FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms International Personal Finance at 'BB-'; Outlook Stable

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Fitch Ratings - London - 21 Sep 2023: Fitch Ratings has affirmed International Personal Finance plc's (IPF) Long-Term Issuer Default Rating (IDR) and senior unsecured debt rating at 'BB-'. The Outlook on the Long-Term IDR is Stable. A full list of ratings is below.

KEY RATING DRIVERS

Low Leverage, High Impairment: IPF's rating reflects its low balance-sheet leverage and structurally profitable business model despite high loan impairment charges, supported by a cash-generative short-term loan book. The ratings remain constrained by IPF's focus on higher-risk customers, product evolution and the sector's susceptibility to changes in regulator sentiment, although historically this has been handled well by management.

Heightened Asset Quality Risk: We expect IPF's loan impairment charges to increase moderately in 2023 and 2024 as the company rebuilds its scale post-pandemic, particularly in Mexico, which generally carries a higher credit cost than Europe. IPF's Fitch-calculated loan impairment charges/average gross loan ratio increased to 12.9% in 1H23 (annualised) from 8.5% in 2022.

Furthermore, the rising cost of living, increasing interest rates and low global economic growth may pressurise borrowers' repayment capacity in the near term, increasing asset quality pressure. However, asset quality remains within IPF's own risk appetite, and above pre-pandemic levels, as since 2020 the company has increased its focus on the stronger end of its credit spectrum.

Sound Profitability: IPF's profitability remained sound in 1H23, with pre-tax income/average assets of 6.4%. although it declined from 7.1% in 2022 due to the normalisation of loan impairment charges in the post-pandemic period. We expect IPF's overall profitability to moderate further in 2023 due to the full impact of regulatory cap and affordability regulation in the Polish businesses on IPF's overall interest yield, higher funding costs, increasing loan impairment charges and inflationary impact on operating costs.

Low Leverage: IPF's gross debt/tangible equity ratio declined to 1.9x at end-1H23 from 2.2x at end-2022 due to a combined effect of reduced interest-bearing liabilities and an improved equity base via earnings retention. IPF's leverage is a credit strength and moderate for a lending business focused on non-prime customers and bearing significant impairment risk. We expect a gradual increase in IPF's leverage in the medium term with the expansion of its loan book.

Extended Maturity Profile: IPF extended its debt maturity profile via a GBP50 million issuance in November 2022, reducing near-term refinancing risk, albeit at a higher funding cost. IPF's next 12-month refinancing requirement as of end-June 2023 is GBP59.5 million, which is equivalent to 11.4% of total borrowings. IPF's cash-generative and short-term loan portfolio (with average maturity of 12.7 months at end-1H23) and funding headroom (undrawn facilities and non-operational cash balances) of GBP84 million should support the liquidity profile.

Nevertheless, IPF's funding profile is still susceptible to medium-term refinancing risk, given the higher maturity spike in 2025 of GBP 292.8 million, which is equivalent to around 25% of total assets at end-1H23.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Difficulty in accessing funding markets, leading to material shortening in IPF's maturity profile or reduction in liquidity headroom

- A marked deterioration in asset quality amid macroeconomic pressures, reflected in weaker collections, higher loan impairments pressurising profitability or an increase in unreserved problem receivables

- An increase in regulatory interventions (e.g. related to rate caps or early settlement rebates) with a material negative impact on IPF's capacity to conduct profitable business

- Significant weakening of solvency, with gross debt/tangible equity exceeding 5.5x, or material depletion of headroom against IPF's gearing (gross debt/total equity) covenant of 3.75x

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Strengthening of IPF's funding profile via diversification by source, lengthening of average tenor and removal of maturity spikes;

- Continued rebuilding of scale, while maintaining a pre-tax income/average assets ratio above 4.0%

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

IPF's senior unsecured notes' rating is in line with its Long-Term IDR, reflecting Fitch's expectation for average recovery prospects, given that all of IPF's funding is unsecured and ranks pari-passu with other senior unsecured creditors.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

IPF's senior unsecured debt rating will move in tandem with its Long-Term IDR, in the absence of introduction of a material secured or subordinated debt tranche.

ADJUSTMENTS

The Standalone Credit Profile has been assigned in line with the implied Standalone Credit Profile

The business profile score has been assigned below the implied score due to the following adjustment reason: business model (negative).

The asset quality score has been assigned above the implied score due to the following adjustment reason: collateral and reserves (positive).

The earnings & profitability score has been assigned below the implied score due to the following adjustment reason: earnings stability (negative).

The capitalisation & leverage score has been assigned below the implied score due to the following adjustment reason: risk profile and business model (negative).

The funding, liquidity & coverage score has been assigned below the implied score due to the following adjustment reason: funding flexibility (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IPF has an ESG Relevance Score of '4' for Exposure to Social Impacts stemming from its business model focused on high-cost consumer lending, and therefore exposure to shifts of consumer or social preferences, and to increasing regulatory scrutiny, including potential tightening of interest-rate caps. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

IPF has an ESG Relevance Score of '4' for Customer Welfare - Fair Messaging, Privacy & Data Security, driven by risk of losses from litigations including early settlement rebates customer claims. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
International Personal Finance plc	LT IDR	BB- Rating Outlook Stable	Affirmed	BB- Rating Outlook Stable
	ST IDR	B	Affirmed	B
senior unsecured	LT	BB-	Affirmed	BB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 05 May 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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