

Fitch Ratings Lanka affirms Senkadagala Finance Company's BBB+(sri) Credit Rating

Colombo (April 11, 2005) Fitch Ratings Lanka Ltd (FRL) has affirmed the BBB+ (sri) national credit rating assigned to the Implied Long-term unsecured Senior Debt of Senkadagala Finance Company Ltd(SF).

The BBB+(sri) rating denotes that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in economic circumstances and in economic conditions are more likely to impair this capacity.

The rating action reflects SF's good asset quality and healthy profitability which has been maintained despite the portfolio growth. The rating is also supported by the company's strong IT system and operating procedures which would enable the company to monitor asset quality and manage cost. The rating takes comfort from SF's relatively high capitalisation level and the high earnings retention policy. The rating was constrained by the asset size of SF, which despite the strong growth over the last few years remains relatively small in comparison with the other financial institutions in Sri Lanka.

SF experienced a portfolio growth of 62% during FYE 2004 supported by its branch expansion programme, on the back of the high 93% growth recorded in FYE 2003. The growth momentum has been sustained during the first nine months of FYE 2005, with the portfolio expanding by 33%. During the FYE 2004, asset quality weakened marginally with NPL/Gross loans increasing to 4.2% as at March 2004 from 3.3% in March 2003. The Net NPL/Equity ratio reverting back to 15.2% as at March 2004 (7.2% in March 2003). Nevertheless, SF's asset quality remains strong and healthy amongst its peers and in the local context.

The net interest margins remained healthy whilst operational efficiency was maintained due to the high degree of automation. The Cost/Income ratio improved to 44.2% in FYE 2004 from 48.8% in the previous year. The overall return on assets (ROA) was flat at 5.0% and remains relatively high in comparison to its peers and in the local context. Going forward ROA is expected to remain high due to healthy margins and low operational cost structure, but would be somewhat lower than the historical levels due to higher taxation.

During the FYE 2004, SF continued to rely on asset backed loans to fund the expansion of its loan book. As at Dec 2004, such borrowings accounted for 48% of SF's funding. customer deposit growth during the FYE 2004 was 15% which was below the industry average of 22%. However going forward, the management intends to actively grow the deposit base by leveraging the expanding branch network and by offering of savings accounts.

Senkadagala Finance Company (SF), established in 1968 is a registered finance company under the Finance Companies Act 78 of 1988 and a registered establishment under the Finance Leasing Act 56 of 2000. Extending leasing finance and hire purchase finance for motor vehicles has been the main stay of the company. Currently SF has a network of eight branches operating in Kandy, Colombo, Kurunegala, Negombo, Nugegoda, Panadura and Galle. The branch operations are automated to a large extent, with all the branches being linked via an online real time network, which facilitate centralised monitoring and control.

Fitch Ratings Lanka Ltd is a joint venture between Fitch Ratings, USA, International Finance Corporation Washington, Central Bank of Sri Lanka and several other leading local financial institutions. Fitch Ratings, USA is one of the three global full service credit rating agencies and rates over 2,100 international bank and financial institutions.

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