

FOR IMMEDIATE RELEASE

January 04, 2017

ICRA Lanka assigns Issuer rating of [SL]A- to Capital Alliance Limited

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned 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 dealer in Sri Lanka. The rating also factors in the good control processes along with robust IT system, which are commensurate in relation to the risks intrinsic to a primary dealer's business. Further, the rating factors 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, 2016 about 97% of the assets consisted of GoSL treasury backed securities), the same however is susceptible to adverse movements in interest rates. CAL's profitability was impacted during FY2016 due to the adverse interest rate regime which prevailed during the latter part of the fiscal. The rating also takes comfort from the moderate gearing (gearing 4.7 times as on September 30, 2016) and adequate capitalization (CAR 17.0% as on September 30, 2016) profile of the company. However, ICRA Lanka is cognizant of the liquidity risk stemming from the significant short term asset and liability mismatch, as the investment positions are largely funded by short term repo borrowings (over 90% of the borrowings as on September 30, 2016); liquid nature of the portfolio and availability of CBSL funding lines however provide comfort.

CAL's portfolio as on September 30, 2016 stood at about LKR 8.3 Bn vis-à-vis LKR 5.7 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. However, the company is expected to diversify the portfolio by taking on corporate bonds and credit derivatives, therefore could somewhat weaken the credit risk profile. ICRA Lanka would closely monitor the impact of the above on the overall credit risk profile on the company. Also, CAL is exposed to counter party risks on its reverse repo exposures; however, the risk is managed by ensuring conservative LTV's and timely transfer of underlying securities. Further, the relatively conservative portfolio durations (weighted average portfolio duration of 1.99 years as on September 30, 2016) provide comfort.

During FY2016, the company's overall profitability deteriorated significantly as trading gains decreased sharply from LKR 570 Mn in FY2015 to loss of LKR 67 Mn because of the adverse interest rate regime that prevailed during the latter part of the fiscal. Net profit for the financial year was modest at LKR 57 Mn, compared with LKR 532 Mn reported in FY 2015.

For the 6M ended September 30, 2016 the company recorded a total trading gain of LKR 319 Mn and a total net interest income of LKR 104 Mn, resulting in a PAT of LKR 484 Mn because of relatively favourable interest rate regime.

Company Profile

CAL is a licensed primary dealer in government securities in Sri Lanka. The company is 90% 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.

During FY2016, CAL reported a net profit of LKR 57 Mn on a total asset base of LKR 6.3 Bn vis-a-vis a net profit of LKR 532 Mn on a total asset base of LKR 6.6 Bn on March 31, 2015.

During the 6 months ended September 30, 2016, the company reported a net profit of LKR 484 Mn on a total asset base of LKR 8.9 Bn.

January 2017

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