



RATINGS

Media Release

RAM Ratings Lanka reaffirms Multi Finance Ltd's BB-/NP, and withdraws ratings

RAM Ratings Lanka has reaffirmed the respective long- and short- term financial institution ratings of The Multi Finance Company Limited ("MFL" or "the Company") at BB- and NP, with a stable outlook. The ratings are premised on the Company's small stature and weak performance, although supported by its improving asset quality and comfortable capital buffer.

Having said that, RAM Ratings Lanka has subsequently withdrawn MFL's ratings as requested by the client. As such, the agency no longer has any rating obligations on the Company.

MFL remains one of the smallest registered finance companies ("RFCs") in Sri Lanka, accounting for only 0.21% of the industry's assets as of September 2009. MFL's major shareholder, Ceylinco Shriram Securities Holding, had been renamed Entrust Ltd ("Entrust") after the Ceylinco crisis. In addition, Entrust has sought new shareholders to distance itself from the Ceylinco franchise. In this regard, Entrust is expected to be taken over by Pacific Trust, upon obtaining the court's final approval in the near future.

Meanwhile, MFL's reaffirmed ratings had been underpinned by its improving asset quality as a result of regular monitoring and stronger recoveries. Its gross non-performing-loan ("NPL") ratio had eased substantially to 1.94% as at FYE 31 March 2009 ("FY Mar 2009") (end-FY Mar 2008: 10.20%) - better than its peers'. The ratio had eased further to 1.54% by end-September 2009, supported by a surge in the Company's loan base - a result of internal growth and having acquired a hire-purchase ("HP") portfolio the same year. However, loan-concentration risk remains; MFL's top 10 loans accounted for 27.82% of its credit portfolio as at FY Mar 2009. While we acknowledge the strides that MFL has made in improving its asset quality, the Company has yet to demonstrate its ability to preserve its credit quality on a larger scale.

On a related note, MFL's performance has remained weak, burdened by hefty overheads. While we note that one-off VAT expenses had led to a pre-tax loss of LKR 4.34 million in FY Mar 2009, heavy overheads had continued to take a toll on the Company's profits during the first 6 months of FY Mar 2010. Accordingly, MFL's traditionally high cost-to-income ratio remains weaker than those of its similar rated peers; the ratio stood at 78.67% as at end-September 2009. While margins are expected to uplift the Company's performance in the short term, a sustainable improvement in its financial performance is yet to be evinced.

RAM Ratings Lanka opines that MFL has moderate funding and liquidity positions. Subsequent to Entrust's capital infusions in FY Mar 2009, the Company's shareholders' funds have been its chief funding source. In the long run, however, MFL expects to derive its funding primarily from deposits. Going forward, its funding and liquidity levels are expected to recede due to loan expansion, albeit remain above the minimum statutory requirement.

MFL's capital is deemed sufficient to cushion defaults arising from the large exposures in its loan portfolio as at end-FY Mar 2009. Owing to limited information on its large loan exposures, however, we are concerned about the sufficiency of the Company's capital as at end-September 2009. Nonetheless, its Tier-1 and overall risk-weighted capital-adequacy ratios ("RWCAR") remained well above the regulatory minimums at 64.36% and 75.54% as at the same date, thus allowing ample room for loan growth.

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