

ICRA Lanka assigns [SL]A- rating with stable outlook to First Capital Holdings PLC

September 11, 2015

Instrument	Amount	Rating Action
Issuer Rating	n/a	[SL]A-; assigned with stable Outlook
Senior Unsecured Redeemable Debentures	LKR 500 Mn	[SL]A-; assigned with stable Outlook
Commercial Paper	LKR 1,000 Mn	[SL]A2+; assigned

ICRA Lanka has assigned the Issuer rating of [SL]A- (pronounced SL A minus) with a stable outlook to First Capital Holdings PLC (FCH or the company). ICRA Lanka has assigned the [SL]A- (pronounced SL A minus) rating to the LKR 500 Mn Senior Unsecured Redeemable Debenture programme of the company. ICRA Lanka has assigned the [SL]A2+ (pronounced SL A two plus) rating to the LKR 1,000 Mn Commercial Paper programme of FCH.

ICRA Lanka has taken a consolidated view of FCH and its subsidiaries due to their common brand and senior management team and, other operational and financial linkages between the group entities. The ratings factor in the FCH's status as the holding company of First Capital Treasuries Limited (FCTL, a standalone Primary Dealer in Sri Lanka with Issuer Rating of [SL]A- with stable outlook). The ratings take note of the improvement in the business and financial performances of the other group entities, which are engaged in corporate debt structuring, corporate finance, asset management, stock broking and in extending margin trading facilities, over the recent past. ICRA Lanka however notes that FCH's performance is largely dependent on performance of FCTL, as the contribution from the other entities presently is quite modest. FCTL accounted for about 80% of the total consolidated asset base of FCH and about 70% of its consolidated profit before tax for FY2015. Thus, FCH's performance is expected to be susceptible to the risks inherent in the primary dealer business. The above mentioned risk however is likely to be moderated by the prudent internal control and processes, along with the adequate risk management systems put in place for FCTL. The FCH group has an established clientele of over 2500, which is expected to support the business growth of the other group entities. ICRA Lanka takes cognisance of the comfortable liquidity position of the FCH group given the highly liquid assets and the sanctioned credit facilities from banks with the group entities.

FCH, being a holding company derives its income from the dividends from the group entities and income from its investments, which includes interest income and profit from investments. During FY2015, income from investments accounted for about 60% of the total income of FCH (Standalone), while dividend income contributed to the rest vis a vis 84% of income from dividends in the previous financial year. The increase in the investment income in FY2015 could be attributed to the one-time gain of about Rs.233 Mn following the reclassification of its investment in Orient Finance PLC, which was subsequently sold in June 2015. The company's standalone performance is largely linked to the dividend income from its principal subsidiary, FCTL and, investment income. The expected moderation in the performance of FCTL in FY2016 vis a vis FY2015, is likely to impact the overall performance of FCH. The company's funding profile is characterised largely by short term funding, which accounted for close to 80% of the total standalone debt in March 2015, while the remaining was in the form of long term debentures. FCH's asset profile (Standalone) largely consists of short term loans funding to its group entities. The company's standalone gearing stood moderately high at about 3.4 times as in March 2015; however the FCH group access to the sanctioned bank lines and its liquid assets provides comfort from a liquidity perspective.

ICRA takes note of the improvement in the performance of the other subsidiaries in the group. First Capital Limited, which is 99.9% held by FCH, is involved in corporate debt structuring, corporate finance and advisory services. FCL witnessed an improvement in the performance due to increase in the fee based income (increased to Rs 127 Mn in FY2015 as compared to 12 Mn in FY2014) arising from above mentioned services offered, however profitability continues to be driven by the dividend income from the principle subsidiary, FCTL, which accounted for close to 50% of the total income of about Rs.1.1 Bn, while the remaining was contributed by interest income on its investments. FCL is the step-down holding company for the other entities in the FCH group including FCTL; First Capital Asset Management Limited (FCAML) that is involved in portfolio management; First Capital Markets Limited (FCML) that is involved in providing margin trading facilities and First Capital Equities (Pvt) Limited (FCEL) which is engaged in stock broking activities. FCAML, FCML and FCEL together accounted for about 6% of the FCH consolidated income and about 2% of the consolidated profit before tax. ICRA Lanka takes note the improvement in the business volumes in the above mentioned entities during FY2015, which supported the financial performances. FCML and FECL reported profits for FY2015 vis a vis losses in the previous financial year, while the FCAML was profitable and its financial performance has remained largely range bound over the last few years.

Company Profile

Incorporated in the year 1992, FCH is a public limited company listed on the Colombo Stock Exchange. FCH is the holding company of the financial services arm of Dunamis Capital PLC, which holds 74.9% in FCH. The company is engaged in making investments and managing its subsidiaries i.e. First Capital Treasuries Limited (FCTL) which is an authorised primary Dealer, First Capital Limited (FCL) involved in structuring and placement of corporate debt and corporate financial advisory services, First Capital Asset Management Limited (FCAML) involved in unit trust and portfolio management; First Capital Markets Limited (FCML) involved in providing margin trading facilities and First Capital Equities (Pvt) Limited (FCEL) which is engaged in stock broking activities and First Capital Investments (Private) Limited, which is the holding entity of FCEL.

During FY2015, FCH reported a consolidated net profit of LKR.985 Mn on a total asset base of LKR 20,464 Mn as compared to a net profit of LKR 331 Mn on a total asset base of LKR 16,360 Mn in the previous fiscal.

The company reported a standalone net profit of LKR 436 Mn on a total asset base of LKR 3,437Mn as compared to LKR 471 Mn on a total asset base of LKR 2,376 Mn.

September 2015

For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan, (Tel No. +91-22-30470028)
karthiks@icraindia.com

Relationship Contacts:

Mr. W. Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com





Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

Contents may be used freely with due acknowledgement to ICRA Lanka.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

