

## ICRA Lanka reaffirms [SL]BBB ratings for Janashakthi PLC

### RATING ACTION

Instrument	Amount	Rating Action
Issuer Rating	NA	[SL]BBB with Stable Outlook; reaffirmed
Non-convertible debentures (NCD)	Rs. 1,000 Mn	[SL]BBB with Stable Outlook; reaffirmed

ICRA Lanka has reaffirmed the Issuer Rating of [SL]BBB (pronounced SL triple B) with a stable outlook to Janashakthi PLC (Janashakthi or the company). ICRA Lanka has also reaffirmed the [SL]BBB (pronounced SL triple B) rating with a stable outlook to the Rs. 1,000 million NCD Issue of the company.

The ratings continue to factor in the strength derived from the company's sizeable holding (About 71%) 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. Janashakthi is the holding company of the Janashakthi group and is promoted by the Schaffter family who own and manage the company. The ratings takes note of the increase in the company's gearing during FY2015 to 5.6 times as compared to 2.4 times in March 2014 as it sharply increased its leveraged other equity holding portfolio. While the above makes its profitability vulnerable to adverse movement in equity prices, lumpy income flows (largely in the form of dividends from JIPLC and income from the equity trading book) and high leverage exerts pressure on the overall liquidity profile of the company. Janashakthi is expected to reduce its equity holding portfolio in the near to medium term and invest part of the proceeds into real estate development. ICRA Lanka would closely monitor the above developments and the impact on the company's leverage and operating profile. The merger of Orient Finance PLC (65% held by Janashakthi )with Bartleet Finance PLC (99.9% held by Janashakthi) is less likely to exert pressure on the Janashakthi's profile due to sizeable holdings in these entities and availability of liquid investments. ICRA Lanka takes note of the established position of the promoters and, the group's longstanding relationships with banks, which mitigates liquidity risks to an extent.

As in March 2015, investments into group entities accounted for close to 46% of the total asset base, while the other equity investments accounted for about 30% and investment in repo at 8%. Janashakthi's equity investment portfolio increased sharply during FY2015 to about Rs. 2.0 billion as compared to Rs.500 Million in March 2014. While going forward, the company is expected to reduce its other equity holding portfolio in a sizeable manner in the near to medium term and make investments in the real estate development business. ICRA would access the investment plans of the company in real estate and the corresponding impact on the business plans, gearing and liquidity profile, which would be a critical rating sensitivity going forward.

Dividend income from JIPLC accounted for close to 47% of the total income in FY 2015 (85% in FY2014) and has been the key source of income for the company in the recent past, while gains from the equity portfolio has been volatile. The significant reliance on a one-time income in the form of dividend from JIPLC vis a vis the regular outflows for the debt service requirements exerts pressure on the overall cash flows and liquidity of the company. The debenture issue of Rs 1.0 Billion in FY2015 supported the liquidity profile to an extent as the share of the long term funding increased to about 48% in March 2015 as compared to 15% in March 2014. The ratings continue to take comfort from the management's direct involvement in managing debt servicing and other operating decisions of the company and JL's established relationships with various banks and financial institutions for timely funding support.

## **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 subsidiary is Janashakthi Insurance PLC, which is an established insurance company in Sri Lanka operating for over two decades.

During the year ended March 2015, Janashakthi reported a net profit (unaudited) of Rs 145.6 Million on a total income of Rs 619.6 Million compared to net loss of Rs. 137.6 Million on a total income of Rs. 310.8 Million in the corresponding period of the previous fiscal.

On a consolidated basis, Janashakthi group reported a net profit (unaudited) of Rs. 973.4 Million on a total income of Rs. 5,091.9 in FY 2015 compared to a net profit of Rs. 668.8 Million on a total income of Rs. 4,199.9 Million for the previous fiscal.

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