



Media Release

RAM Ratings Lanka assigns BB-/NP to Divasa Finance Limited

RAM Ratings Lanka has assigned respective long- and short-term financial institution ratings of BB- and NP to Divasa Finance Limited (“Divasa” or “the Company”); the long-term rating has a stable outlook. Divasa’s ratings are moderated by its small stature, short profit track record and moderate funding position. The Company’s ratings are, however, supported by its healthy liquidity and capitalisation as well as sound asset quality.

Divasa commenced operations in 2006 as a specialised leasing company (“SLC”), and had initially been known as Asia Commerce Ltd. In May 2011, the Company obtained a licence as a registered finance company (“RFC”), assuming its present name. In 2010, Divasa secured a margin-trading licence, thus diversifying its lending portfolio. The Company underwent a change in its top management line-up in 2009, which in turn led to the implementation of new credit-approval measures.

Divasa’s asset quality is deemed good. The current management team is headed by the chief executive officer (“CEO”) who took over in 2009 and has been instrumental in improving Divasa’s loan-approval process. These initiatives have borne fruit, with the Company’s NPLs declining from LKR 19.09 million as at end-March 2010 to LKR 13.13 million as at end-September 2011. This translated into a gross NPL ratio of 1.51% as at end-September 2011 (end-March 2011: 2.85%), supported by its enlarged asset base following the introduction of margin-trading facilities, which accounted for about 47% of the Company’s credit assets as at end-September 2011. Although its margin-trading facilities are well collateralised by shares, Divasa’s substantial exposure to this product renders it vulnerable to single-product risk.

In the meantime, Divasa’s performance is deemed moderate. The Company had previously made marginal pre-tax profits; its performance in FYE 31 March 2011 (“FY Mar 2011”) was upheld by an equity gain of LKR 66.53 million, excluding which the Company would have made a pre-tax profit of LKR 7.58 million. Our concerns thus hinge on Divasa’s short profit track record, particularly in leases and hire-purchase (“HP”) facilities. Following the commencement of margin-trading operations in March 2011, The Company’s net interest margins (“NIM”) thinned to 4.17% in fiscal 2011 (fiscal 2010: 5.05%). In 1H FY Mar 2012, its numbers were boosted by income from its margin-trading portfolio. Moreover, the Company’s flat hierarchical structure has kept costs low, leading to a cost-to-income ratio of 45.40% as at end-September 2011.

On a separate note, Divasa's funding position is deemed moderate. The Company's ability to garner deposits is constrained by its limited network of only 4 branches. Furthermore, Divasa is still running marketing campaigns to gain recognition for its newly coined name. Only 25.68% of its funds comprise fixed deposits. Meanwhile, the Company's liquidity profile is viewed to be healthy, with a liquid-asset ratio of 30.42% as at end-September 2011. Going forward, we expect these ratios to be comparable to its peers', in line with Divasa's planned growth.

RAM Ratings Lanka opines that Divasa's capitalisation levels are healthy. The Company's risk-weighted capital-adequacy ratio ("RWCAR") of 27.73% as at end-September 2011 was considerably stronger than those of its similarly rated peers. We note that its capitalisation was recently strengthened by a capital infusion of LKR 150 million. Meanwhile, its internal capital-generation ratio of 16.97% is also expected to boost its capitalisation. As at the same date, the Company's ratio on net NPLs to shareholders' funds came up to only 0.88%, i.e. better than those of its similarly rated peers.

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