



Media Release

RAM Ratings Lanka downgrades CIFL's ratings

RAM Ratings Lanka has downgraded the long-term financial institution rating of Central Investments and Finance Limited ("CIFL" or "the Company"), from B+ to C-; the short-term rating remains at NP. The downgrade reflects the Company's severe liquidity pressure and the acute deterioration in its asset quality as well as financial performance.

The outlook on the long-term ratings was revised to negative from stable in March 2009, based on CIFL's increased exposure to real estate, which had exerted pressure on its liquidity position and capital adequacy. The Company's financial performance had also been deteriorating, depressed by hefty overheads and slumping real-estate sales.

CIFL is a small registered finance company ("RFC"), accounting for 1.36% of the industry's assets as at end-March 2009. Following a rights issue in FYE 31 March 2009 ("FY Mar 2009"), the Company's liquidity position had improved. However, with the unravelling of the RFC crisis, CIFL's liquidity position had again been strained. In an effort to ease the liquidity stress, CIFL had negotiated with its depositors to renew their deposits.

Meanwhile, CIFL has continued increasing its investments in real estate, which made up 64.86% of its asset base as at end-September 2009. We note that the Company's real-estate investments are concentrated in a single housing project located in Homagama. The project is a joint venture with Aspic Homes Limited ("Aspic Homes"), a sister company. By end-September 2009, the Company - together with Aspic Homes - had embarked on another real-estate project. These 2 projects account for an aggregate 95.38% of CIFL's real-estate investments. We view these ventures with concern as short-term public deposits are being used to fund long-term real-estate projects.

CIFL's gross non-performing-loan ("NPL") ratio worsened to 19.15% as at end-September 2009 (end-March 2008: 6.33%), as the Company had diverted its focus on to grappling with the liquidity crisis. Its deteriorating loan portfolio and illiquid real-estate investments render CIFL's asset quality feeble.

As interest-bearing deposits had been channelled to real-estate assets, CIFL's net interest margin ("NIM") had sunk further into the red, from -2.36% as at end-FY Mar 2008 to -8.07% as at end-September 2009. We note that profits from real-estate investments have been propping up its financial performance. However, we also observe that Aspic Homes has not been able to make the requisite payments to CIFL, owing to project overruns and weak real-estate sales. Heavy overheads have also taken a toll on CIFL's financial performance; the Company's cost-to-income ratio spiked up from 74.62% as at end-FY Mar 2008 to 139.98% as at end-September 2009. CIFL suffered a pre-tax loss of LKR 17.68 million in 1H FY Mar 2010. The poor performance had also eroded the Company's capital, which contracted from LKR 256.35 million to LKR 246.91 million over the 6-month span.

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