

Lanka Rating Agency assigns BBB₃/L3 ratings to Bartleet 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 Bartleet Finance Limited (“BFL” or “the Company”). The ratings reflect the Company’s improving performance, tempered by its delicate asset quality, borderline liquidity and marginal capital adequacy. The ratings also take into consideration BFL’s franchise value as a member of the Bartleet Group.

BFL was incorporated in 1983 and is registered under the Finance Companies Act No. 78 of 1988. It is also registered under the Finance Leasing Act No. 56 of 2000, to carry out its leasing business. BFL, part of the larger Bartleet Group of companies, is a mid-sized player which accounts for 2% of the total assets of Sri Lanka’s registered finance companies. BFL’s core businesses include hire-purchase financing and leasing, supplemented by trade financing, factoring, deposit acceptance, real estate and property.

BFL, which has its head office in Colombo, has expanded its operations to the southern, western and central regions of the country. At present, the Company has 6 branches in Matara, Kalutara, Embilipitiya, Bandarawela, Polonnaruwa and Negombo.

Over the past 2 years, the Company’s performance improved, underpinned by healthier interest margins; nonetheless, it still lags behind the industry. BFL’s return on assets (“ROA”) improved to 2.73% as at the end of FYE 31 March 2005 (“FY Mar 2005”) against 1.16% as at end-FY Mar 2004; its return on equity (“ROE”) also rose from 14.61% to 28.39% over the same period.

BFL’s gross non-performing-loan (“NPL”) ratio, on a 6-month classification basis, came up to 12.89% as at end-FY Mar 2005 while its net NPL stood at 3.58%. These are deemed delicate compared to the industry averages of 8.14% and 2.97%, respectively. Such NPL levels are cause for concern, especially with the aggressive growth of the Company’s loan portfolio, which could generate more NPLs in the future.

BFL’s liquid asset ratio is marginally above the statutory minimum of 15%, standing at 17.32% as at 30 September 2005. The Company’s high loan-to-deposit ratio is also a source of concern. Although BFL plans to mobilise funds by introducing savings products, its ability to attract such deposits remains untested.

In the meantime, BFL’s capitalisation level remains above the statutory minimum of 10% stipulated by the Central Bank of Sri Lanka (“the Central Bank”). The Company’s Tier-1 and Tier-2 capitalisation ratios stood at 11.75% and 13.39% as at end-FY Mar 2005. BFL’s planned Rs 150 million debenture issue, through private placement, is expected to enhance its supplementary capital. Given its delicate asset quality, however, the Company’s capital cushioning is deemed moderate.

Meanwhile, BFL draws sturdy franchise value from being a part of the larger Bartleet Group, which traces its origins back to 1904. The group structure and the respected personalities on the board of the Group have also been considered in LRA’s rating assessment. BFL was formerly known as Bartleet Financial Services Ltd and changed its name with effect from 1st January 2006.

To read the full report, please log on to LRA’s website at <http://www.lankarating.com> or Rating Agency Malaysia’s (“RAM”) website at <http://www.ram.com.my>

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.

LRA is backed by a 40-strong team of analysts at RAM, which has rated almost all the financial institutions in Malaysia and some 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.

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LRA'S CREDIT RATING DEFINITIONS (FINANCIAL INSTITUTIONS)

LRA's rating of a financial institution is an assessment and current opinion on the strength and performance of the rated institution.

LONG-TERM RATINGS

- AAA** Financial institutions rated in this category are adjudged to offer the highest safety for timely payments of financial obligations. This level of rating indicates entities with strong balance sheets, favourable credit profiles and consistent records of above-average profitability. Their capacities for timely payments of contractual financial obligations are unlikely to be impacted seriously by any foreseeable changes in economic conditions.
- AA** Financial institutions rated in this category are adjudged to offer high safety for timely payments of financial obligations. This level of rating indicates entities with sound credit profiles and without significant problems. Entities rated in this category are, however, considered to be somewhat more vulnerable to adverse changes in economic conditions than those entities rated in the highest category.
- A** Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates entities with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories.
- BBB** Financial institutions rated in this category are adjudged to offer only 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. These entities are, however, 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.
- BB** Financial institutions rated in this category are adjudged to lack key protection factors, which results in inadequate safety for timely payments of financial obligations. This level of rating indicates that the entities would need certain favourable economic changes in order to meet financial obligations in a timely fashion.
- B** Financial institutions rated in this category are adjudged to be of high risk. Timely payments of financial obligations are impaired by serious problems which the entities face. Whilst entities rated in this category might be currently meeting obligations on time, continuance of this would depend upon favorable economic conditions or some degree of external support.
- C** Financial institutions rated in this category are adjudged to be of very high risk in relation to timely payments of financial obligations. This level of rating indicates entities with very serious problems and, unless external support is provided, they would be unable to meet their financial obligations in a timely fashion.
- D** Financial institutions rated in this category are either currently in default or expected to be in default, whether or not formally declared. This level of rating indicates that the entities are unlikely to meet maturing financial obligations, which calls for immediate external support of a high order.

SHORT-TERM RATINGS

- L1** Financial institutions in this category have superior capacities for timely payments of obligations.
- L2** Financial institutions in this category have strong capacities for timely payments of obligations.
- L3** Financial institutions in this category have adequate capacities for timely payments of obligations. The ability to honour the obligations is more vulnerable to adverse changes in business, economic or financial conditions.
- NP** Financial institutions in this category are impaired by doubtful capacities for timely payments of obligations, unless significant external support is made available.

For long-term ratings, LRA applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the financial institution ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the financial institution ranks at the lower end of its generic rating category.