Lanka Rating Agency

# Rating Report

## Associated Motor Finance Company PLC

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|
| 19-Feb-2025 | BB | Stable | Upgrade | - |
| 17-Jul-2023 | BB- | Stable | Initial | - |

### Rating Rationale and Key Rating Drivers

After a tumultuous period of around two years, Sri Lanka's economy has recovered substantially in 2024. The GDP grew at ~5.2% in 3Q24 as other major economic indicators improved. Inflation continues to decline (-2.1% YoY in November 2024) with stable currency and interest rates in single digits. The improved conditions have reduced country as well as systemic risk. This had a positive impact on the Licensed Finance Companies (LFCs) in Sri Lanka. Total assets of the LFC sector grew by ~12.2% at the end of 6MFY25 while asset quality improved (Gross NPL ratio 6MFY25: ~12.0%; 6MFY24: ~20.3%) due to growing loans and advances and better repayment capacity of borrowers. Associated Motor Finance ("AMF" or "the Company") is a small player in the LFC sector and is primarily engaged in leasing vehicles, mainly the 2-wheeler segment. The rating reflects sizeable growth in the Company's portfolio, improved profitability, and strong liquidity position. The Company has managed to increase its leasing portfolio with a rising share of the 2-wheeler segment due to import restrictions and lower purchasing power. AMF's net interest income has shown an increase of ~59% in 9MFY25 on a YoY basis due to higher asset yield and relatively lower funding cost. The Company posted a net income of LKR~393.1mn in 9MFY25 (FY24: LKR~318.2mn). AMF's Liquidity has also improved as the liquid assets to total assets ratio stood at ~31.9%. The rating is constrained by the relatively small position of AMF. The Company also has higher gross and net non-performing loans (NPLs) than the industry average as its target market largely pertains to middle to low-income groups. The Company has adequate CAR (9MFY25: ~15.5%) and a net capital base of LKR~3.6bn. AMF is expanding its motorcycle financing portfolio through market diversification, including customer segmentation, geographic expansion, risk-based underwriting, and product bundling.

The rating is dependent on the Company's ability to sustain its performance in terms of growth and profitability while preserving asset quality. Reducing non-performing loans (NPLs) in line with the industry is important. Any notable increase in credit risk, resulting in higher provisioning expenses, could negatively affect the rating.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Associated Motor Finance Company PLC |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Non-Banking Financial Institution Rating(Jul-24) |
| **Related Research** | Sector Study \| Leasing & Finance Companies(Aug-24) |
| **Rating Analysts** | Imran Iqbal \| imran@lra.com.lk \| +94 114 500099 |

## Profile

**Structure** Associated Motor Finance company PLC ("AMF" or "the Company") was incorporated as a limited liability company in 1962 under the Companies Act No. 51 of 1938 and reregistered under the Companies Act No. 07 of 2007. AMF was listed on the Colombo Stock Exchange (CSE) in 2011. The principal place of business is located at No 89, Hyde Park Corner, Colombo 02. The Company is registered under the Finance Business Act No. 42 of 2011.

**Background** AMF was founded by the Late Mr. J.P.I. Piyadasa in 1962, has a history of over 6 decades. AMF acquired Arpico Finance Company PLC in 2014 and subsequently amalgamated in 2021 as part of CBSL's amalgamation plan.

**Operations** The principal business activities range from financial services that support personal and business needs ranging from leasing, loans, fixed deposits, savings to Islamic finance (Al-Jabal).

## Ownership

**Ownership Structure** Dayawansa family controls around ~72.8% of the Company and hence has management control. They own directly ~47.12% and ~25.65% through its wholly owned company Imperial Imports and Exports (Pvt) Limited.

**Stability** Mr. J.P.I. Nalatha Dayawansa has three children. At present Mrs. A.S. Dayawansa (wife) and Mr. Shanil Dayawansa (son) are executive directors at AMF. Mr. Shanil is qualified in Management & Finance and is the executive director of lending, deposits, and marketing for AMF. The involvement of the next generation in the business provides stability and shows the long-term ownership plan of the sponsors.

**Business Acumen** Mr. Nalatha Dayawansa, a Diploma holder in Automobile Engineering from Stuttgart, Germany, and a degree in Economics and Management from the London School of Economics, has extensive expertise in automobile engineering. Mr. Dayawansa was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in 1982 and after the demise of his father late Mr. J.P.I. Piyadasa. In 1995: he succeeded as the Chairman and Managing Director of the Company.

**Financial Strength** The Dayawansa family contributed approximately LKR~244mn. The funds raised from the rights issue were utilized to address a shortfall in core capital in 2021, ensuring full compliance with CBSL requirements.

## Governance

**Board Structure** The Board has ~8 members, ~4 Independent Non-Executive Directors, and ~4 Executive Directors. The chairman is an independent Non-Executive Director.

**Members' Profile** The board members have decades of experience in their respective fields, including Non-Banking Financial institutions, microfinancing, investment banking, and marketing, both locally and internationally. Mr. P.S. Goonewardene is the Chairman of the Board. He holds a bachelor's degree in business accounting from Monash University, Australia. Fellow and holder of the Graduate Diploma in Marketing from the Chartered Institute of Marketing, UK. Member, Certified Practicing Accountants, Australia.

**Board Effectiveness** The Company has established five board sub-committees for effective governance and oversight. As of FY24 the Company held Twelve ~12 board meetings and 2 Special Board Meetings, all meetings have been attended by the BOD.

**Financial Transparency** The external auditors, Deloitte Associates, provided an unqualified opinion for FY24.

## Management

**Organizational Structure** The company has a well-defined organizational structure led by the Chief Executive Officer (CEO), who reports directly to the Chairman and the Board. There are ~17 main departments, each with a head who reports directly to the Deputy CEO, who reports to the CEO.

**Management Team** The CEO, Mr. T.M.A. Sallay is supported by ~3 Executive Directors, from HR & Administration, Operations & Recoveries, and Lending, Deposits & Marketing, as well as Deputy CEO. He was promoted to General Manager in 2003, later to CEO in 2011, and appointed as Executive Director /CEO in 2021.

**Effectiveness** AMF has formed four management committees, namely, i) Assets and Liability Management Committee ("ALCO"), ii) Credit Committee ("CC"), iii) IT Steering Committee, iv) Management Committee.

**MIS** The main core system in use is "eFinancials". It is the leading banking and finance software solution in Sri Lanka. Its web-based, cloud-enabled platform automates all business processes specific to financial institutions and helps scale business operations. Apart from the main core system, AMF uses hSenid HRIS. AMF also uses internally developed applications for certain functions.

**Risk Management Framework** The Company has implemented a risk policy based on the 'three lines of defense' model. The first line involves business units managing day-to-day risks under committees like ALCO, Credit, and IT Steering. The second and third lines include oversight from the Integrated Risk Management Committee, Board Audit Committee, and Strategic Planning Unit, with periodic reviews by the Internal Audit, Compliance, and External Auditors to ensure effective risk management and compliance.

## Business Risk

**Industry Dynamics** At present, there are ~34 Licensed Finance Companies ("LFCs") in Sri Lanka, of which ~27 are listed on CSE. As of 6MFY25, total assets of the sector grew by ~12.2% to LKR~1,838.6bn (6MFY24: LKR~1,639.0bn), mainly due to increased loans and advances. The profit after tax (PAT) of LFCs in Sri Lanka has increased to LKR~26.3bn (6MFY24: LKR~16.6bn).

**Relative Position** The Company is considered a small player in the industry accounting for ~1.0% of assets in 9MFY25 and ~1.5% of deposits in the LFC sector. The Company's loans and advances represent ~0.8% of the loans and advances of LFC sector as of 9MFY25.

**Revenues** The Company's gross interest income reached to LKR~4.1bn in 9MFY25 compared to LKR~3.6bn in the corresponding period last year (FY24: LKR~4.9bn) mainly due to increase in lease and loan portfolio due to the favorable macroeconomic environment, such as reduced interest rates and improved credit risk profile.

**Performance** The profit after tax (PAT) of the Company increased to LKR~393.1mn in 9MFY25 as compared to LKR~167.1mn in 9MFY24 (FY24: LKR~318.2mn). This increase is attributed to rise in net interest income due to higher asset yield and relatively lower funding cost. ROE improved to ~10.3% in FY24 (9MFY25: ~15.25%) from ~7.1% in FY23. ROA was recorded at ~1.8% in FY24 (9MFY25: ~2.4%), compared to ~1.3% in FY23.

**Sustainability** AMF is diversifying its motorcycle financing customer base through strategic segmentation and technology-driven solutions. Focusing on electric motorcycles and seasonal campaigns, this approach mitigates risk, enhances resilience, and fosters financial inclusion. Data-driven credit assessments and dynamic pricing ensure sustainable growth and asset quality, while collateral strategies and real-time monitoring further mitigate risks.

## Financial Risk

**Credit Risk** The Company's gross NPL is recorded at ~21% in 9MFY25 (FY24: ~24%), while the net NPL was recorded at ~13.7% (FY24: ~15%), higher than the industry average due to the nature of the product being offered by the Company (mostly 2-wheelers).

**Market Risk** The investment in treasury bills was LKR~2.5bn in FY23 and decreased to LKR~1.7bn in FY24. Investments in repos grew significantly from LKR~0.44bn in FY23 to LKR~3.9bn in FY24.

**Liquidity And Funding** AMF's majority of funds are from customer deposits, the deposits were reported at LKR~15.4bn in 9MFY25 accounting for ~99% of the total funding mix (FY24: LKR~14.5bn). When considering AMF's regulatory liquid assets to total asset position it was able to perform above the industry levels in 6MFY25, and it was at ~31.9% while in the industry it was ~12.5%

**Capitalization** As of 9MFY25, the Company has adequate CAR (~15.5%) and net capital base of LKR~3.6bn.

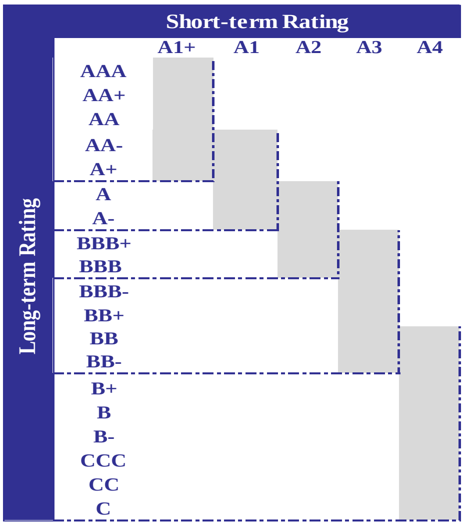
## Lanka Rating Agency

| Associated Motor Finance Company PLC | Dec-24 | Mar-24 | Mar-23 | Mar-22 |
|---|---|---|---|---|
| # | 9M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Total Finance-net | 10,954 | 10,016 | 9,762 | 8,655 |
| 2 Investments | 5,997 | 5,993 | 3,193 | 3,932 |
| 3 Other Earning Assets | - | - | - | - |
| 4 Non-Earning Assets | 1,770 | 1,782 | 1,851 | 2,228 |
| 5 Non-Performing Finances-net | 1,665 | 1,516 | 1,218 | 345 |
| **Total Assets** | 20,386 | 19,307 | 16,023 | 15,161 |
| 6 Funding | 15,546 | 15,277 | 12,471 | 11,939 |
| 7 Other Liabilities | 1,206 | 788 | 617 | 523 |
| **Total Liabilities** | 16,752 | 16,065 | 13,088 | 12,461 |
| **Equity** | 3,634 | 3,242 | 2,935 | 2,699 |
| **B INCOME STATEMENT** | | | | |
| 1 Mark Up Earned | 4,120 | 4,966 | 3,881 | 2,301 |
| 2 Mark Up Expensed | (1,766) | (2,816) | (2,188) | (1,519) |
| 3 Non Mark Up Income | 40 | 106 | 106 | 349 |
| **Total Income** | 2,394 | 2,256 | 1,799 | 1,131 |
| 4 Non-Mark Up Expenses | (922) | (997) | (878) | (894) |
| 5 Provisions/Write offs/Reversals | (316) | (457) | (414) | 354 |
| **Pre-Tax Profit** | 1,156 | 801 | 507 | 590 |
| 6 Taxes on Financial Services | (375) | (194) | (139) | (98) |
| **Profit Before Income Taxes** | 781 | 607 | 367 | 492 |
| 7 Income Taxes | (388) | (289) | (167) | (193) |
| **Profit After Tax** | 393 | 318 | 200 | 299 |
| **C RATIO ANALYSIS** | | | | |
| **1 PERFORMANCE** | | | | |
| a Non-Mark Up Expenses / Total Income | 38.5% | 44.2% | 48.8% | 79.1% |
| b ROE | 15.2% | 10.3% | 7.1% | 11.1% |
| **2 CREDIT RISK** | | | | |
| a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding | 91.7% | 85.2% | 98.7% | 83.1% |
| b Accumulated Provisions / Non-Performing Advances | 49.5% | 49.5% | 52.2% | 72.7% |
| **3 FUNDING & LIQUIDITY** | | | | |
| a Liquid Assets / Funding | 36.8% | 37.7% | 25.0% | 33.7% |
| b Borrowings from Banks and Other Financial Institutes / Funding | 0.5% | 4.7% | 0.2% | 6.4% |
| **4 MARKET RISK** | | | | |
| a Investments / Equity | 165.0% | 184.8% | 108.8% | 145.7% |
| b (Equity Investments + Related Party) / Equity | 0.3% | 2.0% | 0.3% | 2.0% |
| **5 CAPITALIZATION** | | | | |
| a Equity / Total Assets (D+E+F) | 17.8% | 16.8% | 18.3% | 17.8% |
| b Capital formation rate (Profit After Tax - Cash Dividend ) / Equity | 16.2% | 10.8% | 7.4% | 11.1% |

| 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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

**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**
(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.