

FOR IMMEDIATE RELEASE

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**ICRA Lanka Reaffirms the [SL]BB issuer rating of
Associated Motor Finance Company PLC**

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

ICRA Lanka has taken a consolidated view of Associated Motor Finance PLC (AMF) and its 94% owned subsidiary Arpico Finance Company PLC (AFCP) for arriving at the rating. The combined entity henceforth is referred to as AMF-group.

The rating factors in the limited business franchise and moderate portfolio size of the AMF-group, high portfolio vulnerability due to its concentration in 2-wheeler segment and limited funding diversity. The rating takes cognizance of the regulatory changes by Central Bank of Sri Lanka ("CBSL") on Loan to Value ("LTV") ratio for vehicle financing, which is expected to increase competitive pressure and impact business growth of all players, including AMF-group. The gearing of AMF-group is high at about 8.08 times as on March 31, 2017; considering the risk inherent in the target asset and borrower segments, ability to maintain a comfortable and risk adjusted capital structure would be key from a rating perspective. The rating also takes note of the experience of the management team, its comfortable profitability indicators and improvement in the asset quality profile in the recent past. ICRA Lanka notes that AMF-group is expected to diversify its portfolio profile to other retail financing products, including expansion of microfinance business in the medium term. Ability to maintain good asset quality and adequate profitability, as the group diversifies its product profile would be critical over the medium term. ICRA Lanka notes that the AMF and AFCP are expected to merge in the next few years, which would strengthen the business franchise and support business growth; however timely resolution of teething issues, including system integration, optimization of operating efficiencies etc, during the merger process, would be crucial.

The AMF-group portfolio stood at LKR 14.0 Bn as on March 31, 2017 vis a vis LKR 9.0 Bn as on March 31, 2016; 56% y-o-y growth. The portfolio size of AMF and AFCP were LKR 4.2 Bn and LKR 9.8 Bn respectively as on March 31, 2017. AMF operates out of head office and its sole branch in Kurunegala, but it has presence in close to 300 dealer locations; AFCP operates with about 9 branches, including its head office. As of March 2017, AMF and AFCP had exposures of 97% and 34% respectively to the 2-wheeler segment. Other key asset class exposures of the AFCP includes, cars/SUV-23%, dual purpose vehicles- 10%, lorry- 8%, corporate and micro loans 8%.

AMF maintained its portfolio growth at 30% CAGR over the last four years and going forward, envisages to focus on the 2-wheeler asset class segment while AFCP maintained its portfolio growth at a CAGR of 40% and is expected focus on other automotive products and loans going forward. The AMF-group portfolio grew at a CAGR of 40% over the last three years. ICRA Lanka however notes that the regulatory changes made by CBSL on LTV for vehicle financing could impact business growth going forward.

The AMF-group's gross NPAs stood at 3.88% as on March 31, 2017 (4.15% as on March 31, 2016). The standalone gross NPA for AMF witnessed some increase to 3.48% as of March 2017, vis a vis 2.79% as

of March 2016 because of slippages in the 2-wheeler portfolio; the same however is comfortable as it undertakes proactive repossession of overdue assets and disposes the same. The above is reflected from the high credit costs (including losses on repossessed assets), which was about 2.26% in FY2017.

The AMF-group's gearing ratio has increased to 8.1 times as of March 2017 vis a vis 7.3 times as of March 2016 because of the sharp increase in the portfolio during FY2017. The AMF-group's ability to secure timely capital infusion to support business growth would be crucial. The total risk weighted capital ratio of AMF-group and AFCP was at 10.6% and 12.6% respectively as of March 2017. However, the total risk weighted capital ratio of AMF was impacted due to the large leveraged investment in AFCP; Currently Central Bank of Sri Lanka has allowed AMF to operate below the regulatory requirement pending the merger. The gearing of AMF and AFCP stood at 4.7 times and 6.1 times respectively as on March 31, 2017.

As on March 31, 2017, the funding for the AMF-group is largely from public deposits and bank borrowings which accounted for 66% and 31% respectively of the total debt. On a standalone basis, AMF's public deposits amounting to LKR 4,221 Mn, accounted for 72% of its sources of borrowings. The renewal rate of AMF's deposits has been above 80% over the last few years.

The AMF-group's RoA (before tax) stood comfortable at 4.0% in FY2016 with a NIM at 11.1%, credit cost at 2.1% and operating expenses at 5.9%. The provisional AMF-group RoA (before tax) stood at 2.4% (annualized) in 9MFY2017 and the same stood at 2.1% (annualized) for AMF. ICRA Lanka expects the RoA to moderate in FY2017 because of the likely compression in the business margins. AMF's RoA (before tax) has increased to 4.3% in FY2016 from 2.6% in FY2015. The NIM of the company has remained around 11.4-11.5% during FY2015 and FY2016. The operating expenses increased to 7.0% in FY2016 from 5.9% in FY2015 because of the expansion of operations while credit costs reduced to 1.9% during FY2016 from 3.2% in FY2015 with improvement in the asset quality during FY2016.

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. Nalantha Dayamansa, holds 43.1% of the company. Mr. Nalantha 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 FY2016, AMF reported a PAT of LKR 221 Mn on a total asset base of LKR 5,772 Mn as compared to a PAT of LKR 139 Mn on a total asset base of LKR 4,621 Mn in FY2015. For 9MFY2017, AMF reported a PAT of LKR 69 Mn on a total asset base of LKR 6,118 Mn.

AMF-group reported a PAT of LKR 541 Mn on a total asset base of LKR 12,637 Mn during FY2016 as compared to a PAT of LKR 338 Mn on a total asset base of LKR 10,056 Mn in FY2015. For 9MFY2017, AMF-group reported a PAT of LKR 241 Mn on a total asset base of LKR 15,171 Mn.

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