

ICRA Lanka re-affirms the [SL]A- rating with a stable outlook to the revised Senior Unsecured debenture programme of Lanka ORIX Leasing Company

October 27, 2014

Instrument	Amount	Rating Action
Long Term Senior Unsecured Redeemable Debenture Programme	LKR 5 Bn ¹	[SL] A- (stable);re-affirmed

ICRA Lanka Limited, has re-affirmed the [SL]A- (pronounced SL A minus) rating with a stable outlook to the (revised) proposed LKR 5 Bn Long Term Senior Unsecured, to be Listed, Redeemable Debenture Programme of Lanka ORIX Leasing Company PLC (LOLC or the HoldCo). LOLC has decided to revise the amount of the said debenture issue from LKR 7 Bn (with provision for the amount to be increased to LKR 12 Bn) to LKR 5 Bn. ICRA Lanka already has an outstanding Issuer rating of [SL]A- for LOLC. The company's existing senior unsecured debentures of LKR 1.25 Bn is also rated at [SL]A-; the ratings carry a stable outlook. Given the significant operational and financial linkages with the subsidiaries (especially pertaining to financial services), ICRA Lanka continues to take a consolidated rating view of the HoldCo and the key asset financing subsidiaries.

The rating factors in LOLC Group's long track record in the retail finance sector, its leadership position in the Sri Lankan retail finance market, professional and experienced management team and adequate risk management systems with a strong retail franchise. The rating also derives support from the committed support and oversight from its Key investor—ORIX Corporation of Japan (rated Baa2 with stable outlook by Moody's), which has a 30% stake in the entity. The Group's performance is largely dependent on its key financial service subsidiaries due to the low contribution from the non-financial service subsidiaries; increase in NPAs of the financial services subsidiaries in the recent past, although in line with the increase witnessed in the industry and the consequent pressure in the profitability levels are the key rating constraints. At group level it would be important to improve overall asset quality of the key financial services subsidiaries, through effective management of incremental slippages and focused recovery initiatives going forward. At the Holdco's level (Standalone), ICRA takes note of its moderate earnings profile due to the low contribution from non-financial services businesses. Improvement in gearing levels at the Holdco has been noticed over the past FY, further ICRA Lanka notes that the said debentures would be used to re-finance existing short term debt at the Holdco level, which would improve the overall liquidity and cost of funds.

¹ Amount revised from LKR 7 Bn (with provision for the amount to be increased to LKR 12 Bn) assigned in August 2014

Company Profile

Setup in 1980, Lanka ORIX Leasing Company PLC (LOLC) is a leading player in leasing and other lending activities with ORIX Corporation holding 30% of LOLC since its inception. With the group diversifying into other interests including leisure, trading, plantations and renewable energy in the past few years, LOLC surrendered its Specialized Leasing Company (SLC) license from CBSL and has transformed itself into a holding company by transferring all operations to its subsidiaries. At the end of March 2014, financial services contributed 91% of PBT of the group while interests in leisure and power reported losses.

During the year ended March 2014, LOLC group reported net profit of Rs. 3.1 Bn on a total income of Rs. 35 Bn compared to net profit of Rs. 2.5 Bn on a total income of Rs. 32 Bn in the corresponding period of the previous fiscal.

LOLC (Holdco) reported a net profit of Rs. 694 Mn on a total income of Rs. 5.4 Bn compared to net profit of Rs. 34Mn on a total income of Rs. 4.6 Bn in the corresponding period of the previous fiscal.

October 2014

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