



Lanka Rating Agency assigns BB₃/NP ratings to The Multi Finance Company Limited

LRA has assigned a long-term financial institution rating of BB₃ (with a stable outlook) and a short-term rating of NP to The Multi Finance Company Limited ("Multi Finance" or "the Company"). The ratings are premised upon Multi Finance's weak asset quality, challenging growth prospects, limited financial flexibility and difficulty in meeting the Central Bank of Sri Lanka's ("Central Bank") minimum requirements on shareholders' funds (set early this year). On the other hand, these factors are somewhat moderated by the Company's good liquidity position and commendable performance indicators.

Multi Finance, one of the smallest RFCs in Sri Lanka with an asset base of Rs 95.52 million as at end-FY Mar 2005, operates from Kandy, with a staff strength of 41 employees. The Company is principally involved in financing the consumer durables marketed by its sister company, Multi Traders and Agencies Limited. Although Multi Finance focuses on the financing of consumer durables, as opposed to other RFCs which are mainly engaged in vehicle financing and real estate, it remains comparable in all other aspects.

The asset quality of Multi Finance has remained weak, as indicated by its gross non-performing-loan ratio (on a 6-month basis) of 15.69% as at end-FY Mar 2005, compared to the industry average of 8.14%. This had been chiefly due to the Company's weak monitoring and collection efforts, underpinned by lack of information and focus. However, the Company has now placed its collection and recovery functions under a new Director of Recoveries to increase its focus, and is also in the process of computerising its key business areas.

Meanwhile, competition largely stems from the market leaders in consumer durables - Singer Sri Lanka Limited and Abans Limited - the products of which are among the main merchandise financed by Multi Finance. These players aggressively market their products through their branches and dealers across the island, while also offering hire-purchase financing facilities which are likely to be at better terms given their stronger credit profiles and franchises, thus posing a threat to Multi Finance.

Despite the volatility, the Company's return on assets ("ROA") has been better than industry levels for the past 3 years (8.43% as at end-FY Mar 2005) due to its broader margins. Multi Finance's liquidity levels have also remained above the statutory minimum. However, LRA notes that high ROAs and liquidity levels are common among similar-sized RFCs in the country.

Elsewhere, Multi Finance's risk-weighted capital adequacy ratio stayed well above the statutory minimum at 33.57% as at end-FY Mar 2005. The Company's shareholders' funds amounted to Rs 27.80 million as at the same date. Despite this, the management has no plans to meet the Central Bank of Sri Lanka's new minimum requirement of Rs 100 million for shareholders' funds by the end of this year.

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

LRA's long-term rating of BB₃ 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.

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