



## Media Release

### **RAM Ratings Lanka reaffirms BFL's ratings at BBB-/P3**

RAM Ratings Lanka has reaffirmed Bartleet Finance Limited's ("BFL" or "the Company") long- and short-term ratings at BBB- and P3, respectively. However, the outlook on the long-term rating has been revised from stable to negative. This is premised on the heightened delinquencies from certain loan segments, which have pressured the Company's capital position. Nonetheless, BFL's ratings are still supported by its established franchise and improved liquidity position.

BFL celebrated its 25<sup>th</sup> anniversary in November 2008. The Company is part of the Barleet Group, a local conglomerate that has been in business for over a century. However, BFL remains a small player in the registered finance company ("RFC"), accounting for only 1.77% of the industry's asset base as at end-March 2009. Although the Company provides retail loans, it focuses on the disbursement of leases and hire-purchase ("HP") facilities.

We note that BFL's core portfolio of leases and HP facilities has remained healthier than the industry's. However, the Company's overall gross non-performing loans ("NPL") ratio has been weakened by defaults in few loan categories. On the other hand, BFL's portfolio of leases and HP facilities, which accounted for 87.36% of its total loans at end-September 2009, stayed healthy due to the Company's good recovery and monitoring efforts. The default rate on the Company's combined portfolio of HP facilities and leases clocked in at 4.47% as at the same date.

Meanwhile, we observe some concentration risk in its loan portfolio. Loan concentration renders the quality of the Company's credit portfolio volatile, as a few defaults can result in a substantial jump in NPLs. In this context, the Company's gross NPL ratio had climbed up to 8.87% as at end-September 2009 (end-March 2009: 3.00%), driven by defaults on few large loans from its cheque-discounting portfolio. Defaults from this portfolio accounted for 24.42% of BFL's total NPLs as at end-September 2009. We note that these had originated from a few long-standing customers that had been affected by the economic downturn. We also note that the Company had curtailed lending following the RFC crisis in Sri Lanka, instead focusing on improving its liquidity.

With high cost deposits being channelled to liquid assets, which yield less compared to credit assets, BFL's financial performance weakened in FYE 31 March 2009 ("FY Mar 2009"). The Company's net interest margin ("NIM") narrowed from 12.08% to 9.10% year-on-year ("y-o-y") (1H FY Mar 2010: 6.21%). We observe that BFL's large deposit base had been re-priced at a faster pace amid rising interest rates while loan growth had been restricted; this had hindered the Company's ability to pass on the increase in interest rates. BFL's overheads had also pressured its bottom line. Nonetheless, it had managed to stay in the black, underpinned by write-backs on provisions via recoveries.

The management's concerted efforts to beef up its liquidity amid the weakening macroeconomic conditions, together with its strong franchise, had supported BFL during the RFC crisis in early 2009. Although the Company had faced deposit-withdrawal pressures, it had managed to meet all withdrawals, including pre-mature ones. This had helped further strengthen BFL's franchise; the Company's deposit base had augmented 39.61% y-o-y as at end-September 2009. With the management having curtailed lending and increased its liquid assets, the Company reported a statutory liquid-asset ratio of 24.89% as at end-September 2009, well above the regulatory minimum of 10%.

In the meantime, the Company's heftier NPLs had pressured its capital position. It recorded a ratio on net NPLs to shareholders' funds of 31.55% as at end-September 2009, eroding the Company's cushion against NPLs. However, BFL's capital adequacy remained moderate, with tier-1 and overall risk-weighted capital-adequacy ratios ("RWCARs") of 11.85% and 12.63%, respectively, as at the same date - above the corresponding regulatory floors of 5% and 10%. Looking ahead, the management intends to list BFL on the Colombo Stock Exchange; we have a positive view of development.

---

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings Lanka. The credit rating also does not reflect the legality and enforceability of financial obligations, transfer and convertibility risks, repatriation risk, currency risk or any other risk apart from credit risk.

RAM Ratings Lanka receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings Lanka's credit opinions or other analytical processes. In all instances, RAM Ratings Lanka is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so.

Published by RAM Rating Lanka Ltd

© Copyright 2009 by RAM Ratings Lanka

Analyst Contact  
Prakash Jerome  
prakash@ram.com.lk

**RAM Ratings (Lanka) Ltd**  
Wholly owned by  
RAM Holdings Berhad

No 9, Arthur's Place  
Colombo 4  
Sri Lanka

T +94 112 553089  
F +94 112 553090  
E ram@ram.com.lk  
www.ram.com.lk