

ICRA Lanka assigns Issuer Rating of [SL] BBB to Janashakthi Limited; proposed Senior Unsecured Redeemable Debentures rated [SL] BBB

RATING ACTION

Instrument	Amount	Rating Action
Issuer Rating	NA	[SL]BBB with Stable Outlook; assigned
Proposed Senior Unsecured Redeemable Debentures	Rs. 1,000 Mn	[SL]BBB with Stable Outlook; assigned

ICRA Lanka has assigned an Issuer Rating of [SL] BBB (pronounced SL triple B) with a stable outlook to Janashakthi Limited (JL or the company). ICRA Lanka has also assigned the [SL] BBB (pronounced SL triple B) rating with a stable outlook to the Rs. 1,000 million proposed Senior Unsecured Redeemable Debenture Issue of the company. The Ratings are based on the strength derived from the company's sizeable holding (About 64%) in Janashakthi Insurance PLC (JIPLC), third largest General Insurer and sixth largest Life Insurer in Sri Lanka, JIPLC's healthy financial profile and JL's experienced management team. JL is the holding company of the Janashakthi group and is promoted by the Schaffter family who own and managed the company. The ratings also factor in the sizeable leveraged equity trading portfolio of JL, which makes its profitability vulnerable to adverse movement in equity prices and, the relatively high gearing and lumpy income flows (largely in the form of dividends from JIPLC and income from the equity trading book) that exert pressure on the overall liquidity profile of the company. ICRA however takes note of the established position of the promoter group, the diverse bank funding and other options available to the company, which to an extent mitigates refinance risks and, the market value of the investments of the company, including its holdings in JIPLC, Orient Finance PLC and its investment in a plantation, which provides comfort.

As in March 2013, investments into group entities accounted for close to 46% (35 % in March 2011, 98% of the investment in group entities is constituted by JIPLC) of the total asset base, while the other short term equity investments accounted for about 19% (41% in March 2011). JL's equity investment portfolio had declined in line with the decline witnessed in the equity prices from the peak levels witnessed in CY 2011. Going forward, however JL is expected to increase the proportion of its equity trading book, which is expected to result in an increase the company's gearing, at least over the near to medium term, before it starts generating profits on the equity investments.

Dividend income from JIPLC has been the key source of income for the company in the recent past, on the back of the weak performance of the other short term equity investments. Dividend Income from JIPLC accounted for close to 76% of the total income in FY2013; significant reliance on a one-time income in the form of dividend from Janashakthi Insurance PLC vis a vis the regular outflows for the debt service requirements exerts pressure on the overall cash flows and liquidity of the company. ICRA however takes comfort from the management's direct involvement in managing debt servicing and other operating decisions of the company, JL's unutilized bank limits and its established relationships with various banks and financial institutions for timely funding support. ICRA further takes note of the proposed debenture issue of Rs 1,000Mn by JL, which would enable the company to refinance its current borrowings with lower and fixed interest rates and for a longer tenure. The above is expected improve the company's overall liquidity profile.

JL's profitability profile has been weak as the company's operating income in the recent past was largely in the form of dividend income from JIPLC, with income from equity trading being quite modest. The company is also faced with higher expenses, which also partly impacted the overall profitability. Going forward, it would be critical for the company to secure long term funding to offset the liquidity pressure arising out of the expected increase in the company's equity trading book.

Company Profile

Janashakthi limited is an Investment holding company incorporated in the year 1994. The Company is owned and managed by the Schaffter family. The main subsidiary of JL is Janashakthi Insurance PLC, which is an established insurance company in Sri Lanka operating for over two decades.

During the year ended March 2013, JL reported a net profit of Rs 25.7 Million on a gross income of Rs 465 Million compared to net loss of Rs 624.5 Million in the corresponding period of the previous fiscal. On a consolidated basis the Janashakthi group reported a Net profit of Rs. 529.9 Million on a gross income of Rs. 10,280.20 in FY 2013, compared to a Net profit of Rs. 12.7 Million on a gross income of Rs. 8,264.74 Million in FY 2012.

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