



# Asia Asset Finance Limited

## Asia Asset Finance Limited - IPO

IPO at a Glance	
The Offer	120 Mn Shares
Issue Price	LKR 2.50
Funds to be raised	LKR 300 Mn
CSE Listing	Diri Savi Board
Issue Type	Offer for Subscription
Issue Opening Date	28th November 2011
Issue Closing Date	15th December 2011
Managers to the Issue	Asia Wealth Management Company (Pvt) Ltd
Company Secretaries	P W Corporate Secretarial (Pvt) Ltd
Minimum Subscription	1000 Shares (1000 Multiples)

*In the event of the oversubscription, the company will issue further 50Mn shares at the same price to raise LKR 170, 160, 129*

### Share Allotment

Category	No of Shares	%
Employees of Asia Capital PLC	6Mn	5%
Depositors of Asia Asset Finance Limited	12Mn	10%
Shareholders of Asia Capital PLC	18Mn	15%
Non retail investors	24Mn	20%
Retail Individual Investors	48Mn	40%
Unit Trusts	12Mn	10%

### Board Of Directors

Mr Dayananda Muthukumarana	Chairman
Mr. Manohan Nanayakkara by his Alternate	Deputy Chairman /
Mrs Dayangani Priyanthi Pieris	Managing Director
Mr. Rajiv Gunawardena	Director/CEO
Mr. Stefan Abeysinghe	Non-Executive Director
Mr. Puwalasiri Wijayaratne	Independent Director
Dr. Warnakula Joseph Anthony Fernando	Independent Director
Mr. Chandrakumar Ramachandra	Independent Director

**Asia Asset Finance Limited (AAFL)** was incorporated in 1970 as Finance and Land Sales. The company was fully acquired by Asia Capital PLC, a diversified listed financial institution; in 2004. The company was rebranded as Asia Asset Finance Limited upon the acquisition. The acquisition of AAFL was to expand the business operations of the group and as an entry into the finance industry. Asia Capital PLC's business operations are in Investment Banking, Securities, Leisure, Finance and Diversified Business.

### Objectives of the Issue

The main objective of the Initial Public offering is to comply with the mandatory listing requirement of The Central Bank of Sri Lanka. Which require that all registered finance companies to list on the Colombo Stock Exchange. The company is to utilize 90% of the funds raised to fund its core operations. The core operations of the company are as follows,

- Leasing
- Hire Purchase
- Corporate Loans
- Three Wheeler Financing
- Group Personal Loans
- Personal Loans
- Pawning

The largest portion of the funding will be allocated to the leasing segment of the business, which is 20% of the total funds raised. Further three wheeler and Pawning segments will be allocated 15% each; the remaining businesses will be granted 10% each of the total raised funds.

The remaining 10% of the funds will be utilized for branch expansions and product developments while adding value to the company and will facilitate the company to approach a larger audience through the branch expansions.

- *Leasing*
- *Hire Purchase*
- *Corporate Loans*
- *Three Wheelers Portfolio*
- *Group Personal Loans*
- *Personal Loans*
- *Pawning*

### Future Strategies

- ***Introduction of innovative products to the market***

*The company plans to introduce products such as Expat Loans and the launch of the AAFL Business club will all bring in value to the company. Further the company is to introduce many niche financial products to their product portfolio.*

### Company Profile

Asia Asset Finance Limited is a 99.9% owned subsidiary of Asia Capital PLC. The company was incorporated to the group in 2004. The main business operation of the company is to provide the public deposits back into the financial system via different financial products. The key revenue earner for the company is through interest income generated from the lending portfolio which include the products such as Margin Trading, Corporate Loans, Educational Loans, Life style Loans, Cheque discounting, factoring, Micro finance, Pawning and Agro finance.

The company plans to open 22 branches at the end of FY 2013, providing the company the opportunity to enter new markets such as the North and East which will in turn strengthen the presence of the company within the island. The company policy on branch opening is to open branches after running a pilot branch which allows the company to judge the business prospects of the selected location prior to being fully exposed to the specific location. This highlights the low risk approach of AAFL. The company expects all new branches to breakeven within the first 3 months of operation, and expects the branches to grow its profits by 20% annually.

The company is to introduce new and innovative products to the market and is to approach niche markets within the island' such as business loans for women, loans for expatriates etc.

The company plans to initiate the AAFL Business club by the end of 2011 and is to start Expat Loans, Flexi rate loans, etc. Further, the company intends to start the second face of the micro financing by mid-2012. The currently laid out plan shows the eagerness of the management to expand the company presence within the island.

Pre IPO Shareholding		
Shareholder	No: of Shares	% Stake
Wignarajah Selamuttu	207,694	0.05%
Rajive Nagendra Selamuttu	161,473	0.04%
Dinesh Nagendra Selamuttu	161,473	0.04%
Asanga Chandana Seneviratne	1	0.00%
James Henry Paul Ratnayeke	1	0.00%
Asia Capital PLC	440,625,246	99.87%
Asia Growth Fund 1 (Private) Limited	1	0.00%
Total	441,155,889	100%

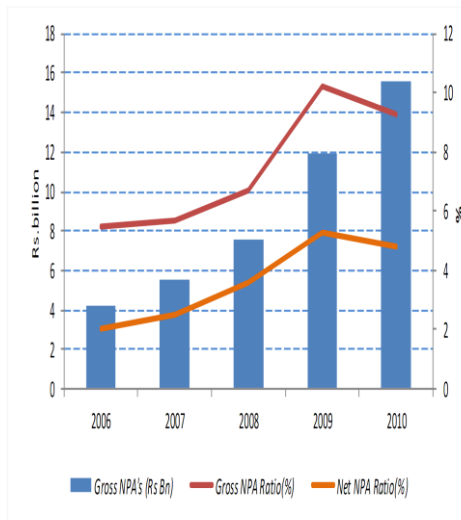
### Shareholding Structure post IPO

Post IPO Share Holding Structure			
Allocation	Share Holding %	No of Shares	Capital
Asia Capital PLC	70%	441,155,889	LKR 670,510,264.05
Public	27%	170,160,129	LKR 425,400,322.50
ESOP	3%	18,906,681	LKR 47,266,702.50
	100%	630,222,699	LKR 1,143,177,289.50

### RFC Industry

Registered finance companies (RFC) in Sri Lanka are presently undergoing a rapid transformation phase fuelled by the competition between industry incumbents and stringent regulatory barriers by the Central Bank of Sri Lanka.

Presently, the industry possesses LKR 233.6 billion worth of assets accounting for 3.4% of the financial sector assets. The industry had been a duopoly earlier recording 50% of the industry assets shared amongst the largest two firms, The Finance PLC & the Central Finance PLC, dropped down to 37% in 2009. Further, largest 9 RFCs account for approximately 73% of the total assets, while 18 medium size RFCs record only 24% of total assets.



Finance Companies business had to face difficulties in 2009 due to high interest rates and the increased credit and liquidity risks caused due to the collapse of certain unregulated finance companies, leading to a loss of investor confidence, which spread across the entire sector. The sector is steadily recovering as a result of the good governance and well adapted business practices undertaken by the RFCs together with the stringent regulations and supervision undertaken by the CBSL.

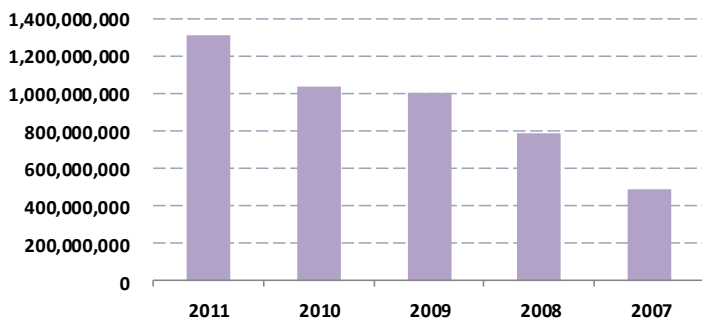
The following factors led to enhance the RFC businesses in the recent past;

- With the increase in the middle income category in Sri Lanka during the recent past has resulted in the increase in demand for motor vehicles, real estate and other domestic assets. The specialist functions of RFCs are to provide financing for this market.
- The CBSL granted permission to accept customer deposits from the public and to maintain savings accounts; this enabled RFCs to offer attractive yields and attract prime customers who could have otherwise been attracted by commercial banks. This will further lead to RFC's offering investors alternative investment products.
- The RFC's have been able to provide their customers with innovative products and high quality customer service, enhanced with speedier processing time and flexible terms.

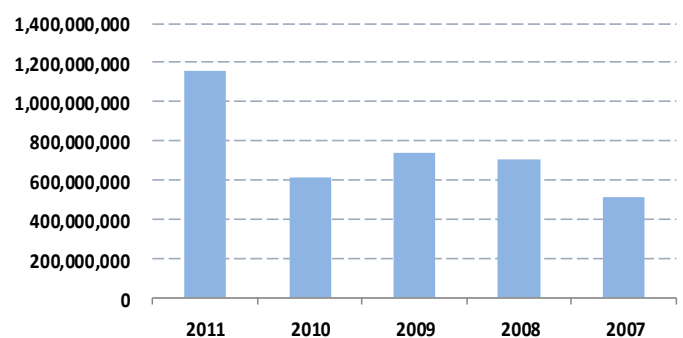
Financial Highlights - Asia Asset Finance Limited

	2011	2010	2009	2008	2007
	Rs.	Rs.	Rs.	Rs.	Rs.
Income	328,093,879	188,651,062	219,513,548	162,624,899	89,919,342
Interest Income	196,371,505	131,527,328	190,844,876	136,284,393	55,621,249
Interest Expenses	147,370,897	186,250,897	203,910,764	120,555,044	52,607,204
Net Interest Income	49,000,608	(54,723,569)	(13,065,888)	15,729,349	3,014,045
Non-Interest Income	131,722,374	57,123,734	28,668,672	26,340,506	34,298,093
Operating Cost	102,590,755	73,507,251	77,552,547	57,422,839	41,946,839
Profit from Operations(EBT)	74,324,667	(84,035,936)	(175,574,153)	(49,811,679)	13,675,719
Profit for the Year (PAT)	79,687,998	(84,035,936)	(175,574,153)	(49,811,679)	13,675,719
Loans & Advances	1,158,083,375	616,936,810	738,765,295	708,388,115	510,398,974
Total Assets	1,611,695,873	1,063,018,456	948,346,826	907,152,417	653,410,510
Total Deposits	1,309,544,405	1,032,293,705	999,860,605	786,896,174	482,906,199
Total Funds Employed	245,370,238	(19,513,648)	(135,477,712)	40,111,328	89,923,007
<b>Key Performance Indicators</b>					
Net Interest Margin	25.0%	-41.6%	-6.8%	11.5%	5.4%
EPS	0.18	-0.19	-0.40	-0.11	0.03
NAVPS	0.56	-0.04	-0.31	0.09	0.20
ROE	32.5%	N/A	N/A	N/A	15.2%
ROA	6.0%	N/A	N/A	N/A	2.1%
Loan to Deposit Ratio	88.4%	59.8%	73.9%	90.0%	105.7%
Cost to Income Ratio	56.8%	3062.6%	497.0%	136.5%	112.4%
Deposit to Equity Ratio	533.7%	N/A	N/A	1961.8%	537.0%
Equity /Total Asset Ratio	15.2%	-1.8%	-14.3%	4.4%	13.8%

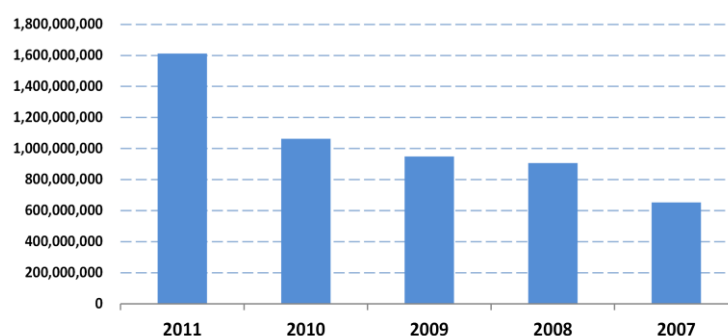
Total Deposits



Loans & Advances



Total Assets



## Peer Analysis

	Asia Asset Fin.	CIFL	TFIL	SFIN	VFIN
	2011/2010	2011/2010	2011/2010	2011/2010	2011/2010
	LKR	LKR	LKR	LKR	LKR
Income	328,093,879	522,766,515	171,911,892	970,664,170	639,660,503
Interest Income	196,371,505	402,576,553	134,904,877	891,830,804	595,382,652
Interest Expenses	147,370,897	296,124,400	27,157,349	285,696,780	269,555,960
Net Interest Income	49,000,608	106,452,153	107,747,528	606,134,024	325,826,692
Non-Interest Income	131,722,374	64,544,776	37,007,015	78,833,366	44,277,851
Operating Cost	102,590,755	138,761,644	40,035,299	428,373,519	135,251,188
Profit from Operations(EBT)	74,324,667	32,235,285	144,754,543	222,002,280	191,848,417
Profit for the Year (PAT)	79,687,998	13,743,363	63,555,451	112,035,487	107,706,295
Loans & Advances, HPs, Leases	1,158,083,375	955,676,539	331,611,966	4,918,712,000	3,256,748,000
Total Assets	1,611,695,873	2,734,041,700	666,579,102	5,474,099,000	3,889,581,000
Total Deposits	1,309,544,405	2,228,353,750	221,954,120	2,579,463,000	2,596,232,000
Total Funds Employed	245,370,238	296,446,913	386,513,782	986,638,000	468,136,000
<b>Performance Indicators</b>					
Net Interest Margin	25.0%	26.4%	79.9%	68.0%	54.7%
EPS*	0.18	0.79	1.25	1.77	2.63
NAVPS*	0.56	13.87	7.61	9.25	11.27
ROE	32.5%	4.6%	16.4%	11.4%	23.0%
ROA	6.0%	0.5%	9.5%	2.0%	2.8%
Loan to Deposit Ratio	88.4%	42.9%	149.4%	190.7%	125.4%
Cost to Income Ratio	56.8%	81.1%	27.7%	62.5%	36.5%
Deposit to Equity Ratio	533.7%	751.7%	57.4%	261.4%	554.6%
Equity /Total Asset Ratio	15.2%	10.8%	58.0%	18.0%	12.0%
*EPS & NAVPS for the companies Asia Asset Finance Ltd,CIFL & TFIL mentioned above are pre IPO figures.					

## Valuation

Total Recurring Earnings (LKR)	Post IPO-Total Equity	Post IPO - No of Shares	Diluted Trailing EPS	Diluted BVPS	Placement Price	PER	PBV
23,301,994	670,770,561	630,222,699	0.037	1.06	2.50	67.61	2.35

\*. Recurring earnings were calculated after deducting share trading profit, profit from sale of PPE and written back on market values.

### One Year Forward PER levels

Recurring Earnings Growth	Forward EPS	Forward PER
At 20% Growth rate	0.04	56.35
At 30% Growth rate	0.05	52.01
At 50% Growth rate	0.06	45.08
At 75% Growth rate	0.06	38.64
At 100% Growth rate	0.07	33.81
At 150% Growth rate	0.09	27.05
At 200% Growth rate	0.11	22.54

Current Market PER stands at 15.58x.

Banking & Finance Industry PER stands at 12.8x

## RESEARCH

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