

## ICRA Lanka Assigns Issuer Rating of [SL]BB to Associated Motor Finance Company PLC

September 13, 2016

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]BB with stable outlook; Assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service has assigned the issuer rating of **[SL]BB (pronounced SL double B)** with a stable outlook to Associated Motor Finance Company PLC (AMF or the Company).

ICRA Lanka has taken a consolidated view of the company and its 94% owned subsidiary Arpico Finance Company PLC (AFCP) for the above rating. The rating takes note of the company's modest scale and business franchise, although it is one of the oldest finance companies in the country. The rating takes cognizance of the inherent risk in the company's current target segment (2-wheelers) as characterized by the moderated credit cost of 1.5% in FYE Mar-2016 (3.9% in FYE Mar-2014, 2.7% in FYE Mar-2015), with the reported gross NPAs which remained moderate at 2.8% in Mar-2016 vis a vis 4.0% in Mar-2015. ICRA Lanka takes cognizance of the impact on AMF's capital structure (Standalone gearing increased from 3.7 times in Mar-2015 to 4.3 times in Mar-2016; consolidated gearing stood at 7.3 times in Mar-2016) and its liquidity profile, post acquisition of Arpico Finance Company PLC (AFCP) in FYE Mar-2015. The acquisition also impacted the overall profitability profile, nevertheless the core profitability continued to remain good. Going forward, AMF is expected to grow its portfolio aggressively at CAGR of 55-60%. The company is also expected to diversify its portfolio profile to 3-wheeler financing, equipment financing and other retail financing products in the medium term. Ability of the company to secure timely external capital to maintain a prudent capital structure along with diversification of its funding profile would be crucial for the envisaged business growth. Also, AMF's ability to maintain good asset quality and overall profitability matrices would be key rating sensitivities.

AMF has a modest portfolio of LKR 3.0 Bn as in Mar-2016 (LKR 2.0 Bn in Mar-2015) and operates out of head office and branch in Kurunegala. The portfolio registered around 48% growth in FYE Mar-2016 (31% in FYE Mar-2015) after a decline of about 7% in FYE Mar-2014. As in Mar-2016, 2-wheelers accounted for about 96% of the total portfolio, the same has been stable over the past four financial years. Apart from 2-wheelers, the company has a minimal exposure to pledged loan, 3-wheeler and car segments which accounted for 1.0%, 0.3% and 0.1% of the portfolio respectively as in Mar-2016. Going forward, the company is expected to diversify its portfolio to 3-wheeler financing, equipment and consumer financing activities in the medium term.

The company's gross NPAs stood at 2.8% in Mar-2016 (4.0% in Mar-2015). AMF has been able to report good gross NPA numbers as it undertakes proactive repossession of overdue assets and disposes the same. The above is reflected from the high credit losses (including losses on repossessed assets), which was about 2.7% in FY2015. The asset quality profile has been quite volatile, with NPA being as high as 7.9% in FYE March 2010; it however witnessed some improvement over the recent past, the increase witnessed in FYE Mar 2014 and FYE Mar 2015 following commencement of operations in Kurunagala and Anurdapura areas; as the company has been used to operating only from its head office until then. The company has a prudent provisioning policy with cover of about 60%, which is expected to be maintained going forward and this has resulted in good solvency of about 1-3% during the last 3-4 years.

AMF's standalone gearing stood at 4.3 times as in Mar-2016. Adequate internal capital generation has supported the company over the recent past, as it expanded its portfolio at CAGR of 29% over the last four years. If the company expands its portfolio by 55%-60% as forecasted over the period FY2017-FY2019, with internal generation at about 15-16% while maintaining its core capital at 15%, the estimated capital requirement is about LKR 0.4-0.6 billion, this is about 40-60% of the net worth as in Mar-2016. In order to achieve the forecasted growth, it is crucial that the shareholders infuse capital to meet the capital requirement to support the growth. The company's consolidated gearing stood at 7.3 times due to the leveraged acquisition of ACPL in FYE Mar 2015.

As of Mar-2016, public deposits amounting to Rs 3,814 Mn, accounted for 86% of its sources of borrowings. The renewal rate of AMF's deposits as of FYE Mar-2015 was good at about 87% (88% in FYE Mar-2014). Notwithstanding the above, the company would have to diversify its funding sources as it envisages to grow at an aggressive pace over the next 3-4 years.

The company's RoA was in the range of 10-12% over the period FYE Mar-2012 to FYE Mar-2014, supported by a robust spread (21-22%), while the cost of operations and credit costs remained high at about 6-7% and 3-4% (in FYE Mar-2014 and FYE Mar-2015) respectively. The key financial ratios were impacted in FYE Mar-2015 post the acquisition of the AFPC, which was funded by debt. The company's RoA moderated to 3.8% in FYE Mar-2015 and stood at about 4.2% for FYE Mar-2016.

## **Company Profile**

Associated Motor Finance PLC (AMF) is one of the old Finance company in Sri Lanka. AMF focuses on 2-wheelers as its key asset class. Imperial Imports and Exports (Pvt) Ltd (IIEP) which is a family owned company of Mr. Nalatha Dayawansa, holds 43.1% of the company. Mr. Nalatha Dayawansa directly holds another 42.8% of the company, while other Dayawansa family members hold 6.5% of the shares. Effectively Dayawansa family controls close to 92.0% of the company. Imperial Imports and Exports (Pvt) Ltd is into motor trading business and it imports luxury vehicles and prime movers from UK.

During the year ended March 2015, AMF reported a PAT of LKR 139 Mn on a total asset base of LKR 4.6 Bn as compared to a PAT of LKR 237 Mn on a total asset base of LKR 2.6 Bn in the previous financial year. For FYE Mar-2016, AMF reported a PAT of LKR 221 Mn on a total asset base of LKR 5.7 Bn.

AMF Group reported a PAT of LKR 541 Mn on a total asset base of LKR 12.6 Bn during the year ended March 2016 as compared to a PAT of LKR 337 Mn on a total asset base of LKR 10.0 Bn in the previous period.

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*For further details please contact:*

### **Analyst Contacts:**

**Mr. Karthik Srinivasan, (Tel No. +91-22-6114 3444)**  
*karthiks@icraindia.com*

### **Relationship Contacts:**

**Mr. W. Don Barnabas, (Tel. No. +94-11-4339907)**  
*wdbarnabas@icralanka.com*



*Subsidiary of*

**ICRA Limited**

*A Group Company of Moody's Investors Service*

**CORPORATE OFFICE**

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: [info@icralanka.com](mailto:info@icralanka.com); Website: [www.icralanka.com](http://www.icralanka.com)

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