



Lanka Rating Agency

## Rating Report

### Asia Asset Finance LKR 01bn Asset Backed Secured Debenture (2)

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
29-Oct-2024	-	-	Withdraw	-
27-Jan-2023	A	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Subsequent to the management's decision to discontinue the rating, Lanka Rating withdraws the Debt Instrument Rating of Asia Asset Finance PLC LKR 01Bn Asset Backed Secured Debenture (2) with immediate effect.

#### Disclosure

<b>Name of Rated Entity</b>	Asia Asset Finance LKR 01bn Asset Backed Secured Debenture (2)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Aug-24)
<b>Related Research</b>	Sector Study   Leasing & Finance Companies(Aug-24)
<b>Rating Analysts</b>	Gayani Randima Ariyawansa   gayani@lra.com.lk   +94 114 500099

**Profile** Asia Asset Finance PLC ("the Company" or "AAF") is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The Company was initially known as Finance and Land Sales Ltd and later acquired by Asia Capital PLC in 2004. It underwent changes for the Company name and renamed as Asia Asset Finance PLC. In 2014 AAF was acquired by Muthoot Finance Limited ("MFL") of India and it operates as the ultimate parent entity whose specialty is in Gold Loans. The principal activities of AAF are accepting deposits and giving loans and advances. The Company branch network consists of 75 branches as of FY23.

**Ownership** MFL holds the largest shareholding of Asia Asset Finance PLC with 72.92% of the total stake. The second largest shareholder is Senthilvel Holdings (Pvt) Ltd (Seylan Bank – Margin Trading) with 10.01% and 6.63% is owned by J.B. Cocoshell (Pvt) Ltd. Muthoot Finance Ltd provides the mainstay for Asia Asset PLC operations. MFL has been increasing its shareholding since 2014 and it plans to hold it for long term which brings stability for the Company's shareholding. MFL is the largest Gold Loan company in India and they have been operating the Gold Loan product for over 80 years successfully. The Company does not have any guarantees or commitments from the parent company. MFL has an asset base of INR 830Bn for 9MFY24. MFL has injected cash through a rights issue to AAF. Although there is no written commitment, the previous track record shows that MFL is willing to inject cash if and when needed.

**Governance** The Board of the Company consists of eight members where three of them are Non-Independent and Non- Executives Directors and four are Independent and Non- Executive Directors as at the end of 31st March 2023. The remaining is the Chief Executive Officer. Moreover, Three of the Non-Independent, Non-Executive Directors oversee the Company operations who represent MFL. The Company Board members in general, possess experience in many fields. Moreover, the members are equipped with relevant knowledge and years of experience in their respective industries. The Company Chairman Mr. V. A. Prasanth also holds an Independent, Non-Executive Directorship. Asia Asset PLC consists of six board committees namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review, Credit & Recovery Committee, and IT Steering Committee. To ensure financial transparency the Company has an independent internal audit function and an external audit function in place. The external audit was carried out by BDO Chartered Accountants, and they issued an unqualified audit opinion with regarding the Company's annual financial statements for FY23.

**Management** The Company has a functional organizational structure. The CEO of the Company steers some key functions while the COO and GM handle the other functions both of whom report directly to the CEO. The management team of the Company is steered by the CEO, Mr. Rajiv Gunawardena. He possesses overall 16 years of experience and qualifications. He has held the current position as CEO for about 12 years. AAF has formed Assets & Liability Management Committee to manage various risks. The senior management and department heads meet bi-monthly. The Company uses "eFinancial solution" as the core system which is provided by Scienter Pte Ltd. The same vendor provides "Luck-eWallet" which is a mobile wallet and iMAS which is the ERP system solution that is provided in-house. AAF has a formal risk management policy in place compiled by the Head of Risk Management. Integrated Risk Management Committee (IRMC) depicts a centralized functionality where Risk Management Department, Compliance Department, Policy & Planning Department, and Asset Liability Committee are descended from IRMC.

**Business Risk** At present, there are 34 Licensed Finance Companies ("LFC") in Sri Lanka, out of which 27 are listed. The sector profitability as at 6MFY24 is recorded at LKR 16.4 Bn when compared to LKR 13 Bn in 6MFY23. The loan loss provisions increased by ~118% to LKR 13.5 Bn in FY23 (6MFY24: LKR 5.8 Bn). The total asset base of the LFC sector stood at LKR 1.64 Tn as at 6MFY24 (FY23: LKR 1.64 Bn). Subsequent to FY22, the asset quality deteriorated to a gross non-performing loan ("NPL") ratio of 16.01% as at FY23. However, as a result of the current macroeconomic challenges in the country, the gross and net NPL ratio deteriorated to 19.99% and 14.06% respectively as at 6MFY24. Asia Asset Finance PLC represents 1.55% of asset base with comparison to the industry in 6MFY24 (FY23: 1.53%). The Loans and advances portfolio of the Company demonstrates a slight decrease in the industry presence from 1.68% in FY23 to 1.56% in 6MFY24. Considering the focus on gold loans, the Company accounts for 6.65% of the industry pawning advances as at 6MFY24 and 7.12% as at FY24. The Company funding which recorded a significant amount from deposits and borrowings represent 1.46% and 3.5% respectively in 6MFY22 (FY23: 0.8% and 1.46%). Net interest income has recorded a considerable increase of 39% in FY23 from LKR 1,252 Mn in FY22 (FY22: LKR1,252Mn). However, in 9MFY24 the net interest income illustrated a slight decline of -0.07% with comparison to 9MFY23 of LKR 1,341 Mn. The NIM was 6.67% in 9MFY24, and it was 8.94% in FY23. The interest income received from Gold Loans is significant, where it was 74.3% in 9MFY24 (FY22: 80.6%) which indicates the greatest contribution. The Gold Loan portfolio concentration has increased over time from 67.4% in FY22 to 78% in FY23. In FY23 the Company has gained a YoY rise in profit after tax (PAT) of 149% to LKR 295 Mn from LKR 119 Mn in FY22. But PAT has slowed down in 9MFY24 by -2.3% (9MFY24: LKR 224 Mn, 9MFY23: LKR 229 Mn). In FY23 major expenses such as personnel expenses and general administration expenses were increased by 24% to LKR 414 Mn (FY22: LKR 333 Mn, 9MFY24: LKR 360 Mn) and 28% to LKR 853 Mn (FY23: LKR 664 Mn, 9MFY24: LKR 662 Mn) respectively. However, the key driving factor of rise in profit was mirrored in the growth in interest income in FY23 which recorded an increase of 109% to LKR 5,392 Mn (9MFY24: LKR 4,742 Mn). The Company ROE was recorded as 9.6% for the 9MFY24 (FY23: 10.2%, FY22: 4.8%). ROA has improved to 1.2 % in 9MFY24 (FY23: 1.3, FY22: 0.7%). In FY23 major expenses such as personnel expenses and general administration expenses were increased by 24% to LKR 414 Mn (FY22: LKR 333 Mn, 9MFY24: LKR 360 Mn) and 28% to LKR 853 Mn (FY23: LKR 664 Mn, 9MFY24: LKR 662 Mn) respectively. However, the key driving factor of rise in profit was mirrored in the growth in interest income in FY23 which recorded an increase of 109% to LKR 5,392 Mn (9MFY24: LKR 4,742 Mn).

**Financial Risk** The gross NPL of AAF has increased to 24.9% in 9MFY24 from ~16% in FY23. From FY23 onwards it has exceeded the industry level. These high NPLs are driven by their legacy portfolio where majority has been provided for. But gold backed portfolio minimizes the credit losses due to high marketability of gold. In terms of assets, the cash and cash equivalents exposed to interest rate risk are savings accounts with banks and short-term investments in unit trusts. They have increased in 9MFY24 by 4% to LKR 621 Mn and 42% to LKR 2,059 Mn respectively from FY23. The investments in re-repo agreements have declined by 16% to LKR 2,042 Mn. The investment property consisting of land has remained the same at LKR 325 Mn. The advances and lease portfolio has contracted by 15% to LKR 17,012 Mn as well reflecting the difficult economic conditions during the year. The highest funding is from customer deposits which accounts for 64%. In 9MFY24 (FY23: 61%). This has shrunk by 7% to LKR 12,373 Mn in 9MFY24 from FY23. The Company liquidity position, total liquid assets increased by 90% in FY23 to LKR 4,505 Mn and it is well above the required amount of LKR 1,100 Mn. The Capital Adequacy Ratio was 25.07% as of 9MFY24 and 27.43% in FY23 which is well above the requirement.

## Instrument Rating Considerations

**About The Instrument** AAF has issued LKR 1Bn, listed, rated, secured (asset backed), redeemable debentures each worth LKR 100. The tenure of the debentures will span for a period of 3 years and 5 years. The debentures are secured against Gold Loan facilities of certain branches up to 120% of the face value. The debenture has two types namely, i) Type A, ii) Type B, iii) Type C, iv) Type D. The debenture was opened for subscription on 12th August 2021 and was fully subscribed. The objective of the issue is for the purpose of supporting the Gold Loan portfolio. Coupon rates are; type A - 8.76% (annual), type B - 1 year T.Bill rate plus 3.32% (monthly), type C 9.26% (annual) and type D - 1 year T.Bill rate plus 4.15% (annual). The first coupon payment started in August 2022 and the last payment will go out in August 2024 and August 2026. The capital repayment will be done at the end of the tenor.

**Relative Seniority/Subordination Of Instrument** In the event of liquidation, secured, listed, redeemable, rated debentures will rank in priority to all other unsecured creditors and over any subordinated debt of the Company and the ordinary and preference shareholder/s.

**Credit Enhancement** The issue has been fully subscribed and was not underwritten. The debentures are secured against Gold Loan facilities of certain branches up to 120% of the face value. The cash collection will be handled by AAF and in the case of default the Trustee will collect the receivables. The first coupon payment started in August 2022 and the last payment will go out in August 2024 and August 2026. The capital repayment will be done at the end of the tenor.



## Lanka Rating Agency

Asia Asset Finance PLC  
Listed

Dec-23	Sep-23	Jun-23	Mar-23	Mar-22	Mar-21
9M	6M	3M	12M	12M	12M

### A BALANCE SHEET

1 Total Finance-net	14,199	16,485	15,158	18,489	15,180	11,343
2 Investments	2,367	4,353	2,678	2,769	1,349	1,031
3 Other Earning Assets	2,100	796	3,862	1,886	1,276	870
4 Non-Earning Assets	1,336	888	1,028	879	904	1,038
5 Non-Performing Finances-net	2,813	2,912	3,121	989	633	1,067
<b>Total Assets</b>	<b>22,816</b>	<b>25,434</b>	<b>25,848</b>	<b>25,013</b>	<b>19,342</b>	<b>15,350</b>
6 Funding	19,453	22,049	22,532	21,726	16,473	13,058
7 Other Liabilities	132	247	250	274	113	70
<b>Total Liabilities</b>	<b>19,585</b>	<b>22,296</b>	<b>22,782</b>	<b>22,000</b>	<b>16,586</b>	<b>13,128</b>
<b>Equity</b>	<b>3,231</b>	<b>3,138</b>	<b>3,066</b>	<b>3,011</b>	<b>2,756</b>	<b>2,222</b>

### B INCOME STATEMENT

1 Mark Up Earned	4,742	3,271	1,636	5,392	2,576	2,725
2 Mark Up Expensed	(3,402)	(2,409)	(1,229)	(3,651)	(1,324)	(1,462)
3 Non Mark Up Income	311	187	87	615	607	230
<b>Total Income</b>	<b>1,651</b>	<b>1,050</b>	<b>494</b>	<b>2,355</b>	<b>1,858</b>	<b>1,492</b>
4 Non-Mark Up Expenses	(961)	(623)	(286)	(1,397)	(1,127)	(978)
5 Provisions/Write offs/Reversals	(351)	(231)	(110)	(556)	(493)	(383)
<b>Pre-Tax Profit</b>	<b>338</b>	<b>195</b>	<b>98</b>	<b>402</b>	<b>239</b>	<b>132</b>
6 Taxes on Financial Services	(60)	(33)	(17)	(43)	(37)	(45)
<b>Profit Before Income Taxes</b>	<b>278</b>	<b>162</b>	<b>81</b>	<b>360</b>	<b>202</b>	<b>87</b>
7 Income Taxes	(54)	(35)	(26)	(64)	(84)	(42)
<b>Profit After Tax</b>	<b>224</b>	<b>127</b>	<b>55</b>	<b>295</b>	<b>119</b>	<b>45</b>

### C RATIO ANALYSIS

#### 1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	58.2%	59.4%	57.8%	59.3%	60.6%	65.5%
b ROE	9.6%	8.3%	7.3%	10.2%	4.8%	2.1%

#### 2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	97.2%	96.7%	89.2%	97.6%	105.3%	107.5%
b Accumulated Provisions / Non-Performing Advances	40.2%	39.9%	36.9%	63.5%	70.8%	60.3%

#### 3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	24.6%	22.9%	29.2%	20.7%	14.5%	12.7%
b Borrowings from Banks and Other Financial Institutions / Funding	30.2%	27.5%	26.1%	27.9%	33.4%	36.8%

#### 4 MARKET RISK

a Investments / Equity	73.3%	138.7%	87.4%	92.0%	49.0%	46.4%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

#### 5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	14.2%	12.3%	11.9%	12.0%	14.2%	14.5%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	8.6%	8.5%	7.3%	9.7%	5.3%	2.1%

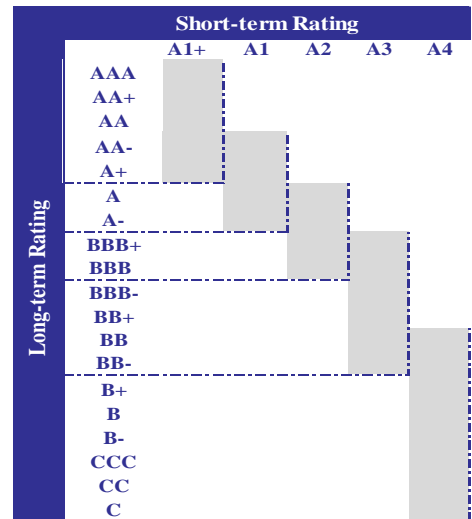
# Notes

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 surveil 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

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Secured Assets (LKR Bn)
Listed, Rated, Secured (Asset Backed), Redeemable Debenture	1Bn	3 Years (2021/2024) 5 Years (2021/2026)	Future Gold loans created in identified centers	120% of the face value of the debenture	Gold	Hatton National Bank PLC	LKR 1.2 Bn

<b>Name of Issuer</b>	Asia Asset Finance PLC
<b>Issue Date</b>	August 12, 2021
<b>Maturity</b>	3 Years and 5 Years
<b>Coupon Basis</b>	Type A: 3 Years Fixed 8.76 % p.a. payable Annually (AER) Type B: 3 Years Floating 1 Year T Bill + 3.45% payable monthly Type C: 5 Year Fixed 9.26% p.a. payable Annually Type D: 5 Years Floating 1 Year T Bill + 4.15% annually
<b>Repayment</b>	Bullet repayment at maturity with annual/monthly coupon payment
<b>Option</b>	NA

Asia Asset Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupons Due Date	Fixed Rate	Coupon	Principal Outstanding	
	LKR				Aug-21	LKR	
<b>Type A</b>					<b>Fixed</b>		
20-Aug-21	100,510,000	-					100,510,000
20-Aug-22		-	20-Aug-22	8.76%	8.76%		
20-Aug-23		-	20-Aug-23	8.76%	8.76%		
20-Aug-24		100,510,000	20-Aug-24	8.76%	8.76%		
<b>Type B</b>				<b>Floating</b>	<b>Floating</b>		
20-Aug-21	334,240,000	-					334,240,000
20-Sep-21		-	20-Sep-21	1 Year TB rate + 3.32%	8.76%		
20-Oct-21		-	20-Oct-21	1 Year TB rate + 3.32%	9.31%		
20-Nov-21		-	20-Nov-21	1 Year TB rate + 3.32%	11.71%		
20-Jun-22		-	20-Jun-22	1 Year TB rate + 3.32%	27.82%		
20-Jul-22		-	20-Jul-22	1 Year TB rate + 3.32%	25.36%		
20-Aug-22		-	20-Aug-22	1 Year TB rate + 3.32%	33.19%		
20-Sep-22		-	20-Sep-22	1 Year TB rate + 3.32%	32.46%		
20-Oct-22		-	20-Oct-22	1 Year TB rate + 3.32%	33.58%		
20-Nov-22		-	20-Nov-22	1 Year TB rate + 3.32%	32.92%		
20-Dec-22		-	20-Dec-22	1 Year TB rate + 3.32%	32.85%		
20-Jan-23		-	20-Jan-23	1 Year TB rate + 3.32%	32.64%		
20-Feb-23		-	20-Feb-23	1 Year TB rate + 3.32%	31.57%		
20-Mar-23		-	20-Mar-23	1 Year TB rate + 3.32%	31.03%		
20-Apr-23		-	20-Apr-23	1 Year TB rate + 3.32%	29.24%		
20-May-23		-	20-May-23	1 Year TB rate + 3.32%	26.28%		
20-Jun-23		-	20-Jun-23	1 Year TB rate + 3.32%	26.11%		
20-Jul-23		-	20-Jul-23	1 Year TB rate + 3.32%	21.40%		
20-Aug-23		-	20-Aug-23	1 Year TB rate + 3.32%	17.67%		
20-Sep-23		-	20-Sep-23	1 Year TB rate + 3.32%	16.51%		
20-Oct-23		-	20-Oct-23	1 Year TB rate + 3.32%	16.67%		
20-Nov-23		-	20-Nov-23	1 Year TB rate + 3.32%	16.34%		
20-Dec-23		-	20-Dec-23	1 Year TB rate + 3.32%	16.28%		
20-Jan-24		-	20-Jan-24	1 Year TB rate + 3.32%	16.15%		
20-Feb-24		-	20-Feb-24	1 Year TB rate + 3.32%			
20-Mar-24		-	20-Mar-24	1 Year TB rate + 3.32%			
20-Apr-24		-	20-Apr-24	1 Year TB rate + 3.32%			
20-May-24		-	20-May-24	1 Year TB rate + 3.32%			
20-Jun-24		-	20-Jun-24	1 Year TB rate + 3.32%			
20-Jul-24		-	20-Jul-24	1 Year TB rate + 3.32%			
20-Aug-24		334,240,000	20-Aug-24	1 Year TB rate + 3.32%			
<b>Type C</b>					<b>Fixed</b>		
20-Aug-21	1,550,000	-					1,550,000
20-Aug-22		-	20-Aug-22	9.26%	9.26%		
20-Aug-23		-	20-Aug-23	9.26%	9.26%		
20-Aug-24		-	20-Aug-24	9.26%	9.26%		
20-Aug-25		-	20-Aug-25	9.26%	9.26%		
20-Aug-26		1,550,000	20-Aug-26	9.26%	9.26%		
<b>Type D</b>				<b>Floating</b>	<b>Floating</b>		
20-Aug-21	563,700,000	-					563,700,000
20-Aug-22		-	20-Aug-22	1 Year TB rate + 4.15%	9.43%		
20-Aug-23		-	20-Aug-23	1 Year TB rate + 4.15%	33.29%		
20-Aug-24		-	20-Aug-24	1 Year TB rate + 4.15%	17.34%		
20-Aug-25		-	20-Aug-25	1 Year TB rate + 4.15%			
20-Aug-26		563,700,000	20-Aug-26	1 Year TB rate + 4.15%			