the ratio was 25% due to increased market funding). In view of the anticipated capital increases, we do not expect the CAR to go down below 15% by late 2018, so that the loss absorption buffer will remain comfortable. STLC's internal capital generation capacity has remained low: in 2012–2017, the average capital generation ratio (ACGR) amounted to -15 bps. The Company's profitability is strongly limited by non-commercial (privileged) leasing programs; however, the loss of RUB 3.8 bln suffered by the Company in 2017 was caused by a one-off allocation of the estimated reserve for currency-denominated liabilities and the reserve for receivables under lease agreements terminated in 2017. ACRA notes that the purposes of STLC, as an agent established to implement the state transportation policy, do not require STLC to maintain high returns.

Satisfactory risk profile. As at end-2017, the share of lease contracts with payments overdue for 90+ days in the Company's lease portfolio was low: RUB 19.6 bln or 3.7% of the total lease payments due. The accounts receivable under terminated lease agreements is about RUB 6.8 bln, which is 100% covered by reserves. On the other hand, ACRA notes that certain large lessees (whose receivables are estimated at 9.7% of lease payments due) do not have sufficient cash flow to timely make repayments on the long-term horizon, which may result in the need to restructure corresponding lease contracts.

Balanced funding structure. The Company's liabilities are well diversified: as at end-2017, they included mainly bonds (57%), bank loans (32%), and financial lease liabilities (6.4%). The Company's dependence on certain lenders is assessed as acceptable: payables due to the largest lender amounted to 10.7% of the total liabilities of STLC, while payables due to five largest lenders stood at 32.6%.

Adequate liquidity position. Under the ACRA's base case scenario (and taking into account the Company's plans to build up its leasing business), the Company shows notable positive cash reserves (the quick ratio is at least 1.1–1.2) at the end of each quarter within the 12 to 24-month horizon. No peak repayments are expected to take place, and there is no need for significant refinancing of current liabilities in the above period. Under the ACRA stress scenarios, the Company shows a moderate need of emergency liquidity.

STLC plays a crucial supporting role for the Russian Ministry of Transport in implementing a number of state-run programs in the transportation sector; the Company's services are high in demand, first, in the aircraft segment, as well as in other niche transport segments. ACRA regards this factor as a significant competitive advantage not reflected in the Company's SCA. This translates into a higher creditworthiness of the Company, which in turn, results in one rating notch up to the SCA.

Key assumptions

- Current business model will undergo no changes within the 12 to 18-month horizon;
- CAR will be at least 15% within the 12 to 18-month horizon;
- The share of problem receivables will be within 10–15%;
- The Company will further maintain the current funding structure.

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:

- Increased systemic importance of the Company resulting from growing state funding and higher Company's involvement in the state transportation policy.

A negative rating action may be prompted by:

- Loss of controlling share in the Company by the Russian Federation, or a lower propensity of the controlling shareholder for support the Company;
- Lower systemic importance of the Company for the national economy.

Rating components

Standalone creditworthiness assessment (SCA): bb.

Adjustment: 1 notch up to the SCA.

Support: state support, 4 notches down against the RF.

Issue ratings

[STLC, 001P-11 series \(RU000A0ZZAL5\)](#), maturity date: June 03, 2033, issue volume: USD 150 mln, — **A+(RU)**.

[STLC, 001P-10 series \(RU000A0ZZ984\)](#), maturity date: May 20, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-09 series \(RU000A0ZZ1J8\)](#), maturity date: March 18, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-08 series \(RU000A0ZYR91\)](#), maturity date: January 18, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-07 series \(RU000A0ZYNY4\)](#), maturity date: December 31, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-06 series \(RU000A0ZYAP9\)](#), maturity date: September 01, 2032, issue volume: RUB 20 bln, — **A+(RU)**.

[STLC, 001P-04 series \(RU000A0JXPG2\)](#), maturity date: April 06, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-03 series \(RU000A0JXE06\)](#), maturity date: January 22, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-02 series \(RU000A0JX199\)](#), maturity date: November 24, 2031, issue volume: RUB 7.78 bln, — **A+(RU)**.

Credit rating rationale. The issues represent senior unsecured debt instruments of [PJSC "STLC"](#). Due to the absence of either structural or contractual subordination of the issues, ACRA regards them *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to the ACRA methodology, unsecured debt repayment level corresponds to category II; therefore, the credit rating of the above issues is equivalent to that of STLC.

Regulatory disclosure

The credit ratings were assigned to State Transport Leasing Company PJSC and bonds (ISIN RU000A0JX199, RU000A0JXE06, RU000A0JXPG2, RU000A0ZYAP9, RU000A0ZYNY4, RU000A0ZYR91, RU000A0ZZ1J8, RU000A0ZZ984, RU000A0ZZAL5) issued by State Transport Leasing Company PJSC under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Leasing Companies Under the National Scale for the Russian Federation, the [Methodology for Analyzing Relationships Between Rated Entities and the State](#), 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 of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating of State Transport Leasing Company PJSC was first published by ACRA on June 28, 2017 and the credit ratings assigned to the bonds issued by State Transport Leasing Company PJSC were first published by ACRA on July 25, 2017 (RU000A0JX199, RU000A0JXE06, RU000A0JXPG2), September 21, 2017 (RU000A0ZYAP9), January 23, 2018 (RU000A0ZYNY4), February 06, 2018 (RU000A0ZYR91), April 06, 2018 (RU000A0ZZ1J8), June 08, 2018 (RU000A0ZZ984) and June 22, 2018 (RU000A0ZZAL5). The credit rating of State Transport Leasing Company PJSC and its outlook as well as the credit ratings of the above bonds are expected to be revised within one year following the rating action date (June 26, 2018).

The credit ratings were assigned based on the data provided by State Transport Leasing Company PJSC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using consolidated IFRS financial statements of State Transport Leasing Company PJSC. The credit ratings are solicited, and State Transport Leasing Company PJSC participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by State Transport Leasing Company PJSC in its financial statements have been discovered.

ACRA provided no additional services to State Transport Leasing Company PJSC. No conflicts of interest were discovered in the course of credit rating process.

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