



Media Release

RAM Ratings has reaffirmed the A-/P2 ratings of Senkadagala Finance Limited

RAM Ratings has reaffirmed Senkadagala Finance Company Limited's ("Senkadagala" or "the Company") respective long- and short-term financial institution ratings at A- and P2; concurrently, the outlook on the long term rating has been revised from stable to negative. The negative outlook is premised on Senkadagala's weakening asset quality in the midst of deteriorating economic conditions. The ratings are, nevertheless, supported by the Company's commendable profitability and healthy capitalisation.

Senkadagala is the fifth-largest registered finance company ("RFC") in Sri Lanka in terms of assets, supported by 30 branches and a staff strength of over 200 personnel. The Company opened its thirtieth branch in Palawatte recently, strengthening its foothold at the forefront of the industry. Senkadagala's superior information technology ("IT") system has been the driving force behind its cost and operational efficiencies. These elements jointly fortify the Company's competitive strength in the industry.

Amid weakening economic fundamentals, RAM Ratings notes a deterioration in Senkadagala's asset quality over the past few years. The Company's gross non-performing-loan ("NPL") ratio which had remained below 3% prior to FYE 31 March 2007 ("FY Mar 2007"), had weakened to 6.27% as at end-FY Mar 2008, and further to 7.27% as at end-September 2008 (end-FY Mar 2006: 2.87%); the industry estimates for end-FY Mar 2008 and end-September 2008 came up to 6.54% and 7.01%, respectively. Going forward, RAM Ratings expects Senkadagala's asset quality to be further challenged by the prevailing climate of high inflation and lofty interest rates.

In spite of the above, the Company chartered yet another year of strong profit performance in FY Mar 2008. Pre-tax profit surged 17.27% year-on-year ("y-o-y") to LKR 302.25 million, translating into a healthy return on assets ("ROA") of 5.67% at the end of the period; this compared favourably with the industry average of 2.80%. As in previous years, the Company maintained a tight reign over its overheads, recording a cost-to-income ratio of 47.38% that was significantly below the industry average of 66.33%. However, given Senkadagala's weakening asset quality and the challenging economic conditions, RAM Ratings expects the Company's performance to moderate going forward, but remain above industry parameters.

Meanwhile, the Company's funding structure is still skewed towards securitised borrowings (53.42% of its total funding as at end-FY Mar 2008); this forms the basis for our concerns about the subordination of depositors' funds. At the same time, RAM Ratings notes that Senkadagala's reliance on this form of borrowing has been gradually reducing, and the

Company is now emphasising deposit mobilisation against borrowings; we view this favourably. Elsewhere, the Company's capitalisation remained healthy, underpinned by strong internal capital generation and earnings retention.

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