



## Media Release

### **RAM Ratings has reaffirmed the BBB-/P3 ratings of Bartleet Finance Limited**

RAM Ratings has reaffirmed the long- and short-term ratings of Bartleet Finance Limited ("BFL" or "the Company"), at BBB-(with a stable outlook) and P3, respectively. The ratings are premised on BFL's improved asset quality, albeit constrained by the Company's moderate financial performance, funding and capital.

BFL is a relatively small player, accounting for only 1.98% of the asset base of the registered finance companies ("RFC") industry as at FYE 31 March 2008 ("end-FY Mar 2008"). BFL is part of the Bartleet Group, which has evolved into a conglomerate over its 100 year history. Further, BFL completed 25 years in November 2008.

Despite its limited geographical reach (with 6 branches outside Colombo) and the deteriorating economic conditions, the Company has exhibited aggressive growth. BFL's asset base expanded 33.86% in FY Mar 2008 (industry: 24.28%), spurred on by heavy lending. Meanwhile, its gross non-performing-loan ("NPL") ratio ameliorated from 4.44% (industry: 4.46%) as at end-FY Mar 2007 to 3.21% (industry: 6.54%) as at end-FY Mar 2008, supported by write-offs and improved recovery efforts. Moreover, provisions exceeded gross NPLs, resulting in an NPL coverage of 109.32% as at end-FY Mar 2008 (end-FY Mar 2007: 118.54%). However, the Company now follows the Central Bank's Direction 3 with regard to provisioning; going forward, loan-loss provisions are expected to moderate but still remain better than the industry average. Furthermore, as the Company has been expanding its loan portfolio amid deteriorating economic conditions, RAM Ratings opines that its asset quality will wane over the medium term, but remain better than the industry's due to BFL's tight monitoring regime.

In the meantime, the Company's expanding loan base had helped augment its interest income by 33.32% in FY Mar 2008. Nonetheless, interest expenses outpaced income, surging 74.75% and crimping its net interest margin ("NIM") to 12.07% as at end-FY Mar 2008 (end-FY Mar 2007: 14.38%). Furthermore, inflationary pressures and heavy expenditure on promotional activities were reflected in a deteriorating cost-to-income ratio of 79.12% (end-FY Mar 2007: 67.01%). The hefty overheads eroded BFL's profits, which dipped from LKR 64.65 million to LKR 61.84 million over the year. In tandem with this, its returns on assets ("ROA") and returns on equity ("ROE") weakened to 2.42% (end-FY Mar 2007: 3.13%) and 19.40% (end-FY Mar 2007: 23.32%), respectively.

The Company's promotional activities helped augment its deposit base by 48.10% in FY Mar 2008. As such, BFL's funding levels are considered moderate. Moreover, external borrowings as a portion of total funding improved to 9.44% as at end-FY Mar 2008 (end-FY Mar 2007: 13.21%). BFL's statutory liquid-asset ratio, which stood at 18.92% as at end-FY Mar 2008,

was above the regulatory minimum of 15%. However, RAM Ratings observes the widening asset-liability maturity gap in the “less than 1 year” bucket. As such, our concerns hinge on the lack of a formal asset-liability management process.

Elsewhere, BFL’s overall risk-weighted capital-adequacy ratio (“RWCAR”) slipped to 13.99% as at end-FY Mar 2008 (end-FY Mar 2007: 15.71%), due to the expansion of its loan base. Nonetheless, this was still above the regulatory minimum of 10%. On the other hand, the Company’s weakening performance and hefty dividend payouts affected its internal capital generation (FY Mar 2008: 11.53%; FY Mar 2007: 16.70%). On a more positive note however, provisions exceeded gross NPLs, thereby providing a cushion against possible deterioration in asset quality.

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