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Key rating assessment factors

ACRA upgrades "Element Leasing" LLC to A-(RU), outlook Stable, and the bonds to A-(RU)

The credit rating of "[Element Leasing](#)" LLC (the Company) has been upgraded due to a positive change in the ACRA's assessment of the Company's common capital in view of higher average capital generation ratio (ACGR) and capital adequacy ratios.

The Company is a specialized lease company focused on the financial lease in transportation means, mostly, trucks and minibuses. The controlling beneficiary of the Company is Ms. T. Polyakova who owns 99.99% share in the Company.

Adequate business profile assessment. ACRA notes strong competitive advantages and significant operational experience of the Company in the field of truck leasing, which allows the Company to consistently be among the leaders in this segment. The Company's specialization increases the sensitivity of its new business and market positions to the demand for commercial vehicles, however this is offset by the high diversification of its lease portfolio by customer and the relatively high liquidity of this type of property. The quality of corporate governance and risk management is considered by ACRA as 'adequate'.

The Company's capital adequacy assessment has been upgraded on the growing ACGR. In 2014–2018, the ACGR is estimated at around 200 bps (estimation at the end of 2017 is about 100 bps), and ACRA does not expect a significant decrease in this ratio in the medium term. In addition, the Company's loss absorption buffer remain comfortable. The Company has a sound capital reserve: at the end of September 2018, the capital adequacy ratio (CAR) was 18.8% (+3.5% y-o-y).

High quality of lease portfolio. Motor vehicle leasing specialization allowed the Company to avoid losses seen in the leasing market as a whole in periods of economic recession. At the same time, the efficiency of managing distressed debts is estimated as quite high. As of the end of September 2018, the share of leasing contracts with payments overdue for 30+ days was 5.0%, 90+ days – 0.6%, and about 0.2% of the leasing portfolio was restructured. The magnitude of market and operational risk is considered insignificant.

The funding structure of the Company is moderately diversified. The Company's liabilities mainly include bank loans (35%) and debt securities (37%). Three bond issues of the Company are outstanding, but the overwhelming share (99.8%) of the Company's liabilities falls on the 001R-01 series bond, which is expected to be repaid smoothly through the life of the issue. With the repayment of the bonds, the share of bank funding may grow. The share of the top five lenders is estimated as satisfactory (32%).

Comfort liquidity position. In the base case scenario of ACRA (taking into account the Company's growth plans in a new business), the Company shows an insignificant positive cash reserve in each calendar quarter on the 12 to 24-months horizon (the estimated liquidity ratio is slightly above 1.0). In the stress scenario of ACRA, the liquidity shortage is substantial, but the Company's specialization allows it to manage cash flows by regulating the number of newly concluded lease contracts.

- No changes to the business model within the 12 to 18-month horizon;
- CAR of at least 15% within the 12 to 18-month horizon;
- The share of lease contracts with overdue payments below 5%.

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

Key assumptions

Potential outlook or rating change factors

A positive rating action may be prompted by:

- Increasing diversification of the lease portfolio by type of property;
- Better liquidity position.

A negative rating action may be prompted by:

- A substantial decrease in the CAR due to active business growth or risk costs increase;
- Lower capital generation capacity assessment;
- Substantially deteriorating quality of the lease portfolio;
- Deteriorating liquidity position.

Rating components**Standalone creditworthiness assessment (SCA):** a-.**Adjustments:** no.**Support:** no.**Issue ratings**

[Bond loan, Exchange-traded interest-bearing certified unregistered bond issued by "Element Leasing" LLC, 001P-01 series \(RU000A0ZZ0L6\)](#), maturity date: March 26, 2021, issue volume: RUB 5 bln — **A-(RU)**.

Credit rating rationale. The issue credit rating has been upgraded from BBB+(RU) to A-(RU) following the upgrade of the Company's rating. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to the ACRA methodology, the repayment level of unsecured debt belongs to category II; therefore, the credit rating of the issue is equivalent to that of ["Element Leasing" LLC](#), i.e. A-(RU).

Regulatory disclosure

The credit ratings assigned to "Element Leasing" LLC and the bond (ISIN RU000A0ZZ0L6) issued by "Element Leasing" LLC under the national scale for the Russian Federation are 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 a credit rating to the above bond issue.

The credit ratings assigned to "Element Leasing" LLC and the bond (ISIN RU000A0ZZ0L6) issued by "Element Leasing" LLC were first published by ACRA on January 19, 2018 and April 16, 2018, respectively. The credit rating and credit rating outlook of "Element Leasing" LLC and the credit rating of the bond (ISIN RU000A0ZZ0L6) issued by "Element Leasing" LLC are expected to be revised within one year following the rating action date (January 17, 2019).

The assigned credit ratings are based on the data provided by "Element Leasing" LLC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of "Element Leasing" LLC and statements of "Element Leasing" LLC composed in compliance with RAS. The credit ratings are solicited, and "Element Leasing" LLC participated in the rating process.

No material discrepancies between the provided data and the data officially disclosed by "Element Leasing" LLC in its financial statements have been discovered.

ACRA provided no additional services to "Element Leasing" LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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