

ICRA Lanka reaffirms the Long and Short term ratings of First Capital Holdings PLC

October 04, 2016

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

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]A- (pronounced SL A minus) with stable outlook for First Capital Holdings PLC (FCH or the company). ICRA Lanka has also reaffirmed the issue rating of [SL]A- (pronounced SL A minus) with stable outlook for the LKR 500 Mn Senior unsecured redeemable debenture programme of the company. ICRA Lanka has also reaffirmed 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 PLC (FCT), a standalone primary dealer in Sri Lanka with issuer rating of [SL]A- with stable outlook. The ratings take note of the potential 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, extending margin trading facilities and trustee services. ICRA Lanka however notes that FCH's performance is largely dependent on performance of FCT, as the contribution from the other entities presently is quite modest. FCT accounted for 74% of the total consolidated asset base of FCH as on March 31, 2016. Thus, FCH's performance is expected to be susceptible to the risks inherent in the primary dealer business. The rating also factors the FCH group's established clientele of over 2500, which is expected to support the business growth of 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. Total standalone income for FY2016 was adversely affected (LKR 350 Mn total income in FY2016 vis a vis LKR 590 Mn in FY2015) due to non availability of dividend income (LKR 212 Mn in FY2015), which is linked to performance of the principal subsidiary, FCT. The expected improvement in the performance of FCT in FY2017 vis a vis FY2016, is likely to support the overall performance of FCH.

The company's funding profile is characterised largely by short term funding (Commercial papers), which accounted for close to 85% of the total standalone debt as on March 31, 2016, while the remaining was in the form of long term debentures. FCH's asset profile (Standalone) largely consists of short term loan funding to its group entities. The company's standalone gearing has increased to about 5.3 times as on March 31, 2016 vis a vis 3.4 times as on March 31, 2015; however the FCH group's access to the sanctioned bank lines and its liquid assets provides comfort from a liquidity perspective.

First Capital Limited (FCL), which is 99.9% held by FCH, is involved in corporate debt structuring and corporate finance advisory services, reported a total fee income of LKR 111 Mn in FY2016 (127 Mn in FY2015). FCL is the step-down holding company for the other entities in the FCH group

including, First Capital Asset Management Limited (FCAML), a licensed Investment Manager and licensed Managing Company for Unit Trusts by the Securities and Exchange Commission, First Capital Markets Limited (FCML), which is involved in providing margin trading facilities and dealing and broking of listed debt, First Capital Equities (Pvt) Limited (FCEL), which is engaged in stock broking activities and the newly formed First Capital Trustee Services (Pvt) Limited. FCAML reported a fee income of LKR 56 Mn on a total AUM of about LKR 5.4 Bn in FY2016 as compared with LKR 29 Mn on a total AUM of about LKR 4.2 Bn in FY2015. FCML reported a total income of LKR 59Mn (LKR 59 Mn in FY2015) and FCEL reported a total income of LKR 56 Mn (LKR 86 Mn in FY2015) in FY2016. FCAML, FCML and FCEL together accounted for 11% (7% in FY2015) of the FCH consolidated income and 60% (2% in FY2015) of the consolidated profit before tax for FY2016 as profits from FCT was quite muted due to the unfavourable interest rate regime during the period. ICRA Lanka notes the improvement in the business volumes in the above mentioned entities over the recent past; however, the group performance is expected to be driven by the primary dealership, FCT.

Company Profile

Incorporated in the year 1992, FCH is a public limited company listed on the Colombo Stock Exchange. FCH is the holding company for the financial services businesses of Dunamis Capital PLC, which holds 75.1% in FCH. The company is engaged in making investments and managing its subsidiaries i.e. First Capital Treasuries PLC (FCT) which is an authorised primary Dealer, First Capital Limited (FCL) involved in structuring and placement of corporate debt and corporate finance 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 dealing and broking of listed debts, First Capital Trustee Services (Pvt) Limited (FCTS) which is a trustee services provider and First Capital Equities (Pvt) Limited (FCEL) which is engaged in stock broking activities and First Capital Investments (Pvt) Limited, which is the holding entity of FCEL.

During FY2016, FCH reported a consolidated net profit of LKR 47 Mn on a total asset base of LKR 20.8 Bn as compared to a net profit of LKR 985 Mn on a total asset base of LKR 20.4 Bn in the previous fiscal.

During FY2016, the company reported a standalone net profit of LKR 47 Mn on a total asset base of LKR 4 Bn as compared to LKR 436 Mn on a total asset base of LKR 3.4 Bn in the previous financial year.

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