Press Release
23/07/2007

LRA reaffirms BB_2/NP ratings to Arpico Finance Company Limited

LRA has reaffirmed the respective long- and short-terms ratings of Arpico Finance Company Limited ("Arpico" or "the Company") at BB_2 (with a stable outlook) and NP. The ratings reflect Arpico's weak albeit improving asset quality and inadequate capitalisation.

While Arpico's asset quality had improved during FYE 31 March 2006 ("FY Mar 2006"), it remained far weaker than the industry average. Even though recoveries had been strong in the previous 2 years, the Company's gross non-performing-loan ("NPL") ratio stood at 15.06% at the end of FY Mar 2006 (end-FY Mar 2005: 22.23%) compared to the industry's 5.66%. Given its high NPL coverage of 94.43%, however, Arpico achieved a satisfactory net NPL ratio of 0.98% as at the same date.

The Company's gross income rose to Rs 79.61 million in FY Mar 2006, over 48% higher than the Rs 53.74 million of the previous year. This increase was underpinned by the surge in both interest and non-interest incomes. Although Arpico continued to be plagued by hefty operating costs, this was offset by its strong bad-debt recoveries in the last 2 years (FY Mar 2006: Rs 22.34 million; FY Mar 2005: 22.25 million); its returns on assets ("ROA") had faired better than the industry averages on both occasions. Arpico reported an ROA of 4.18% for FY Mar 2006, from 3.68% the year before.

Elsewhere, Arpico's liquid asset ratio remained in line with the statutory requirement of 15%, albeit dipping a tad below to 14.95% as at end-FY Mar 2006. Deposit growth remained subdued as a result of Arpico's limited geographical presence; the Company has had to resort to borrowings to support its loan growth. These debts pushed its loan-to-deposit ratio to 99.02% as at end-FY Mar 2006, from 88.44% a year earlier.

Meanwhile, Arpico's risk-weighted capital adequacy ratio ("RWCAR") improved from 10.05% to 15.39% over the same period, following the revaluation of its office premises. However, the Company's core capital base (shareholders' funds excluding revaluation reserves) remained at Rs 65.80 million as at end-FY Mar 2006. LRA notes that this had to be increased to Rs 100 million by end-February 2007, and further to Rs 200 million by July 2008, to be in-line with the new regulatory requirements of the Central Bank of Sri Lanka ("the Central Bank"). In this respect, the Company has requested an extension of time until March 2008 to meet the first Rs 100 million target, via a 2-step capital-raising exercise. This is of concern to LRA and the agency will closely monitor and assess Arpico's compliance with the minimum regulatory requirements in conjunction with the approach taken by the Central Bank.

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

Analyst:
Prakash Jerome
(9411) 2553089
prakash@lankarating.com