

ICRA Lanka reaffirms the ratings of Janashakthi PLC; outlook revised to Negative from Stable

September 28, 2017

Instrument		Amount	Rating Action
Issuer Rating		N/A	[[SL]BBB reaffirmed; outlook revised to negative from stable
Senior Redeemable Programme	Unsecured Debenture	LKR 1,000Mn	[SL]BBB reaffirmed; outlook revised to negative from stable
Proposed Redeemable Programme	Guaranteed Debenture	LKR 1,000Mn (with the option to increase up to LKR 2,000Mn)	[SL]A-(SO) 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) for Janashakthi PLC (JPLC or the company). ICRA Lanka has also reaffirmed the issue rating of [SL]BBB (pronounced SL triple B) for the LKR 1,000 Mn senior unsecured debenture programme of the company. However, the outlook on both the ratings have been revised to negative from stable.

ICRA Lanka has also affirmed the issue rating of [SL]A-(SO) (Pronounced SL A minus Structured Obligation) with stable outlook for the proposed LKR 1,000 Mn (with option to increase up to LKR 2,000 Mn) guaranteed redeemable debentures programme of the company. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating does not represent ICRA Lanka's opinion on the general credit quality of the issuer concerned. The rating for the guaranteed senior redeemable debentures is based on the strength of the unconditional and irrevocable guarantee from Seylan Bank PLC (Seylan) covering the principal and two interest instalments (semi-annual) of the proposed issue. The guarantor undertakes the obligation to pay, on demand from the Trustee, LKR 2,000 Mn which is the total principal sum and, two half-yearly interest instalments of the proposed guaranteed senior redeemable debentures. The rating also assumes that the guarantee will be duly invoked by the Trustee, as per the terms of the underlying Trust deed and guarantee agreement, in case there is a default in payment by JPLC.

The outlook revision for the issuer rating and the senior unsecured debenture rating factors in the sharp increase in the gearing (reported gearing has gone up to 8.75x as in March 2017 vis-à-vis 4.66x in March 2016) and the deterioration of the capital base because of the net losses in FY2017 and dividend distributions during the year. The gearing adjusted for fair value gains on investment property stood very high at 11.01x. ICRA Lanka also takes cognizance of the high finance cost to the company, on account of the high leverage, affecting its overall profitability (net loss for FY2017 was LKR 295 Mn vis-à-vis PAT of LKR 600 Mn in FY2016). JPLC is dependent on the dividend income from Janashakthi Insurance PLC (JIPLC) and its equity investments (in subsidiaries and others) are largely encumbered; this is likely to exert pressure on the overall liquidity profile. ICRA Lanka however takes comfort from the group's longstanding relationships with banks and the established position of the promoters, which mitigates such risks to an extent. ICRA Lanka also takes note of the on-going debt reduction plan, which involves reducing the company's holding in its subsidiaries, up-

streaming of proceeds from land sale at subsidiary company, Janashakthi Insurance PLC and downsizing the equity investments in the near term. Timely reduction in the debt levels would be crucial from a rating perspective and a key monitorable in the near term.

The ratings continue to factor in the strength derived from the company's sizeable holding (about 76%) in Janashakthi Insurance PLC (claims paying ability rating of [SL]A with stable outlook by ICRA Lanka). JIPLC is the sixth largest life insurer and its 100% subsidiary Janashakthi General Insurance Limited (JGIL) is the third largest general insurer, in Sri Lanka. JIPLC has been consistently profitable over the last 10 years (consolidated PAT LKR 1,647 Mn in CY2016 vis-à-vis LKR 951 Mn in CY2015) and the insurer's capitalization indicators remain comfortable. Janashakthi PLC is the holding company of the Janashakthi group and is promoted by the Schaffter family who owns and manages the company.

As in March 31, 2017 investments in subsidiaries accounted for close to 77% of the total asset base, while the other financial assets and investment in property accounted for about 12%. The company is in the process of diluting its holding in some operating subsidiaries in the near term. Janashakthi PLC's other equity investment portfolio stood at about LKR 703 Mn as in March 2017; about 50% of the same are strategic in nature, and the company is in the process of selling the non-strategic equity investments. The above exercise is likely to reduce its leverage from the current levels, however the extent of reduction would be crucial from a rating perspective.

Total income (including fair value gains) for FY2017 was LKR 498 Mn compared to LKR 327 Mn reported in FY2016. Dividend income from JIPLC has been the key source of operating income for the company in the recent past, and is expected to be so, as the moderate capitalization profile of the NBFi subsidiary, Orient Finance PLC would limit any profit distributions. Significant finance cost (total interest cost LKR 911 Mn in FY2017 vis-à-vis LKR 656 Mn in FY2016) in relation to the income has impacted the profitability profile of the company in FY2017.

ICRA Lanka notes that sizeable (55% of the total borrowings as in March 2017) proportion of the borrowings are short term in nature, thus adequate refinancing would be crucial to support its liquidity profile. The ratings continue to take comfort from the group's long standing relationships with banks and financial institutions in Sri Lanka, which could help in refinancing its borrowings; however reduction in the debt level within the next few months would remain critical for maintaining a comfortable liquidity profile.

Company Profile

Janashakthi PLC is an investment holding company incorporated in the year 1990. The company is owned and managed by the Schaffter family (Mr. Prakash Schaffter 50%, Mr. Ramesh Schaffter 50%). The main subsidiaries include Janashakthi Insurance PLC, which is an established insurance company in Sri Lanka operating for over two decades and Orient Finance PLC, which is a listed finance company in Sri Lanka.

During the financial year ended March 31, 2017 Janashakthi PLC reported a standalone net loss (unaudited) of LKR 295 Mn on a total operating income of LKR 498 Mn, compared to net profit of LKR 600 Mn (including one-time gain of LKR 1,018 Mn from the share buy-back of Orient Finance), on a total operating income of LKR 327 Mn in the corresponding period of the previous fiscal.

On a consolidated basis, Janashakthi group reported a net profit (unaudited) of LKR 1,097 Mn on a total income of LKR 17,493 Mn in FY2017 compared to a net profit of LKR 1,443 Mn on a total income of LKR 13,949 Mn for the previous fiscal.

Guarantor Profile:**Seylan Bank PLC**

Seylan Bank PLC (Seylan) with total asset base of LKR 356.0 Bn as in December 31, 2016 (LKR 296.3 Bn in December 31, 2015) accounted for about 4.5% of sector assets; it also accounted for 4.8% of sector loans and advances and 5.0% of the sector deposits as in December 31, 2016. The bank was incorporated in the year 1987. Sri Lanka Insurance Corporation Ltd (15.0%), Browns and Company PLC (13.9%), Employee Provident Fund (9.9%), LOLC Investments Limited (9.6%), NDB Bank (8.7%) and Bank of Ceylon (7.5%) are the major voting shareholders of the bank. The bank recorded net profits of LKR 4.0 Bn during CY2016 vis-à-vis LKR 3.8 Bn reported during the previous calendar year. The bank had gross NPA ratios of 5.14% and 5.57% as at December 2016 and December 2015 respectively and net NPA ratios of 4.47% and 4.68% respectively for the said periods. As in December 2016, the core capital adequacy ratio of the bank was 10.74% and the total capital adequacy ratio was 13.18%

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Note: Figures as on 31.03.2017 are based on un-audit financials.

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