



Media Release

RAM Ratings Lanka has reaffirmed the ratings of Mercantile Investments Limited at A (with a negative outlook)

RAM Ratings Lanka has reaffirmed the respective long- and short-term ratings of Mercantile Investments Limited ("MIL" or "the Company") at A (with a negative outlook) and P1. At the same time, the P1 rating of the Company's outstanding LKR 51.13 million CP Programme has also been reaffirmed.

The negative outlook is premised on the Company's rising delinquencies, which have been impinging on its financial performance. Nonetheless, the ratings are still supported by MIL's robust capitalisation and improved funding structure.

MIL, a long-established registered finance company ("RFC") celebrated its 45th anniversary this year. In an industry where the 2 biggest players accounted for 42% of its overall asset base as at end-March 2009, MIL is the fifth-largest player, accounting for 4.64% of the sector's assets. Despite its size, the Company has a limited branch network; MIL opened 2 branches in FYE 31 March 2009 ("FY Mar 2009"), bringing its total count to only 4. We note that similar-sized peers have more than 20 branches each.

Due to its limited network and selective lending, MIL's net loan portfolio shrank 2.97% year-on-year ("y-o-y") in FY Mar 2009. Nevertheless, the Company could not isolate itself from the harsh macroeconomic environment that has prevailed in the last 2 years. While we note that the Company's gross non-performing-loan ("NPL") ratio (on a 6-month classification basis) deteriorated from 8.19% as at end-FY Mar 2008 to 9.22% as at end-FY Mar 2009, partly due to its contracting loan base, our opinion on asset quality hinges on the absolute rise in its NPLs and its waning provisioning levels.

MIL's pre-tax profit was lifted 10.00% to LKR 254.41 million in FY Mar 2009 (FY Mar 2008: LKR 231.29 million). Although the Company's net interest margin ("NIM") widened to 8.04% (FY Mar 2008: 7.50%), a 30.21% spike in provisions (owing to rising NPLs) had dented its performance.

Meanwhile, MIL has bolstered its funding structure. The Company, which had previously relied on bank borrowings, has shifted its focus to deposits. MIL has expanded its deposit base despite the widespread loss in public confidence towards the end of 2008. As at end-FY Mar 2009, deposits took up a larger share of its funding base, augmenting from 37.63% of its total funding to 43.29%; concurrently, bank funding had diminished. All this had aided MIL in remedying the mismatch in its asset-liability maturity profile; the negative gap in the "less than 3 months" bucket narrowed to LKR 281.64 million as at end-FY Mar 2009 (end-FY Mar 2008: LKR 733.64 million). The Company recorded a statutory liquid-asset ratio of 12.24% as at the same date (regulatory minimum: 10%).

On a more positive note, MIL remains one of the best-capitalised RFCs in the industry, with a core capital base of LKR 1.77 billion as at end-FY Mar 2009. Its robust capitalisation is still the Company's key rating driver. Meanwhile, its ratio on net NPLs to shareholders' funds stood at 9.85% as at end-FY Mar 2009, i.e. healthier than the industry average of 19.24%. The Company's capitalisation had also improved due to the contraction in its loan base. MIL's Tier-1 risk-weighted capital-adequacy ratio ("RWCAR") ascended to 24.02% as at end-FY Mar 2009 (end-FY Mar 2008: 20.06%), far above the regulatory minimum of 5%.

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