

FOR IMMEDIATE RELEASE

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ICRA Lanka reaffirms the issuer rating of [SL]A- for Capital Alliance Limited

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]A- (pronounced SL A minus) with stable outlook for Capital Alliance Limited (CAL or the company).

The rating factors CAL's position as one of the leading standalone primary dealers in Sri Lanka. The rating also factors in the good control processes along with robust IT systems, which are commensurate in relation to the risks intrinsic to a primary dealer's business. Further, the rating factors in the synergies with group entities which offer other financial services such as equity brokering, asset management and financial advisory. ICRA Lanka notes that while the portfolio of the company has minimal credit risk (as in September 30, 2017 about 95% of the total investments consisted of GoSL treasury or GoSL treasury backed securities), the same however is susceptible to adverse movements in interest rates. CAL's profitability has increased for the six months ended September 2017, because of the favorable interest rate regime which prevailed during this period. The rating also takes comfort from the moderate gearing (gearing 4.7 times as on September 30, 2017) and adequate capitalization (CAR 19.83% as on September 30, 2017) profile of the company. ICRA Lanka is cognizant of the significant short term asset and liability mismatch, as the investment positions are funded by short-term repo borrowings; liquid nature of the portfolio, access to CBSL funding and availability of funding lines from banks however provide comfort.

CAL's portfolio as on September 30, 2017 stood at about LKR 11.3 Bn vis-à-vis LKR 7.5 Bn as on March 31, 2017 (LKR 6.3 Bn as on March 31, 2016). The portfolio consisted of treasury bills, bonds and reverse repos which do not carry credit risk and are highly liquid assets. The portfolio risk is expected to increase as CAL diversifies to non-government securities over the medium term; however there are no near term plans. In addition, CAL is currently exposed to counterparty risk on its reverse repo exposures; however, the risk is managed by ensuring adequate LTV's and timely transfer of underlying securities. CAL's portfolio duration increased to 3.75 in June 2017 (3.68 in March 2017) from 1.99 in September 2016; however the same has reduced to 2.26 in September 2017. The company's strategy to focus on trading gains is expected to keep its performance susceptible to volatility in systemic rates, therefore maintaining conservative duration is critical.

During 6MFY2018, the company's overall profitability increased as trading gains rose sharply to LKR 579 Mn for the six months ended September 2017, compared to LKR 319 Mn for the six months ended September 2016, because of the favorable interest rate regime that prevailed during the period.

Company Profile

CAL is a licensed primary dealer in government securities in Sri Lanka. The company is 87% held by Capital Alliance Holdings, which offers various financial and investment solutions including fixed income trading, stock broking, asset management, financial advisory and commodity trading.

For the year ended March 31, 2017, CAL reported a net profit of LKR 307 Mn on a total asset base of LKR 7.5 Bn vis-a-vis a net profit of LKR 57 Mn on a total asset base of LKR 6.3 Bn on March 31, 2016.

During the 6 months ended September 30, 2017, the company reported a net profit of LKR 631 Mn on a total asset base of LKR 11.3 Bn.

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