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Key rating assessment
factors

ACRA upgrades JSC «LC «Europlan» to A(RU), outlook Stable, and its bonds to A(RU)

The credit rating of [JSC «LC «Europlan»](#) (hereinafter — Europlan, or the Company) has been upgraded on the stronger Company's business profile that pushed its standalone creditworthiness assessment (SCA) up to "a." The issue credit rating has been upgraded following the upgrade of the Company's rating.

Europlan is a leading motor lease company operating a large branch network covering all federal districts of the Russian Federation. The Company is focused on financial lease services provided primarily to small and medium-sized enterprises with respect to passenger, cargo, commercial vehicles and construction machinery. The largest beneficiaries of the Company are Said and Mikhail Gutserievs, who jointly own 33.31% of shares through PJSC "SAFMAR Financial Investments" (hereinafter, the Supporting Institution); around 60% of shares are owned by other shareholders.

The Company's business profile assessment has been upgraded based on a higher quality assessment of the corporate governance and risk management sub-factors, which have contributed to the effective implementation of corporate strategy and the financial performance outpacing the peers during long period of time. The leasing portfolio diversification is high (top 30 clients account for less than 8% of the leasing portfolio); at the same time, the concentration on leased items (cars and trucks) is assessed as significant (passenger and cargo vehicles account for 92% of the portfolio), which, however, is offset by a relatively high liquidity thereof. The Company's transactions with related parties are minimal.

Europlan's stable capital position is primarily based on availability of a substantial loss absorption buffer considering high capital adequacy ratio (CAR) at 18.7% as at September 30, 2018 as well as the Company's strong capital generation capacity without any external injections (the averaged capital generation ratio (ACGR) exceeded 450 bps in the last five years, taking into account the dividend of RUB 1.4 bln paid out in 2018).

Strong risk profile assessment is possible primarily by virtue of high quality of the leasing portfolio where potentially problem debt, in ACRA's opinion, is below 0.7% (based on analysis of top 30 lessees) including the share of NPL90+ not exceeding 0.03% of the portfolio. The industry concentration of the leasing portfolio is acceptable. There are no investments into non-core assets booked on the Company's balance sheet. Market and operational risks are negligible.

Funding structure of Europlan is moderately diversified considering availability of two large funding sources: issued debt securities (28% of total liabilities and equity) and bank loans (47% of total liabilities and equity). At the same time, the concentration of liabilities on the largest creditor and top five largest creditors is high (40% and 47%, respectively). The share of related parties in the liabilities is insignificant (about 3%).

Comfortable liquidity position stems from Europlan's capacity and ability (in view of its business specifics) to promptly respond to economic trends in terms of effective demand changes. At the same time, the projected current liquidity ratio in the next 24 months would equal 1.04 in ACRA's base case scenario. In the above period, there are no needs in substantial refinancing of current liabilities. However, in its stress scenarios, ACRA assesses the Company's needs in emergency liquidity as elevated, while the liquidity sources are concentrated on the largest creditor.

Key assumptions

- No changes to the business model within the 12 to 18-month horizon;
- Business growth rates of 15%-20% in 2019-2020;
- CAR of at least 15% within the 12 to 18-month horizon.

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:

- A substantial growth in financial stability of Company's related parties;
- A decrease in Company's needs to raise emergency liquidity (in case of negative economic changes);
- Lower resource base concentration on the largest source and/or creditor.

A negative rating action may be prompted by:

- A substantial deterioration in the financial standing of the Supporting Institution or related entities of the Company and the accompanying risk of liquidity outflow in their favor;
- A substantial CAR decrease due to active business growth, dividend payments, or increase in the cost of risk;
- A significantly deteriorating quality of the leasing portfolio;
- Negative changes in liquidity position.

Rating components

Standalone creditworthiness assessment (SCA): a.

Adjustments: no.

Support: no.

Issue ratings

[JSC «LC «Europlan», certified exchange-traded interest-bearing non-convertible unregistered bond subject to mandatory deposit, BO-08 series \(ISIN RU000A0ZZBV2\)](#), maturity date: June 20, 2028, issue volume: RUB 5 bln — A(RU).

Credit rating rationale. The issue credit rating has been upgraded from A-(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 [JSC «LC «Europlan»](#), i.e. A(RU).

Regulatory disclosure

The credit ratings assigned to JSC «LC «Europlan» and the bond (ISIN RU000A0ZZBV2) issued by JSC «LC «Europlan» 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 JSC «LC «Europlan» and the bond (ISIN RU000A0ZZBV2) issued by JSC «LC «Europlan» were first published by ACRA on December 28, 2017 and July 03, 2018, respectively. The credit rating and credit rating outlook of JSC «LC «Europlan» and the credit rating of the bond (ISIN RU000A0ZZBV2) issued by JSC «LC «Europlan» are expected to be revised within one year following the rating action date (December 26, 2018).

The assigned credit ratings are based on the data provided by JSC «LC «Europlan», information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of JSC «LC «Europlan» and statements of JSC «LC «Europlan» composed in compliance with RAS. The credit rating is solicited, and JSC «LC «Europlan» participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by JSC «LC «Europlan» in its financial statements have been discovered.

ACRA provided no additional services to JSC «LC «Europlan». No conflicts of interest were discovered in the course of credit rating assignment.

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