

Lanka Rating Agency assigns BB₂/NP ratings to Arpico Finance Company Limited

LRA has assigned a long-term financial institution rating of BB₂ (with a stable outlook) and a short-term rating of NP to Arpico Finance Company Limited (“Arpico” or “the Company”). Our rating reflects Arpico’s weak asset quality, delicate performance and marginal capitalisation. Arpico, a small finance company, is listed on the Colombo Stock Exchange.

Prior to 2003, Arpico had been crippled by weak underwriting practices and inadequate monitoring mechanisms, exacerbated by poor recovery efforts. As a result, its gross non-performing loans (“NPLs”) peaked at Rs 131.16 million in FYE 31 March 2003 (“FY Mar 2003”), recording a mammoth gross NPL ratio of 29.90%. The ratio worsened to 32.01% in FY Mar 2004 due to slow loan growth, but eased to 22.23% with the upswing in lending activities during FY Mar 2005. Nevertheless, this ratio remained worse than the industry average of 8.14% as at end-FY Mar 2005. On a more positive note, the Company had made adequate provisions, resulting in a gross NPL coverage of 93.03% as at the same date.

Arpico’s financial performance has traditionally lagged behind the industry. After suffering losses in FY Mar 2003 due to massive loan loss provisions, the Company’s performance improved in FY Mar 2004 and FY Mar 2005. Arpico recorded a return on assets of 3.68% and a return on equity of 34.85% as at end-FY Mar 2005, against the industry averages of 3.02% and 21.16%. The improvement may be attributed to increased profits from its real-estate dealings and better recoveries. However, we note that the Company’s net interest income declined 10.44% despite its stronger loan growth. Thus the sustainability of Arpico’s overall profitability is yet to be demonstrated.

Given its slow portfolio growth, liquidity has not been a major concern. Over the past few years, the Company has been able to maintain its statutory liquid asset ratio above the minimum requirement of 15%. Similarly, Arpico’s loan-to-deposit ratio has also been comfortably below 100%.

Meanwhile, Arpico’s risk-weighted capital adequacy ratio stood at the minimum statutory requirement of 10% as at end-FY Mar 2005. Given its weak asset quality, Arpico’s capital cushioning is deemed moderate.

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

LRA’s long-term rating of BB₂ denotes financial institutions that are adjudged to lack key protection factors, which could result in inadequate safety for timely payments of financial obligations. This level of rating indicates that the entities may need certain favourable economic changes in order to meet financial obligations in a timely fashion. The subscript 1, 2 and 3 indicate that the financial institution ranks at the higher, mid or lower end within this generic rating category respectively. The short-term rating of NP denotes doubtful capacities 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.

Press Release
17/07/2006

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.

Analyst:
Nazeel Muzammil
(9411) 2553089
nazeel@lankarating.com