



Media Release

RAM Ratings places BB Rating of Arpico Finance on Watch with a negative outlook

RAM Ratings has placed Arpico Finance Company PLC's ("Arpico" or "the Company") long-term financial institution rating of BB on Rating Watch with a negative outlook; the short-term rating has been reaffirmed at NP. The Rating Watch is premised on the uncertainties surrounding Arpico's ability to meet the Central Bank of Sri Lanka's ("Central Bank") minimum core capital requirements by end-December 2008.

Although Central Bank regulations required Arpico to enhance its core capital to LKR 200 million by end-July 2008, the Company was unable to meet this requirement by the statutory deadline; as at end-June 2008, Arpico's core capital stood at LKR 133.26 million, LKR 66.74 million short of the requirement. In response, the Central Bank has issued an ultimatum granting the Company time until end-December 2008 to fully comply with the regulation. Pursuant to this action, Arpico is now formulating plans to meet the regulatory requirement via an equity injection; however, RAM Ratings' concerns hinge on the uncertainties surrounding the Company's ability to raise these funds amidst the prevailing subdued investment climate. Apart from this regulatory challenge, the Company's overall risk profile has remained largely unchanged.

Amidst challenging economic conditions, Arpico managed to further improve its asset quality during FYE 31 March 2008 ("FY Mar 2008"). The Company's gross non performing loans ("NPL") ratio improved to 5.06% as at end-FY Mar 2008, from the previous year's 7.07%, comparing favourably with the industry average of 6.54% for the same period. The ratio was further supported by a moderate gross NPL coverage of 63.43%, which resulted in a net NPL ratio of 1.91% as at the end of the reviewed period. While we acknowledge the management's efforts to preserve asset quality, RAM Ratings opines that it would be challenging to maintain it at current levels.

Notwithstanding this, along with sliding industry performance, Arpico's performance had suffered during the period under review. Pressured by higher funding costs and overheads, both return on assets ("ROA") and return on equity ("ROE") had narrowed further to 2.04% and 10.05% respectively, from the previous year's 2.62% and 12.62%. These returns clocked in marginally lower than the respective industry averages of 2.80% and 17.90% for the same period.

Despite this, liquidity levels remained adequate during the period, with the statutory liquid assets ratio standing at 18.91% as at end-FY Mar 2008, above the regulatory minimum 15%. Although short term maturity mismatches in assets and liabilities are moderated by the Company's healthy deposit renewal rates, the absence of an effective asset liability management framework remains a concern.

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