Press Release
06/02/2007

LANKA RATING AGENCY

LRA reaffirms A_3/L2 ratings to Senkadagala Finance Company Limited

LRA has reaffirmed Senkadagala Finance Company Limited's ("Senkadagala" or "the Company") respective long- and short-term financial institution ratings of A_3 and L2, with a stable outlook. The ratings reflect Senkadagala's commendable asset quality, above-average profitability and adequate capitalisation. At the same time, the ratings also factor in the Company's weak liquidity structure.

Despite above-average portfolio growth over the past few years, Senkadagala's asset quality has remained superior to its peers'; the Company has maintained more than 95% of advances within the"0-3 months in arrears" bracket. Annual write-offs have also improved significantly, standing at 1.47% of gross loans as at the end of FYE 31 March 2006 ("FY Mar 2006"). However, LRA notes marginal increases in the 1- 3 months arrears brackets and a slip in recovery efforts during the period under review, reflecting the pressure brought on by the Company's aggressive loan growth (87.51%).

For FY Mar 2006, the Company recorded a pre-tax profit of Rs 207.37 million, some 121% higher than the previous year. This was mainly underpinned by loan growth and overdue interest income - which nearly doubled following increases in loans within the 1-3 months arrears categories. Supported by cost efficiencies, Senkadagala achieved a return on asset ("ROA") of 6.58% in FY Mar 2006 - well above the industry average and its previous years' performances. Moreover, the Company has successfully kept its interest margin above the industry average in the past few years.

Borrowings are still the single largest source of funds on Senkadagala's balance sheet, constituting 65.43% of its total liabilities as at end-FY Mar 2006. As a result of continuous collateralisation of receivables, almost the entire lease and hire-purchase ("HP") portfolios of the Company remains pledged against such borrowings at any given time. Although the management considers this mode of borrowing as a cheaper source of financing compared to deposits, the subordination of deposits to collateralised borrowings remain a concern

Elsewhere, Senkadagala has maintained an adequate core capital base; the Company's risk-weighted capital-adequacy ratio ("RWCAR") stood at 14.35% as at end-FY Mar 2006, i.e. comfortably higher than the statutory minimum of 10%. With Senkadagala's strong capital generation, it should have sufficient capital to support its growth at historical levels.

To read the full report, please log on to LRA's website at http://www.lankarating.com

LRA's long-term rating of A3 denotes adequate safety for timely payments of financial obligations. This level of rating indicates entities with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories. The short-term rating of L2, meanwhile, denotes strong capacity for timely payments of obligations.

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LRA is a domestic credit rating agency licensed by the Securities and Exchange Commission of Sri Lanka. LRA is a 100%-owned subsidiary of Rating Agency Malaysia Berhad ("RAM"), Malaysia's premier rating agency. RAM is also an affiliate of Standard & Poor's, the world's largest rating agency.

LRA is backed by a 40-strong team of analysts at RAM, which has rated almost all the financial institutions in Malaysia and more than 1,000 debt issues by corporates, statutory organisations and subsidiaries of foreign multinationals. These issuers are involved in the leading sectors of the Malaysian economy, which share some similarities with the potential growth sectors in Sri Lanka. In particular, LRA can leverage on RAM's fortes in the ratings of financial institutions, asset-backed securities and Islamic debt securities.

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