



## Media Release

### **RAM Ratings Lanka reaffirms Central Investment and Finance Limited's B+ rating, but outlook revised to negative**

RAM Ratings Lanka has reaffirmed the long- and short-term financial institution ratings of Central Investments and Finance Limited ("CIFL" or "the Company"), at B+ and NP; the outlook on the long-term rating has been revised from stable to negative. The negative outlook on the rating is premised on the Company's significant exposure to real estate, which has in turn dragged down its performance and exerted pressure on its liquidity position and capital adequacy.

CIFL, which was previously a very small family concern, has been taken over by Aspic Corporation Limited ("Aspic Group"). The Company has been expanding rapidly under the new management, with its asset base clocking in a growth of LKR 945.41 million (+158.92%) in FYE 31 March 2008 ("FY Mar 2008"), followed by another LKR 746.06 million (+64.58%) for the 9-month period to end-December 2008. Although investments in loans and liquid assets had spurred asset growth in FY Mar 2008, real-estate investments took centre stage by end-December 2008. By which time, investments in land and properties represented the largest asset class for the Company. Moreover, concentration risk had heightened as the bulk (86.46%) of the investments was locked in a single location, i.e. the Homagama housing project, a joint venture with Aspic Homes Limited ("Aspic Homes"). This project consists of 2 phases: Phase 1 has 72 horizontal condominiums while Phase 2 involves the construction of an apartment block. Phase 1 had faced delays and cost escalations, prompting the Company to channel additional funds to bring the project back on track. Construction work on Phase 2, meanwhile, will begin once pre-sales have been rung up. Due to the weak economic climate, however, real-estate sales are expected to be sluggish.

Additionally, CIFL's asset quality has deteriorated; its gross non-performing-loan ("NPL") ratio elevated to 8.31% as at end-December 2008, from 5.56% as at end-March 2007. The worsening NPLs can be attributed to the deteriorating macroeconomic conditions and correction of data. The error reflects the Company's weak information-technology ("IT") system, hence RAM Ratings Lanka view the integrity of information with concern.

The Company's weakening asset quality and swelling asset base, combined with heavy overheads, had weakened its performance; return on assets ("ROA") and return on equity ("ROE") deteriorated to 1.82% (end-FY Mar 2007: 4.60%) and 10.55% (end-FY Mar 2007: 14.56%), respectively, as at end-FY Mar 2008. By end-December 2008, these profitability indicators had sunk into negative territory.

Concurrently, the negative gap in the Company's asset-liability mismatches widened to LKR 781.58 million in the "less than 1 year" bucket as at end-December 2008 (end-December 2007: negative LKR 383.41 million), owing to its investments in real estate. Its funding base was also exposed to concentration risk, as its top 20 deposits accounted for 24.59% of the Company's total deposits as at end-September 2008. Nonetheless, its statutory liquid-asset ratio stood at 24.29% as at end-December 2008, above the regulatory minimum of 15%. RAM Ratings Lanka opines that CIFL's capital adequacy is inadequate due to its exposure to property assets. Nonetheless, the Company's tier-1 risk-weighted capital-adequacy ratio ("RWCAR") and overall RWCAR stood at 12.32% and 14.15%, respectively as at end-December 2008- higher than the regulatory minimums of 5% and 10%.