Fitch Sri Lanka National Ratings 2022 Transition and Default Study

Study Overview: This study provides data and analysis of the performance of Fitch Ratings' portfolio of Sri Lanka corporate finance, including financial and non-financial corporates, over the long-term period of 2000–2022.

No Defaults: Fitch's Sri Lanka portfolio recorded no National Rating defaults for corporate finance ratings through 2022.

Fitch Sri Lanka National Ratings: This report should be read in conjunction with Fitch's National Scale Rating Criteria (December 2020).

Sri Lanka Corporate Finance National Ratings One-Year Transition Matrix: 2022 Cohort

(%)	Number of Ratings[a]	AAA(lka)	AA(lka)	A(lka)	BBB(lka)	BB(lka)	B(lka)	CCC(lka) to C(lka)	D(lka)	WD(lka)
AAA(lka)	7	100.00	–	–	–	–	–	–	–	–
AA(lka)	18	–	83.33	16.67	–	–	–	–	–	–
A(lka)	14	–	–	92.86	7.14	–	–	–	–	–
BBB(lka)	5	–	–	–	100.00	–	–	–	–	–
BB(lka)	3	–	–	–	–	100.00	–	–	–	–
B(lka)	2	–	–	–	–	–	50.00	–	50.00	–
CCC(lka) to C(lka)	1	–	–	–	–	–	–	–	100.00	–

[a]Beginning of year. WD(lka) – Withdrawn. Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Sri Lanka Corporate Finance National Ratings Transition Matrices: 2000–2022

Average Annual (%)	Number of Ratings[b]	AAA(lka)	AA(lka)	A(lka)	BBB(lka)	BB(lka)	B(lka)	CCC(lka) to C(lka)	D(lka)	WD(lka)
AAA(lka)	122	94.26	4.92	–	–	–	–	–	–	0.82
AA(lka)	187	2.14	88.77	5.88	–	–	–	–	–	3.21
A(lka)	206	–	6.31	83.98	2.91	–	0.49	–	–	6.31
BBB(lka)	168	–	1.79	4.76	83.33	1.79	–	–	–	8.33
BB(lka)	88	–	2.27	2.27	4.55	80.68	2.27	–	1.14	6.82
B(lka)	22	–	–	–	–	13.64	63.64	9.09	–	13.64
CCC(lka) to C(lka)	4	–	–	–	–	–	–	50.00	25.00	25.00
Average Three-Year (%)	**Number of Ratings[b]**	**AAA(lka)**	**AA(lka)**	**A(lka)**	**BBB(lka)**	**BB(lka)**	**B(lka)**	**CCC(lka) to C(lka)**	**D(lka)**	**WD(lka)**
AAA(lka)	108	85.19	8.33	–	–	–	–	–	–	6.48
AA(lka)	158	4.43	77.22	9.49	–	–	–	–	–	8.86
A(lka)	181	1.10	12.15	59.67	6.63	–	1.66	–	–	18.78
BBB(lka)	154	–	3.90	8.44	55.84	5.84	–	–	–	25.97
BB(lka)	79	–	2.53	3.80	11.39	51.90	5.06	1.27	3.80	20.25
B(lka)	17	–	11.76	–	–	23.53	17.65	5.88	–	41.18
CCC(lka) to C(lka)	3	–	–	–	–	–	–	–	100.00	–

[a]Beginning of year. [b]Total rated over the period. WD(lka) – Withdrawn. Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Sri Lanka Corporate Finance National Ratings Average Cumulative Default Rates: 2000–2022

(%)	One-Year	Two-Year	Three-Year
AAA(lka)	—	—	—
AA(lka)	—	—	—
A(lka)	—	—	—
BBB(lka)	—	—	—
BB(lka)	1.14	2.35	3.80
B(lka)	—	—	—
CCC(lka) to C(lka)	25.00	66.67	100.00
All Sri Lanka Corporate Finance National Ratings	0.25	0.54	0.86

Note: Includes both financial and non-financial corporates.
Source: Fitch Ratings

Fitch Sri Lanka National Ratings Transition and Default Methodology

Fitch's Sri Lanka National Ratings transition and default statistics include all publicly rated, corporate finance, Long-Term Issuer National Ratings from 2000 to the present. Our continuing data enhancement efforts and methodology changes may result in slightly different statistics than in previously published studies. Therefore, the most recent study supersedes all prior versions.

The rating transitions outlined in this study represent a distinct historical period and may not represent future rating migration patterns. Transition rates are influenced by a number of factors, including macroeconomic variables, credit conditions and corporate strategy. It is useful to examine the performance of our ratings on a relative scale within each rating category.

Transition Rates

Fitch employs a static pool approach in calculating transition and default data. The static pools or, alternatively, cohorts, are created by grouping issuer ratings according to the year in which the ratings were active and outstanding at the beginning of the year. For example, issuers with ratings outstanding at the beginning of 2003 constitute the 2003 cohort, with the same true for additional cohorts. Issuers newly rated by Fitch in any given year are included in the following year's cohort.

Issuer ratings may reside in multiple cohorts, as long as the ratings are outstanding at the beginning and end of the year or multiple-year horizons under observation. For example, the annual performance of an issuer rating initiated in 2003 and, therefore, outstanding at the beginning of 2004 and withdrawn in 2007, would be included in the 2004, 2005 and 2006 cohorts. The rating performance over multiple-year horizons would also be included in the two- and three-year cohorts and included in the four-year transition rates as a transition to withdrawn.

In contrast to corporate finance, where issuer ratings are used, structured finance cohorts are created by grouping security ratings. The tracking of rating performance of all structured finance securities in each cohort is similar to that of corporate finance, with the inclusion of ratings outstanding at the beginning of a respective year. Similar to corporates, ratings withdrawn (WD[lka]) or paid in full (PIF[lka]) during the course of a year are excluded from subsequent cohorts as they are no longer active. However, they are included in transition data as a transition to withdrawn or PIF in the WD(lka) and PIF(lka) columns, respectively.

In addition, comparisons with earlier Fitch Sri Lanka National Ratings transition and default statistics or studies should be viewed within the context of the differing methodologies, whether rating movements were analyzed across the broad rating categories or at the notch level (+, –).

An examination of the 2022 one-year rating transition data at the major rating categories on page one, *Sri Lanka Corporate Finance National Ratings One-Year Transition Matrix: 2022 Cohort*, identifies the movement of ratings both up and down the rating scale, i.e. from 'A(lka)' to 'BBB(lka)'. The vertical left-hand column identifies ratings outstanding at the beginning of 2022, while the horizontal axis provides information on the migration pattern of those ratings by year end. The table reads from the top left-hand corner, beginning with 'AAA(lka)' and following the diagonal to the right in order to examine the stability of each consecutive rating category.

Default and Impairment Rate Calculations

Fitch's definition of default is available on our website: Rating Definitions.

In the corporate finance arena, defaults are fairly easy to identify, either through a missed payment, distressed exchange or bankruptcy filing. Furthermore, they are typically strongly linked to unrecoverable losses. By comparison, defining defaults within structured finance is a more challenging task, since payment shortfalls can be temporary or allowed under the terms of bond indentures. Some structured bonds have features that allow notes to defer interest or payment in kind. Some structured securities can experience temporary interest shortfalls, which are inconsequential to deal performance and are cured relatively quickly.

Finally, structured bonds may also suffer write downs to the original face value but continue to be active for extended periods of time. For the purposes of this study, Fitch tracks impairments, or defaults and near defaults, which include bonds rated 'CC(lka)' or below. This includes bonds in payment default but also bonds where a default of some kind appears probable. The possibility exists that some defaults identified in this study will be subsequently cured.

Fitch's default and impairment rates are calculated by issuer or security rather than by the par amount. First, defaults or impairments are examined by year for each cohort and individual rating category. For example, if 25 issuers defaulted in 2003 and the 2003 cohort contained 2,000 issuer ratings, the resulting annual default rate for all ratings in 2003 would be 1.25%. If 10 of these defaults consisted of defaults among issuers rated 'BB(lka)' at the beginning of the year and the 'BB(lka)' cohort at the beginning of the year totaled 500, the 'BB(lka)' 2003 default rate would be 2% (10/500).

From these annual default or impairment rates, Fitch derives average annual default or impairment rates by weighting each cohort's default or impairment rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. Following the example above, the 2003 'BB(lka)' annual default rate of 2% might be followed by a 2004 'BB(lka)' annual default rate of 1%.

A straight average of these two rates would ignore potential differences in the size of the two cohorts. Instead, weighting the results based on the relative number of 'BB(lka)' ratings outstanding in 2003 and 2004 gives greater emphasis to the results of the 'BB(lka)' cohort with the most observations. The same technique is used to calculate average default or impairment rates over multiple-year horizons.

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Related Research

Report Data – Excel File

The Fitch 2022 Transition and Default Study data is available in Excel format. Click here to download.

Related Reports

National Scale Ratings Criteria (December 2020)

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