



Media Release

RAM Ratings Lanka upgrades LB Finance's rating to BBB

RAM Ratings Lanka has upgraded LB Finance PLC's ("LBF" or "the Company") long-term financial institution rating, from BBB- to BBB, with a stable outlook; the short-term rating has been reaffirmed at P3. The rating upgrade reflects LBF's healthier asset quality (which has been on an improving trend over the past 5 years), its strong financial performance and healthier capitalisation levels. Concurrently, RAM Ratings Lanka has also upgraded the respective long-and short-term ratings of LBF's LKR 450 million unsecured subordinated redeemable debentures, from a respective BB+ and NP to BBB- and P3.

The 1-notch difference between the rating of LB Finance's LKR 450 million subordinated bonds and its long-term financial institution rating mirrors the subordinated nature of the former to the Company's senior unsecured obligations.

LBF is the third-largest registered finance company ("RFC") in Sri Lanka, accounting for nearly 8.60% of the industry's assets as at end-March 2009. The Company demonstrated strong resilience in challenging economic conditions to augment its loan portfolio by 30.67% year on year ("y-o-y") during FYE 31 March 2009 ("FY Mar 2009"). The expansion was achieved through LBF's network of 21 branches and 57 pawning centers, with emphasis being placed on high-growth segments. Simultaneously, the Company also focused on improving its asset quality by strengthening its monitoring and recovery processes. Accordingly, LBF had countered the industry trend as its gross NPL ratio improved from 4.10% (industry: 5.19%) as at end-FY Mar 2008 to 3.84% (industry: 6.46%) as at end-FY Mar 2009. Nevertheless, we note a deterioration of quality in LBF's key lease and hire purchase ("HP") portfolio with the product delinquency rate weakening and reduced quality levels in the less than 3-months arrears buckets.

On a more positive note, LBF's financial performance improved during the reviewed period, in line with its robust loan growth and better overall asset quality. The company's profit after tax grew by a phenomenal 74.71% y-o-y to LKR 359.61 million during FY Mar 2009. As a result, LBF's return on assets ("ROA") and return on equity ("ROE") rose to 4.49% (end-FY Mar 2008: 4.01%) and 47.77% (end-FY Mar 2008: 45.47%) as at end-FY Mar 2009.

Further, RAM Ratings Lanka notes that the Company's performance had remained consistently better than its peers over the past 4 years. While LBF's profit growth is expected to moderate in comparison to the exceptional growth recorded last year, performance is anticipated to remain well above the industry and its peers.

The Company's improved financial performance, coupled with a LKR 450 million debenture issue and a rights issue last year, had also strengthened its capital position. Accordingly, LBF has been able to maintain its Tier-1 and overall capital adequacy ratios at 12.95% and 17.26%, respectively, well above the regulatory requirement. Further, in line with the improving asset quality, LBF's net NPL to shareholders' funds ameliorated to 14.41% as at end-FY Mar 2009 (end-FY Mar 2008: 17.91%).

Meanwhile, RAM Ratings Lanka notes that LBF's funding structure remained moderate. Public deposits grew to LKR 9.56 billion as at end-FY Mar 2009 (end-FY Mar 2008: LKR 7.31 billion) amounting to nearly 75.50% of total interest-bearing borrowings. Further, the statutory liquidity-asset ratio was well within the stipulated minimum as at end-FY Mar 2009

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