



Media Release

RAM Ratings Lanka upgrades Associated Motor Finance's rating from B+ to BB-

RAM Ratings Lanka has upgraded the long-term financial institution rating of Associated Motor Finance Limited ("AMF" or "the Company") from B+ to BB-, with a stable outlook; the short-term rating has been reaffirmed at NP. The rating upgrade reflects AMF's more consistent healthy performance, but is weighed down by the Company's miniscule size and product concentration risk.

Established in 1962, AMF was founded by late Mr JPI Piyadasa. The Company remains a family-held concern, with Mr JPI Nalatha Dayawansa holding 90.68% of its shares as at FYE 31 March 2009 ("FY Mar 2009"). Despite its long-standing history, AMF remains a small player. The Company accounted for 0.30% of the assets of all domestic registered finance companies ("RFCs") as at end-March 2009. Previously, the Company was exposed to dealer concentration risk; AMF was solely dependent on a leading motor company for business. However, over the past 2.5 years, the Company has diluted this risk by broadening its dealer base. Consequently, loan growth has been more consistent, resulting in an improved financial performance. These improvements are reflected in the Company's rating upgrade.

That said, RAM Ratings Lanka's concerns hinge on the product concentration risk in its loan portfolio. Moreover, although AMF's gross non-performing loan ("NPL") ratio remains better than its peers, RAM Ratings Lanka notes a deterioration AMF's absolute gross NPLs. On a 6-month past-due basis, the Company's absolute gross NPLs worsened by 96.85% to LKR 11.85 million as at end-FY Mar 2009 (FY Mar 2008: LKR 6.02 million). Additionally, 3 months from the financial year end, its absolute gross NPLs surged 134.19% on an annualised basis to LKR 15.83 million. This, together with a contracting loan base, resulted in a rise in its gross NPL ratio to 5.64% by end-June 2009 (FY Mar 2009: 3.85%). Although this ratio remains better than its peers, RAM Ratings Lanka views the pace of deterioration with concern.

Elsewhere, AMF has successfully met the minimum core capital requirement of LKR 200 million. The Company's capitalisation stood at LKR 196.37 million as at end-FY Mar 2009; this build-up was largely contributed by retained earnings. However, subsequent to a rights issue in November 2009, its core capital reached LKR 202.31 million. Meanwhile, AMF's Tier-1 risk weighted capital adequacy ratio ("RWCAR") and overall RWCAR of 51.28% remained well above the regulatory minimums of 5% and 10% respectively as at FY Mar 2009.

The Company's growing capital base, coupled with restrained lending, has resulted in adequate funding and liquidity. Its main funding source remains its steady deposit base, which made up 55.28% of its funding structure as at end-June 2009. In addition, its statutory liquid asset ratio stood at 54.38% as at the same date – well above the regulatory minimum of 10%. Going forward, as we expect the Company to resume lending, liquidity is expected to recede to historical levels.

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