



Media Release

RAM Ratings Lanka reaffirms Alliance Finance Company PLC's ratings at BBB/P2

RAM Ratings Lanka has reaffirmed Alliance Finance Company PLC's ("AFC" or "the Company") respective long- and short-term financial institution ratings at BBB and P2; the long-term rating has a stable outlook. The reaffirmation is premised on AFC's moderate financial performance, capitalisation and reputable franchise, but is weighed down by our concerns with regards to the Company's asset quality.

With a track record of nearly 54 years, AFC ranks among the oldest registered finance companies ("RFCs") in Sri Lanka. Despite its long operating history, the Company has remained a medium-sized entity, accounting for only 3.58% of the industry's assets as at end-March 2009. This has been underscored by AFC's conservative growth strategy and prudent management.

On the back of its cautious lending strategy, the Company has traditionally maintained above-industry-average asset quality. In tandem with the less conducive economic climate during the reviewed period, however, AFC had experienced an influx of non-performing loans ("NPLs"). As such, its gross NPL ratio (on a 6-month classification basis) had deteriorated to 5.84% by the end of FYE 31 March 2009 ("FY Mar 2009"), from 3.58% a year earlier; the ratio climbed up further to 7.97% as at end-September 2009. While this had been exacerbated by a contraction in its loan portfolio, we note that absolute NPLs had also increased by LKR 64.92 million (or 28.76%) over the same period. However, the management has taken steps to curb its rising NPLs; lending to sectors that experienced higher delinquencies have been either frozen or curtailed. That said, we remain concerned about the influx of NPLs and will continue monitoring the developments in this regard; downward rating pressure may be exerted in the event that asset quality deteriorates further.

Meanwhile, AFC's financial performance remained moderate, albeit easing marginally in line with higher funding costs and hefty overheads. The Company's pre tax profit ebbed slightly to LKR 70.65 million in FY Mar 2009 (FY Mar 2008: LKR 73.92 million). Consequently, its return on assets ("ROA") dipped from 1.63% to 1.30% as at end-FY Mar 2009, although still better than the industry average of 0.83% as at the same date.

On a separate note, the Company had strengthened its liquidity position during the reviewed period; its statutory liquid-asset ratio advanced to 16.29% as at end-September 2009, from 14.84% as at end-FY Mar 2009. Meanwhile, AFC had maintained the healthy growth of its deposit base, which expanded 34.97% year-on-year ("yoy") to LKR 3.36 billion as at end-FY Mar 2009, before augmenting further to LKR 3.56 billion by end-September 2009.

AFC's tier-1 and overall risk weighted capital-adequacy ratios ("RWCAR") clocked in at 10.56% and 12.94% as at end-September 2009, comfortably above the regulated minimums of 5% and 10%, respectively.

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