



Media Release

RAM Ratings Lanka reaffirms Arpico Finance's ratings

RAM Ratings Lanka has reaffirmed the respective long- and short-term ratings of Arpico Finance Company PLC ("Arpico" or "the Company"), at BB (with a stable outlook) and NP. The ratings are premised on the Company's miniscule size and delicate financial performance. That said, the ratings also take into account the Company's benign asset quality, improved capital adequacy and comfortable liquidity position.

Arpico, established in 1951, is the second-oldest registered finance company ("RFC") in Sri Lanka. Despite its long operating history, the Company has remained a small finance company, accounting for less than 1% of the industry's total assets as at end-March 2009.

Over the past 5 years, the Company has been focusing on improving its asset quality. Accordingly, its gross non-performing-loan ("NPL") ratio (on a 6-month classification basis) eased from 6.30 % as at the end of FYE 31 March 2008 ("FY Mar 2008") (industry: 5.19%) to 4.83% (industry: 6.46%) as at end-FY Mar 2009. Given the more recent macroeconomic fundamentals, however, Arpico's gross NPL ratio had increased to 5.90% by end-June 2009. Under these circumstances, RAM Ratings Lanka will keep a close watch on the Company's portfolio quality. All said, we note such deterioration is an industry-wide phenomenon.

While its asset quality has ameliorated, Arpico's performance remains delicate due to rising overheads and lacklustre demand for real estate. RAM Ratings Lanka also sees the Company's portfolio size as an influencing factor vis-a-vis its feeble financial profile. Although the Company's top line was lifted 54.48% during FY Mar 2009, reduced non-interest income and escalating overheads had depressed its bottom line. Arpico's cost-to-income ratio deteriorated to 90.48% as at end-FY Mar 2009 (industry: 79.10%). Accordingly, its pre-tax profit also contracted from LKR 19.50 million to LKR 14.57 million over the same period. The poorer performance carried through to 1Q FY Mar 2010, with the Company reporting a loss of LKR 6.30 million.

On the other hand, Arpico had successfully weathered the confidence crisis that had plagued the industry in the final quarter of 2008 and 1Q 2009. The management had even improved the Company's liquidity position, which had done much towards quelling depositors' concerns. These measures are reflected Arpico's high statutory liquid-asset ratio of 32.72% as at end-FY Mar 2009 (end-FY Mar 2008: 18.91%), which was well above the regulatory minimum of 10%. Nonetheless, RAM Ratings Lanka's concerns hinge on the Company's lack of an asset-liability management mechanism.

On a more positive note, the Company had met the Central Bank of Sri Lanka's ("Central Bank") minimum core-capital requirement of LKR 200 million by end-March 2009, via 2 rights issues in June 2008 and March 2009. Accordingly, Arpico's Tier-I capital ratio improved to 19.10% whilst its overall risk-weighted capital-adequacy ratio ("RWCAR") climbed up to 22.97% - well above the regulatory minimums of 5% and 10%, respectively.

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