

Trade Finance & Investments Limited (TIFL)

Trade Finance & Investment Limited (TIFL) is a resisted finance leasing establishment in Sri Lanka engages in Financial leasing, Hire purchase, Security loans, Personal loans and Fixed deposits. TIFL was established on 05th January 1978 as a private Limited Company under the J.L.Morrison & Sons Ltd and converted to a public limited company in 15th February 1990, in same year Mr.N.G.H.Cooray acquired 93% stake of the TIFL and obtain the controlling position. Further, Jetwing group undertook the management of the TIFL in 1995. Currently, Company is operating as a small scale Finance company having a branch at Jaffna in addition to head office.

Objectives of the Issue

TIFL expects to raise Rs.120Mn through this IPO and of which Rs.100Mn will be utilize to grow its lending portfolio channeling more funds to its leasing, hire purchase and consumer loans and balance Rs.20Mn will be allocated to acquire and renovate new premises identified to set up branches.

By way of this Issue, TIFL plans to adhere with the compulsory listing requirement imposed by the Monetary Board of Central Bank of Sri Lanka and further this will facilitates to broaden the public ownership by increasing visibility and the brand image of the Company.

Company Profile

TIFL is now in its 33rd year operation and Company consists on Colombo head office and Jaffna branch including 25 staff. TIFL is predominantly engaged in the provision of vehicle finance through lease and hire purchase agreement, which accounts for approximately 99% percent of its loan book of Rs.334 million as at the financial year ended 31st March 2011. Further, Company is a licensed deposit-taking institute registered with the Central Bank of Sri Lanka. TIFL is a solitary entity with neither a holding Company nor any subsidiaries or associates up to date.

Future Strategies

TFIL's plans for the future will focus mainly on capitalizing its ability to attract public deposits being a registered finance company and expanding the branch network. The Company plans to open branches key cities across the island within the next five years.

IPO at a Glance	
The Offer	6Mn Shares
Issue Price	Rs.20/
Funds to be raised	Rs.120Mn
CSE Listing	Diri Savi Board
Issue Type	Offer for Subscription
Issue Opening Date	28 September, 2011
Issue Closing Date	18 October, 2011
Managers to the Issue	Capital Alliance Hold: Ltd
Registrars to the Issue	Corporate Services (Pvt) Ltd
Bankers to the Issue	Commercial Bank PLC

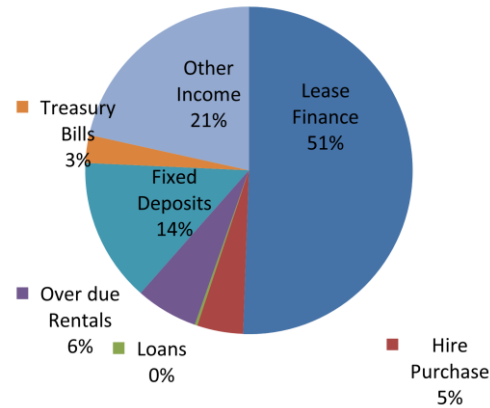
* Offer will be closed on the day which the issue is oversubscribed, or 18th October

Share Allocation Guidelines		
Category	No of Shares	%
Retail Investor	2,400,000	40%
Unit Trust Investor	600,000	10%
Non-Retail Investor	3,000,000	50%

Board of Directors	
H.Rumesh Peries	Chairman
L.A.J.Fidelis Morais	Managing Director
N.T.M.Shiromal Cooray	Director
N.J.H.Mahinda Cooray	Director
W.A.Terence Fernando	Director
M. Imran Furkan	Director

Minimum Subscription will be 1,000 shares @ Rs.20 per share

Contributors to the Total Income



SWOT Analysis

Strengths

- CAGR 58% growth in deposit based over last 5 years period
- CAGR 9% growth in Total asset base over last 5 years
- Healthy gearing position facilitates to access more cost-effective funding mechanisms in future.
- Strong adherence to imposed requirements by Central Bank, in terms of Capital Adequacy Ratio
- Lowest Non-Performing ratio of 0.80%
- Well- recognized Senior Management team

Weaknesses

- IPO price of LKR 20/- is set par with Banking, Finance & Insurance sector in terms of earnings multiples
- Lack of access to the rural public due to less appearance in the market.
- High dependence on Vehicle Finance Leasing and Hire purchase leasing representing 99% of Lending Portfolio

TIFL

Opportunities

- Emerging new markets in North and Eastern Provinces
- High Probability to increase in price levels on trading commencement due to small quantities
- Expedited development in Micro Financial system
- Government’s liberalized tax policies Facilitate to increase in Corporate profit levels
- Prevailing relaxed Monetary Policies

Threats

- Severe competition from well-positioned giant finance companies.
- Highly regulated environment for Finance and Leasing companies
- Lack of Public confidence on small scale Finance Companies
- Early entrance of the competitors to the newly developed niche markets
- Higher Bargaining powers of Lenders as well as depositors can end up with reduced margin to TIFL

RFC Industry

Registered finance companies (RFC) in Sri Lanka are presently undergoing a rapid transformation phase fueled 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.

%

Shareholding Structure

Name of the shareholder	Before IPO		After IPO	
	No: of Shares	% shareholding	No: of Shares	% shareholding
Mrs. A.M.Josephene Cooray	20,251,590	39.87	20,251,590	35.65%
Mrs. N.T.M.Shiromal Cooray	8,116,440	15.98	8,116,440	14.29%
Mr. N.J.H.Mahinda Cooray	8,066,440	15.88	8,066,440	14.20%
M/S N.J. Cooray Builders Ltd	5,768,590	11.36	5,768,590	10.16%
Mr. Toshiaki Tanaka	5,080,040	10.00	5,080,040	8.94%
Mrs. Varuni Cabraal c/o L.S.S.C Cabral Esqr	1,182,970	2.33	1,182,970	2.08%
M/S Gunali Enterprises Limited	900,000	1.77	900,000	1.58%
M/S Alma Holding Company (Pvt) Limited	800,000	1.57	800,000	1.41%
Ms. N. Florence Makalanda	400,000	0.79	400,000	0.70%
Mrs.R. Thivankani Gunatilake	138,000	0.27	138,000	0.24%
Mr. Nikira Lajith Gunathilake	66,910	0.13	66,910	0.12%
Mrs.M.M Gunatilake	29,420	0.05	29,420	0.05%
Public	-	-	6,000,000	10.56%
Total	50,800,400	100.00	56,800,400	100.00%

Financial information

LKR	2006/07	2007/08	2008/09	2009/10	2010/11
Total Income	140,384,488	144,937,376	156,302,918	166,805,629	171,911,892
Interest Income	125,637,198	129,554,819	138,098,709	137,885,969	134,904,877
Interest Expenses	(22,312,543)	(25,823,258)	(27,978,103)	(30,094,900)	(27,157,349)
Net Interest Income	103,324,655	103,731,561	110,120,606	107,791,069	107,747,528
Profit before Taxation	65,332,723	57,905,396	72,156,806	85,250,358	93,794,766
Net Profit	35,339,634	26,612,862	42,506,270	49,100,276	63,555,451
Total Assets	440,065,407	418,341,274	514,098,781	571,332,719	666,579,102
Total Liabilities	198,188,190	158,487,263	221,009,574	237,144,298	280,065,320
Total Equity	241,877,217	259,854,011	293,089,207	334,188,421	386,513,782
* Diluted EPS	0.70	0.52	0.84	0.97	1.25
* Diluted NAVS	4.76	5.12	5.77	6.58	7.61
ROE	14.61%	10.24%	14.50%	14.69%	16.44%
NII/ Total Average Assets				19.86%	17.41%
Other Income/Total Average Assets				5.33%	5.98%
Return on Average Assets				9.05%	10.27%
Capital Adequacy Ratio (%)				100.81%	72.84%

* Based on the 50,800,400 shares

Within the last five years' time horizon, TIFL has represented a sustainable growth by gradual increase of its fundamental values. Total income has grown up by 4% CAGR and Net Profit has grown up by 12.5% on CAGR basis. TIFL is maintaining very healthy equity to total asset ratio of 57%, which is significantly above to the industry average.

Contribution to Total Revenue

(Rs. 000)	2006/07	2007/08	2008/09	2009/10	2010/11
Lease Finance	1,107	3,081	47,275	71,573	86,926
Hire Purchase	87,935	82,917	43,593	13,046	7,817
Loans	857	530	440	476	432
Over due Rentals	18,596	17,308	12,376	12,148	10,564
Fixed Deposits	16,861	22,943	29,335	35,730	24,425
Treasury Bills	281	2,776	5,080	4,913	4,741
Other Income	14,747	15,382	18,204	28,920	37,007
Total Revenue	140,384	144,937	156,303	166,806	171,912

Competitor Analysis

LKR '000 (2010/11)	LFIN	CFIN	VFIN	SFIN	CRL	TIFL
Interest Income	5,138,718	6,269,481	595,383	891,831	650,610	134,905
Net Profit	1,020,368	1,827,034	107,706	112,035	68,536	63,555
Total Assets	28,097,320	41,163,095	3,889,581	4,410,988	4,438,399	666,579
Total Equity	2,613,718	10,897,593	468,136	931,699	531,186	386,514
Average Price Level	168.00	270.00	44.00	32.00	50.00	20.00
Diluted EPS	14.73	17.42	2.63	1.77	1.88	1.25
PER(X)	11.41	15.50	16.73	18.08	26.60	16.00

LFIN- LB Finance CFIN-Central Finance VFIN-Vallibel Finance SFIN-Singer Finance

CRL- Softlogic Finance TIFL- Trade Finance & Investment

Above table shows that well-established market leaders such as LFIN & CFIN are trading at low trailing PE ratios whereas, the small scale players VFIN, SFIN and TIFL are trading higher trailing PE ratios based on the financials on year end 2010/11.

Valuation

TIFL provides its EPS for the year ended period of 2010/11 and based on the provided figures, TIFL price has been set up with trailing PE of 16X and the trailing PBV of 2.63X and it is expected that TIFL will be categorized under the Banking, Finance and Insurance sector and currently sector PE and PBV are represented at 14.5X and 2.3X respectively.

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