Lanka Rating Agency

Rating Report

Assetline Finance Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Nov-2023	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Assetline Finance Limited ("AFL" or the "Company") is rated to reflect its medium size and its solid standing in the lending market. The Company specializes in offering leasing products for two- and three-wheelers, motor cars, mini trucks, and more. AFL benefits from the support of its sponsors, the David Peiris Group, which owns David Pieris Motor Company, the sole supplier of Bajaj in Sri Lanka. The David Peiris Group's involvement in the auto business and its strong financial health contribute to the rating. Furthermore, the nationwide presence of David Peiris Motors helps the Company enhance its outreach and establish contact with clients. However, the Company has faced challenges in recent years. Due to import bans on vehicles and economic turmoil, AFL's lending book has decreased. This economic turmoil has led to deteriorating asset quality and a change in provisioning from 180 to 90 days, resulting in increased provisioning costs. Additionally, increased funding costs due to higher interest rates have led to a significant decrease in profitability in FY23. AFL has managed to perform well in terms of profitability in 6MFY24, and it is expected to improve further once interest rates normalize. Despite obtaining a finance business license in 2022, the primary source of funding for the Company remains borrowing. AFL plans to focus on expanding its asset base by leveraging available borrowing lines from both group companies and financial institutions, citing lower administrative costs. Unutilized funding lines provide comfort regarding liquidity. The ratings reflect the Company's strong capitalization, highlighted by robust equity and a Capital Adequacy Ratio (CAR) of ~30%.

The rating is dependent on the relative positioning of the AFL in the sector and its ability to maintain sustained funding plans, ensuring the bottom line remains robust. The ratings also depend upon the Company's continued efforts to enhance their collection efficiency.

Disclosure	
Name of Rated Entity	Assetline Finance Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study | Leasing & Finance Companies(Aug-23)
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Profile

Structure Assetline Finance Limited was incorporated in 2003 and registered under the Finance Leasing Act, No 56 of 2000 as a Finance Leasing Establishment – under the specialized leasing company category (formerly known as Assetline Leasing Company Ltd - ALC). The Company was granted a finance business license in 2022 and it is now known as the Assetline Finance Ltd (AFL).

Background ALC, was focused on providing leases and financing. In 2022, ALC obtained Finance business license and renamed as Assetline Finance Limited to accept public deposits.

Operations AFL provides a wide range of products including mortgage loans, margin trading facilities, personnel loans, factoring, acceptance of public deposits and other financial services as well as providing finance lease for three-wheelers, motorcycles, and four-wheelers.

Ownership

Ownership Structure The major shareholding vests with DPMC Assetline Holdings (Pvt) Limited owning 99.99% of the shares as of 6MFY24. The ultimate parent of the company is David Pieris Holdings (Pvt) Ltd.

Stability Holding company structure provides stability to the overall shareholding of the Company.

Business Acumen David Pieris group (DPG) comprises of 22 companies in diversified industries including financial services, property development & trading, logistics, IT & Digital, racing, leisure, and distribution of electronic and electrical items.

Financial Strength David Pieris group has strong financial strength and has approved a limit of LKR 14Bn, to fund AFL in the form of an intercompany loan. This highlights the willingness of the sponsor to support the Company in need.

Governance

Board Structure AFL board consists of 7 members, out of which 6 of the members (including the Chairman) are Non-Executive Directors. Out of 7, there are 3 Non-Executive Independent Directors. The Chairman and the Chief Executive Officer (“CEO”) positions are held by two different individuals and the CEO is also a director of the Company.

Members’ Profile The Board consists of personnel with extensive knowledge, expertise, and experience in different business fields. Mr. Rohana Dissanayaka functions as the Chairman of the Company and was appointed to the Board in 2019. He has over 30 years with the David Pieris Group, where he is currently the Group Chairman & Managing Director.

Board Effectiveness AFL operates with five board sub-committees, namely the Board Audit Committee, Board Human Resource and Remuneration Committee, Board Integrated Risk Management Committee, Board Nomination Committee, and Board Related Party Transactions Review Committee.

Financial Transparency E&Y Chartered Accountants of Sri Lanka has given an unqualified audit opinion on the financial statements for FY23.

Management

Organizational Structure The Company has a well-defined organizational structure. The final authority lies with the CEO who reports to the Board of Directors.

Management Team The management team is steered by Mr. Ashan Nissanka who functions as the CEO/ Executive Director and was appointed as the CEO and Executive Director to the Assetline Board in 2021.

Effectiveness The Company has formed few management committees namely, Assets and Liability Management Committee, Credit Committee, Procurement Committee, IT Steering Committee, Cross Functional Committee and Assetline Management System Steering Committee.

MIS The Company uses automated browser-based ERP with Oracle 19C as a back-end database which was developed and implemented by DP Infotech (Pvt) Ltd in 2019. Further, AFL is in the process of implementing Anti-Money Laundering Solution developed by KPMG.

Risk Management Framework AFL’s risk management process is steered by the Board Integrated Risk Management Committee which reports to the board.

Business Risk

Industry Dynamics At present, there are 34 LFC’s in Sri Lanka, out of which 27 are listed. The sector profitability as at 3MFY24 is recorded at LKR 4.6Bn when compared to LKR 6.1Bn in 3MFY23. The loan loss provisions increased by 118% to LKR 13.5Bn in FY23 (3MFY24: LKR 4.5Bn). The gross and net NPL ratio deteriorated to 20.36% and 14.33% respectively as at 3MFY24.

Relative Position AFL represents 3% of the equity in the LFC industry as of 3MFY24 (FY23: 3%). Moreover, the Company asset base contributed to 2% of the industry assets in 3MFY24 as well as in FY23. AFL net loans and advances in FY23, was 2.2% when compared to the 2.4% in FY22 of the LFC and SLC sector loans and advances asset base.

Revenues In FY23, the gross income surged to LKR 7,992Mn, marking a 10% increase compared to the LKR 7,284Mn in FY22. In 6MFY24, it amounted to LKR 4,864Mn. The Company's Interest Income also showed a 10% rise in FY23, reaching LKR 7,845Mn, up from LKR 7,110Mn. In 6MFY24, it was recorded as LKR 4,784Mn. This improvement can be attributed primarily to higher interest rates and increased interest income from investments. Notably, interest income from leases accounted for 69% of the total interest income in 6MFY24 (FY23: 77%). Within the leasing sector, AFL's primary focus was on the Three-wheeler segment, which contributed to 67% of the net interest income from all leases for FY23 and 69% for 6MFY24.

Performance AFL's profitability saw a significant 58% drop in FY23, falling from LKR 2,130Mn to LKR 905Mn, and in 6MFY24, it reached LKR 195Mn. This substantial decline in profits in FY23 was primarily driven by a 262% increase in interest expenses on bank loans, rising from LKR 962Mn to LKR 3,486Mn due to an interest rate hike. Impairment charges for loans and advances also rose by 154% in FY23, from LKR 337Mn to LKR 856Mn, due to changes in NPL classification as per the CBSL. However, unrealized gains on government securities recognized through OCI provided comfort to overall profitability. The Company's Return on Assets for 6MFY24 was 1.14% (FY23: 2.64%), while the Return on Equity for 6MFY24 was 3.29% (FY23: 8.37%).

Sustainability AFL's strategic direction is focusing on leasing in the three-wheeler and four-wheelers segment and expanding its lending portfolio by introducing Islamic Finance. The Company will continue to focus on funding from unutilized lines rather than deposit mobilization in the near future given the lower administrative costs involved.

Financial Risk

Credit Risk AFL’s gross and net NPL levels have remained above the industry average since AFL’s product portfolio only consists of Lease and Loans where industry NPL has calculated with the gold loan which has a lower NPL. Even excluding gold loans, AFL’s NPL numbers are higher than the industry indicating the fact that they are lending in the low-income segment of the country. The lease NPL has increased from 8.05% in FY22 to 21.61% in FY23 and has reduced to 20.70% in 6MFY24. NPLs of term loans have reduced to 13.87% in FY23 from 39.67% in FY22, and have increased again to 39.68% in 6MFY24. These increases are primarily a result of the NPL classification change imposed by CBSL.

Market Risk AFL’s investment portfolio consists of investments in government treasury bonds, unquoted equity shares, deposits with banks, and investment property. The Company reduced its lending book and increased its investments in government securities in FY23 owing to a sudden increase in interest rates and higher credit risk due to prevailing economic conditions.

Liquidity And Funding AFL’s majority funds are from borrowings. In 6MFY24 it represents 98% of total funding. AFL has started customer Deposits in FY23 since getting finance business license, and it was recorded to LKR 201Mn. It has increased by 66% from FY23 to 6MFY24. AFL’s liquid assets to funding position were at 24.6% while in the industry it was 19.08% in FY23.

Capitalization AFL possesses a sound capitalization level as evidenced by its reported equity base of LKR 12,441Mn as of 6MFY24 (FY23: LKR 11,359Mn) and AFL adheres to the capital adequacy requirements (CAR) of CBSL and maintains Tier I and total CAR of 29.42% and 30.37% respectively in FY23.

Lanka Rating Agency

Assetline Finance Limited Private Limited	Sep-23	Mar-23	Mar-22	Mar-21
	6M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	22,545	21,975	28,027	26,781
2 Investments	7,345	5,427	258	423
3 Other Earning Assets	32	201	1,929	1,268
4 Non-Earning Assets	1,252	1,970	513	763
5 Non-Performing Finances-net	4,207	4,025	1,530	1,234
Total Assets	35,381	33,598	32,256	30,469
6 Funding	21,281	21,401	19,198	14,636
7 Other Liabilities	1,659	838	1,684	1,577
Total Liabilities	22,940	22,239	20,882	16,214
Equity	12,441	11,359	11,374	14,255
B INCOME STATEMENT				
1 Mark Up Earned	4,784	7,845	7,110	6,671
2 Mark Up Expensed	(1,946)	(4,431)	(1,173)	(1,500)
3 Non Mark Up Income	80	147	174	190
Total Income	2,918	3,561	6,112	5,361
4 Non-Mark Up Expenses	(1,208)	(2,148)	(1,967)	(1,707)
5 Provisions/Write offs/Reversals	(1,150)	(857)	(337)	(1,356)
Pre-Tax Profit	560	556	3,808	2,298
6 Taxes	(364)	349	(1,677)	(1,143)
Profit After Tax	196	905	2,130	1,155
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	41.4%	60.3%	32.2%	31.8%
b ROE	3.3%	8.0%	16.6%	8.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	135.2%	130.9%	162.2%	199.1%
b Accumulated Provisions / Non-Performing Advances	32.4%	33.3%	50.8%	47.9%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	35.4%	26.4%	11.1%	12.1%
b Borrowings from Banks and Other Financial Institutes / Funding	83.2%	86.6%	86.6%	68.2%
4 MARKET RISK				
a Investments / Equity	59.0%	47.8%	2.3%	3.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	35.2%	33.8%	35.3%	46.8%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	3.4%	7.4%	-20.1%	7.5%

Credit Rating

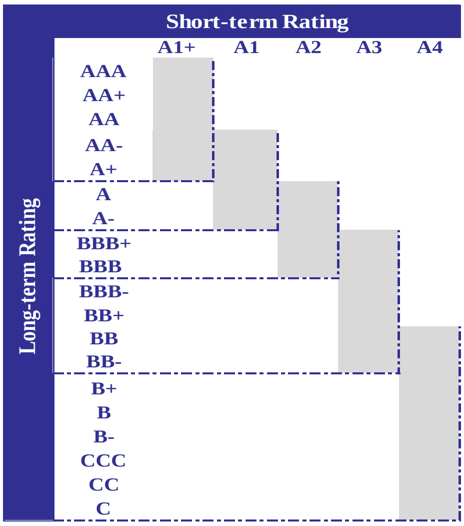
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. https://www.sec.gov.lk/credit-rating-agency/

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)
(2) ii.LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)
(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)
(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:
(a) has a business development function of the Credit Rating Agency; or
(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:
(a) all internal records to support its credit rating opinions;
(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and
(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information