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Research

Russia-Based Bank Renaissance Credit Upgraded To 'B' On Sustainable Asset Quality; Outlook Stable

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- In 2018, Commercial Bank Renaissance Credit has maintained stable asset quality metrics and prudent risk management, despite significant lending growth.
- We think that the bank's risk profile has become more sustainable and resilient to potential economic shocks, thanks to its earnings capacity and strengthened risk management practices.
- We are therefore raising our long-term issuer credit rating on Renaissance Credit to 'B' from 'B-' and affirming the 'B' short-term rating.
- The stable outlook reflects our expectations that the bank will maintain stable asset quality, profitability, and adequate capital and liquidity buffers in the next 12-18 months.

MOSCOW (S&P Global Ratings) Nov. 2, 2018--S&P Global Ratings said today that it had raised its long-term issuer credit rating on Russia-based Commercial Bank Renaissance Credit to 'B' from 'B-'. The outlook is stable. At the same time, we affirmed our 'B' short-term issuer credit rating on the bank.

The upgrade of Renaissance Credit reflects our view that the bank has improved and maintained its key asset quality metrics over the past four years. We think that the bank's model has become more resilient to potential economic shocks, thanks to strengthened risk management practices and more sophisticated client targeting.

We note that credit losses and default rates on new vintages have significantly declined since the beginning of 2015 on all products provided by the bank, including general-purpose loans, point of sale loans, and credit cards. For example, loans past due more than 90 days at the 12-month horizon declined to 2.8%-3.0% of the loan portfolio at mid-year 2016, and this ratio has been stable since then compared with 7.5% at the beginning of 2015. Likewise, the first-payment default rate on general purpose loans for existing customers has been 0.6%-0.8% since mid-year 2016 versus 2.1% at year-end 2015 and 10.7% at the beginning of 2014. Finally, net charge-offs fell to 4.9% of total loans at mid-year 2018, versus 27.8% at year-end 2015.

We note that the bank's asset quality and performance of its retail portfolio are generally in line with those of most other Russian banks specialized in unsecured retail lending. We believe that part of this improvement tracks the overall performance of the Russian economy. However, we also note significant strengthening of its underwriting and collection practices, which the bank's management has largely rebuilt after the bank incurred huge losses in 2013-2015.

Nevertheless, we think that the bank's risk position remains a negative rating factor. This primarily reflects management's high appetite for growth and the bank's focus on unsecured retail lending. For 2017, the bank's loan portfolio increased by 34% and for the first nine months of 2018, the bank further expanded its loan book by about 20%. Although we expect that the growth rate will likely moderate in 2019-2020, we nevertheless think that it will remain above the sector average.

Over the past two years, the bank's earnings capacity has significantly strengthened thanks to a progressive reduction of credit losses, relatively high and stable margins, and good cost controls. At mid-year 2018, the bank's return on average equity (ROAE) remained above 20%. We expect that the bank will maintain a solid earnings capacity over the next two years with ROAE at 20%-25% and good capitalization with our risk-adjusted capital (RAC) ratio gradually increasing to 8.0%-8.4%. This is despite the expected high business growth and potential dividends of 50% of net income starting from 2019.

In our view, Renaissance Credit's business position remains moderate, reflecting its exclusive focus on the highly competitive unsecured retail lending market in Russia, as well as its relatively small market share. As a pure retail bank, Renaissance Credit's performance remains sensitive to the economic cycle, in our view.

We maintain our view on the bank's funding as average, mainly due to the predominance of granular retail deposits in its funding base and funding metrics, which are generally comparable with those of peers. We continue to assess the bank's liquidity as adequate because of its sufficient liquidity buffer and prudent liquidity management over the past five years.

Renaissance Credit is ultimately controlled by Russian businessman Mikhail

Prokhorov. We positively note the support that Mr. Prokhorov provided to the bank in 2014-2015, a period of high credit losses. At the same time, we do not incorporate any additional notches of support, because we already factor this support in the bank's stand-alone credit profile.

The stable outlook reflects our view that Renaissance Credit will preserve its stable asset quality in the next 12-18 months, with credit losses and a delinquency rate at least on par with other retail banks in Russia. The stable outlook also reflects our expectation that the bank's good earnings capacity, adequate capital and liquidity buffers, and stable funding profile will support its creditworthiness.

We could lower the ratings in the next 12-18 months if we saw that rapid lending growth or relaxation of the risk-management practices was leading to significant deterioration of the bank's key asset quality metrics with credit losses rising beyond our expectations and beyond those of peers. Deterioration of the bank's capital position with our RAC ratio falling below 5.0%, for example, due to high growth, increasing credit losses, and generous dividend payments, may prompt us to take a negative rating action.

A positive rating action is unlikely over the next 12-18 months, in our view. Nevertheless, we could consider an upgrade if Renaissance Credit significantly strengthens its capitalization, for example as a combination of lower-than-expected growth and no dividend payments over the forecast period, with our RAC ratio remaining sustainably above 10%. This is not our base-case scenario, though.

RELATED CRITERIA

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