

Lanka Rating Agency assigns BBB₃/L3 ratings to Asian Finance Limited

LRA has assigned a long-term financial institution rating of BBB₃ (with a stable outlook) and a short-term rating of L3 to Asian Finance Limited (“Asian Finance” or “the Company”). The ratings reflect Asian Finance’s growing profitability and improving asset quality, tempered by its borderline liquidity and marginal capitalisation.

Asian Finance comes under the Ceylinco Securities and Financial Services Group. Ceylinco Securities and Financial Services Limited, a registered money broker and merchant bank, holds 89.39% of Asian Finance’s shares. Asian Finance is a mid-sized finance company with an asset base of Rs 1.69 billion as at the end of FYE 31 March 2005 (“FY Mar 2005”). It operates from Colombo, with 2 branches in Kandy and Kurunegala. The Company’s business mainly focuses on leasing, hire-purchase financing and land easy-payment loans (“land EPs”). Meanwhile, real estate has become an increasingly important profit contributor to Asian Finance over the last few years.

Asian Finance’s asset quality, as denoted by its gross non-performing-loan (“NPL”) ratio, has shown considerable improvement since FY Mar 2003. Prior to that, bad debts had been accumulating in large amounts due to lack of credit control and monitoring, exacerbated by inadequate recovery efforts. Recognising its weaknesses, the Company has revamped its credit-control procedures and monitoring mechanisms while establishing a separate recovery department. These corrective actions have borne results and are reflected in Asian Finance’s healthier gross NPL ratio. On an adjusted 6-month basis, its gross NPL ratio receded from a high 18.18% to 11.74% between FY Mar 2003 and FY Mar 2005. Although the Company’s gross NPL ratio remained weaker than the industry average of 8.14%, LRA expects Asian Finance’s asset quality to improve to industry levels with time. In the meantime, the Company’s improving asset quality, coupled with its revived loan growth, had enabled Asian Finance to record a return on assets of 2.48% as at end-FY Mar 2005 compared to 1.12% a year earlier. However, we caution that any deterioration in its asset quality would exert downward pressure on its ratings.

The Company’s risk-weighted capital adequacy ratio of 10.98% was slightly above the 10% statutory minimum as at end-FY Mar 2005. Asian Finance’s internal cash-generating ability has been improving along with its better profit performance, which is expected to support its capitalisation level in the coming years. Meanwhile, the liquid asset ratio of the Company has remained above the statutory minimum of 15% in the last 2 years, standing at 16.74% as at end-FY Mar 2005.

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

LRA’s long-term rating of BBB₃ denotes financial institutions that are adjudged to offer a moderate degree of safety for timely payments of financial obligations. This level of rating indicates entities which have been significantly under-performing in some areas, however, are considered to have the capability to overcome such problems in the short term, though adverse changes in economic conditions could impair their ability to make timely payments of financial obligations. The subscript 3 indicates that the financial institution ranks at the lower end of its generic rating category. The Short term rating of L3 denotes adequate capacity for timely payments of obligations.

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.

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