

ICRA Lanka reaffirms the long term ratings of Dunamis Capital PLC

October 04, 2016

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]BBB+; with Stable Outlook Reaffirmed
Senior Unsecured Redeemable Debentures	LKR 1 Bn (August 2014)	[SL]BBB+; with Stable Outlook Reaffirmed
Senior Unsecured Redeemable Debentures	LKR 1 Bn (December 2015)	[SL]BBB+; with Stable Outlook Reaffirmed

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]BBB+ (pronounced SL triple B plus) with stable outlook for Dunamis Capital PLC (DCP or the company). ICRA Lanka has also reaffirmed the issue ratings of [SL]BBB+ (pronounced SL triple B plus) with stable outlook for the two LKR 1Bn senior unsecured debenture programmes of the company.

ICRA Lanka has taken a consolidated view of DCP and its subsidiaries, with DCP being the holding company, for arriving at the ratings. The ratings factor in DCP's status as the parent company of First Capital Holdings PLC (FCH; issuer rating of [SL]A- with stable outlook). The rating takes note of the improvement in the business and financial performance of the real estate development subsidiary, Kelsey Developments PLC (Kelsey), which is likely to support the overall performance of DCP group (DCP and its subsidiaries consolidated) to some extent. Kelsey reported a net profit of LKR 54 Mn during FY2016 (LKR 32 Mn loss in FY2015), while the manufacturing subsidiary, Premier Synthetic Leather Manufacturers (Private) Limited (PRIMO) continued to report losses (LKR 132 Mn in FY 2016 as compared to LKR 110 Mn in FY2015). DCP's consolidated performance was impacted by FCH, which accounted for close to 53% of the total DCP consolidated income during FY2016 vis a vis 91% during FY2015. FCH's performance in turn is largely dependent on the performance of First Capital Treasuries PLC (FCT; issuer rating of [SL]A- with stable outlook), as the contribution from the other FCH subsidiaries presently is quite modest. FCT accounted for about 74% of the total consolidated asset base of FCH as on March 31, 2016. Thus, DCP's overall performance is expected to remain susceptible to the risks inherent in FCT till the other subsidiaries (including subsidiaries of FCH) scale up and improve their contribution to the group. Further, ICRA Lanka takes note of the recent high gearing level of FCT and the impact it has on the consolidated gearing profile of DCP. The consolidated gearing of DCP increased to 28.9 times as on June 30, 2016 as compared to 18.3 times as on March 31, 2016. The same will be closely monitored by ICRA Lanka and would be a key rating sensitivity for DCP.

ICRA Lanka takes cognisance of the currently comfortable funding and liquidity position of the DCP group, given the limited dependence on group for funding its investment plans, especially in Kelsey. However, ICRA Lanka would closely monitor the extent of the proposed investments, and the impact on the overall liquidity and gearing profile of DCP.

On a consolidated level, the financial services segment (FCH) contributed to about 53% (91% in FY 2015) of the total income and 83% (85% in FY2015) of the assets, while the real estate development segment (Kelsey) contributed to 35% (4% in FY2015) of the total income and 7% (7% in FY2015) of the

total assets of DCP in FY2016. PRIMO contributed to 14% (7% in FY2015) of the group income and 2% (2% in FY2015) of the group assets in FY2016; it reported net loss of LKR 132 Mn in FY2016 as compared to LKR 110 Mn in FY2015.

Company Profile

DCP was incorporated in the year 1985 as “Central Securities Limited” for investing in listed entities. The name was changed to Kshatriya Holdings Limited following the change in the ownership and management. In 2010, the name was changed to Dunamis Capital PLC. DCP is a holding company and its key subsidiaries include, First Capital Holdings PLC (DCP holds about 75% equity shares), Kelsey Developments PLC (DCP holds about 80% equity shares) and Premier Synthetic Leather Manufacturers (Private) Limited (DCP holds about 100% equity shares).

During FY2016, DCP reported a consolidated net loss of LKR 415 Mn on a total asset base of LKR 25.2 Bn as compared to a net profit of LKR 570 Mn on a total asset base of LKR 24 Bn in the previous fiscal.

The Company reported a standalone net loss of LKR 44 Mn on a total asset base of LKR 4.4 Bn as compared to the net profit of LKR 322 Mn on a total asset base of LKR 3.3 Bn in the previous fiscal.

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