

## ACRA DOWNGRADES PIONEER LEASING LTD. TO BB-(RU), CHANGES OUTLOOK TO NEGATIVE, AND DOWNGRADES BONDS (RU000A102LF6) TO BB-(RU)

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The credit rating of **Pioneer Leasing Ltd.** (hereinafter, the Company) has been downgraded to BB-(RU) due to the deterioration of the capital adequacy assessment to very weak and the worsening of the risk profile assessment to satisfactory. The decrease in these assessments is associated with an increase in the share of investments in non-core assets on the Company's balance sheet, an increase in potentially problematic (according to ACRA's estimates) debt in the leasing portfolio, as well as a deterioration in the averaged capital generation indicator. The credit rating is also affected by the moderately low business profile and satisfactory funding and liquidity assessments.

The credit rating outlook has been changed from Stable to Negative to reflect expectations of lower stability of the Company's business, including due to the risk of deterioration of the funding and liquidity position. This is possible due to both the withdrawal of the license from the bank that was the main creditor of the Company, and the likelihood of difficulties for the Company if it is necessary to attract emergency liquidity in the event of a stress scenario. When the forecast was changed, the risk of a significant shift in the Company's funding structure toward securities was also taken into account.

Pioneer Leasing Ltd. is a leasing company that has operated in the leasing market for more than 12 years. The Company leases out buses, passenger and cargo transport, special equipment, equipment, and real estate. The Company's clients are SMEs, entrepreneurs, and individuals mainly in the Volga Federal District, which accounted for 76% of the Company's portfolio as of March 31, 2021. Since 2016, the Company has been the parent company of JSC «NFK-Savings», a professional participant in the securities market. The group includes two other companies that were created for IT projects. The owners of the Company are E. L. Naumov (51.22%) and V. E. Ponomarev (48.78%).

### KEY ASSESSMENT FACTORS

**Moderately low business profile assessment.** As of H1 2021, the Company held relatively low market positions in terms of the size of the leasing portfolio and new business. In 2020, the Company's leasing portfolio grew by 14% and new business grew by 4%. As of the end of Q1 2021, the portfolio had declined to the level recorded at the end of Q1 2020 due to reduced activity on the part of counterparties and the termination of a number of contracts. Growth resumed in Q2, and thanks to this, the portfolio grew by 28% over the first six months of the year compared to the start of the year and amounted to RUB 1,546 mln. ACRA has lowered its assessment of the business stability factor, but in general the Company's business profile has declined only slightly compared to the assessment made as of credit rating assignment. Portfolio

diversification remains low — it is mainly made up of the bus and minibus segment (66%), with other segments accounting for 13% (printing equipment), 8% (real estate), and 6% (passenger and cargo transport).

ACRA notes positive dynamics in the change in diversification by clients and regions of presence. The largest client accounts for 21% of the portfolio, and the five largest counterparties form 63% of the portfolio (compared to 23% and 70% a year earlier, respectively). The share of the key region in the portfolio has also declined — from 85% to 76%. ACRA assesses the quality of the Company's corporate governance and risk management system as satisfactory. In addition to its main leasing operations, the Company performs management functions in relation to its subsidiaries. To optimize processes, the Company outsources a number of its functions to subsidiaries. In particular, JSC «NFK-Savings» assesses the Company's risk and acts as the organizer and underwriter for the placement of the Company's securities. The Company operates within the framework of its approved strategy, which in the medium and long terms assumes further growth and development of the Company.

**The capital adequacy assessment has been downgraded from weak to very weak** due to the deterioration of the averaged capital generation ratio (ACGR) amid a consistently low capital adequacy ratio (CAR). In the same way as the calculations made by the Agency when assigning a credit rating to the Company last year, to determine the CAR, the Company's capital was adjusted for the volume of investments in its subsidiary NFK-SI Ltd. Due to the business structure and balance sheet of NFK-SI Ltd, these are essentially investments in intangible assets and exceed the amount of internal funds on the Company's balance sheet. ACGR amounts to -60 bps for the last five years, taking into account adjustments for income and expenses that are atypical for the Company's core business.

**The risk profile assessment has been downgraded from adequate to satisfactory** due to the growth of potentially problem debt, as well as an increase in the share of impaired non-core assets on the balance sheet. According to the analysis of the Company's leasing portfolio, potentially problem debt amounted to around 8% as of March 31, 2021. The assessment was made taking into account contracts that were terminated in Q1 2021 due to failure to perform leasing payments. ACRA notes that the property leased by the Company has high liquidity, therefore the Company did not incur losses during its sale. As of March 31, 2021, the share of contracts with payments overdue for more than 90 days amounted to 1% of the leasing portfolio, while there were no forcedly restructured contracts. The share of investments in JSC «NFK-Savings» on the Company's balance sheet had increased to 26% as of March 31, 2021 compared to 16% as on the same date in 2020. ACRA notes that there are assets on the balance sheet subject to impairment risks as an additional risk factor that limits the risk profile assessment.

**Satisfactory funding and liquidity assessment.** The Company's funding structure is moderately diversified. As of March 31, 2021, issued debt securities accounted for 60% of the Company's liabilities (51% of as March 30, 2020)

The portfolio of debt securities includes bonds and promissory notes at a percentage ratio of approximately 60% to 40%. Currently, there are four bond issues in circulation equaling RUB 937 mln (placement of the fourth issue is under way). Securities are sold via companies associated with the rated entity. Bank loans account for 12% of the Company's liabilities.

The satisfactory liquidity position is based on a moderately high forecast current liquidity ratio within the 12 to 24-month horizon, standing at more than 1.0 in ACRA's base case scenario (taking into account plans for new business growth and existing contracts). In ACRA's stress scenario, there is a need to attract emergency liquidity. As of March 31, 2021, practically 90% of the Company's bank loans were issued by a bank whose license was revoked in 2021, and therefore in the event of the stress scenario materializing, the Company will have limited capacity to attract emergency liquidity, taking into account the need to replace the source of funding.

## KEY ASSUMPTIONS

- Maintaining the current business model within the 12 to 18-month horizon;
- Share of leasing contracts with outstanding payments below 10%.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Negative outlook** assumes that the rating may be downgraded within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Significantly strengthened position in the leasing market;
- Higher capital adequacy and ACGR;
- Significant reduction of non-core assets on the balance sheet.

### A negative rating action may be prompted by:

- Deterioration in funding and/or liquidity position;
- Problem debt exceeding 10% of the total leasing portfolio.

## RATING COMPONENTS

SCA: **bb-**.

Adjustments: none.

Support: none.

## ISSUE RATINGS

Uncertified non-convertible exchange-traded interest-bearing bond of Pioneer Leasing Ltd. subject to centralized title registration, BO-P04 series (ISIN RU000A102LF6), maturity date: December 13, 2030, issue volume: RUB 350 mln — BB-(RU).

**Rationale.** The issue is a senior unsecured debt instrument of the Company. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as equal to other existing and future unsecured and unsubordinated debt obligations of the Company in terms of priority. The recovery rate for the bond issue belongs to category II as per ACRA's methodology. Therefore, the bond issue is assigned the credit rating BB-(RU), i. e. on par with the credit rating of Pioneer Leasing Ltd.

## REGULATORY DISCLOSURE

The credit ratings of Pioneer Leasing Ltd. and the bond issue of Pioneer Leasing Ltd. (ISIN RU000A102LF6) have been assigned under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Leasing Companies on the National Scale for the Russian Federation](#) 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 on the National Scale for the Russian Federation](#) was also applied to assign the credit rating to the above issue.

The credit ratings of Pioneer Leasing Ltd. and the bond issue of Pioneer Leasing Ltd. (ISIN RU000A102LF6) were published by ACRA for the first time on August 24, 2020 and December 25, 2020, respectively. The credit rating of Pioneer Leasing Ltd. and its outlook and the credit rating of the bond issue of Pioneer Leasing Ltd. (ISIN RU000A102LF6) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by Pioneer Leasing Ltd., information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the RAS statements of Pioneer Leasing Ltd. The credit ratings are solicited, and Pioneer Leasing Ltd. participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

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