



## Rating\_Action: Moody's assigns first-time Ba1 corporate family rating to Kruk SA, outlook stable

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13Mar2023

Frankfurt am Main, March 13, 2023 -- Moody's Investors Service (Moody's) assigned a first-time Ba1 corporate family rating (CFR) to Kruk SA (KRUK), a publicly-listed debt purchasing company with operations in Poland, Romania, Italy, Spain, Czech Republic, Slovakia and Germany. The rating agency also assigned a Ba2 long-term issuer rating to KRUK. The issuer outlook is stable.

### RATINGS RATIONALE

The Ba1 CFR assigned to KRUK reflects the company's established track record, with 25 years of operating performance in the debt collection and debt purchasing sector, primarily focusing on Poland and Romania, and increasingly expanding into Italy and Spain. KRUK's main business focus is purchasing non-performing loans (NPL), accounting for 90% of revenue, while debt collection services to financial institutions and other clients' accounts for 3%. Consumer lending contributes 6% to the revenue. With an estimated remaining amount of collections (ERC) of PLN 12.1 billion (approx. EUR 2.5 billion) as of September 2022, KRUK is currently positioned as the fifth-largest Moody's rated debt purchasing company in Europe by ERC volume. The company's solid historic profitability has been based largely on organic growth. KRUK's low leverage, sizeable equity cushion and solid interest coverage are additional credit strengths. The CFR incorporates the agency's expectation that KRUK will continue to prudently execute its growth strategy when expanding outside of its core markets.

At the same time, the CFR positioning reflects KRUK's evolving liquidity and funding profile, with significant reliance on secured credit facilities and a focused, largely national investor base, as well as earnings volatility inherent in the debt purchasing sector. Further, the CFR also factors in Moody's view of the operating environment for debt purchasing companies which offer a niche product with relatively low risk of obsolescence. However, the agency's assessment further considers legal and regulatory risks inherent to the debt collection and debt purchasing sector to be higher in some less mature NPL markets, particularly in Eastern- and Southern-European countries.

The Ba2 issuer rating that Moody's assigned to KRUK reflects the priorities of claims and asset coverage in the company's current liability structure. In particular, the high proportion of KRUK's secured bilateral and syndicated revolving credit facilities (RCF) indicates higher loss-given default for senior unsecured instrument classes, resulting in a positioning of the issuer rating one notch below the company's Ba1 CFR.

The assigned ratings also incorporate KRUK's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology. Moody's assessment of KRUK's exposure to governance risks is neutral-to-low and is reflected in a Governance Issuer Profile Score (IPS) of G-2. This assessment is supported by KRUK's public ownership structure, substantial track record of strong financial performance, conservative financial policy and disciplined growth approach. In line with Moody's general view for the debt purchasing sector, KRUK has a highly negative exposure to social risks

as reflected in a Social IPS of S-4. Similar to other debt purchasers, customer relations represent important social considerations, given that institutions that sell both performing and non-performing debt can be highly regulated (e.g. banks) and rely on the companies' handling of customer data and privacy as well as adherence to local regulatory expectations in terms of "treating customers fairly". Adverse changes to regulatory rules and legal practices within a market could also affect the recovery processes and collection curves. KRUK's ESG Credit Impact Score of CIS-3 indicates a moderately negative impact of ESG factors on the assigned ratings, indicating that well-established governance practices and track record help to mitigate but not to eliminate social risks.

## OUTLOOK

The outlook on KRUK is stable, reflecting the expectation that KRUK will maintain its strong financial performance, particularly that the company's profitability and leverage metrics will remain sound and that there will be no near-term adverse changes related to debt collection legislation in its core markets Poland or Romania.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

KRUK's CFR could be upgraded if the company continues to maintain its strong profitability without a substantial increase in leverage, improves and diversifies its funding profile, and further diversifies its geographic footprint, which would reduce the company's exposure to regulatory risk in a given market.

An upgrade of KRUK's CFR would likely result in an upgrade of the Ba2 issuer rating.

KRUK's CFR could be downgraded if the company's profitability and leverage metrics will significantly deteriorate or in case of implementation of adverse regulatory developments that would significantly hurt the company's franchise in a given market.

A downgrade of KRUK's CFR would likely result in a downgrade of the Ba2 issuer rating.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/api/rmc-documents/65543>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1288235](https://ratings.moodys.com/documents/PBC_1288235).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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