

FOR IMMEDIATE RELEASE

August 12, 2014

ICRA Lanka revises outlook to stable while affirming the ratings at “[SL] A-” for Lanka ORIX Leasing Company

ICRA Lanka Limited, a wholly owned subsidiary of ICRA Ltd., a group company of Moody’s Investors Service, has affirmed the ratings of Lanka ORIX Leasing Company PLC (LOLC or the HoldCo) and its key financial services subsidiaries Lanka Orix Finance PLC (LOFC) and Commercial Leasing and Finance PLC (CLC) and revised the outlook from Negative to Stable. The rating action taken on these three entities are tabulated below:

Table 1: Ratings

Company	Instrument	Amount	Rating Action
LOLC	Issuer Rating	N/A	[SL]A- reaffirmed; outlook revised from negative to stable
	Long Term Unsecured Redeemable Debenture Programme	Rs. 750 Mn	
	Long Term Unsecured Redeemable Debenture Programme	Rs. 500 Mn	
LOFC	Issuer Rating	N/A	[SL]A- reaffirmed; outlook revised from negative to stable
CLC	Issuer Rating	N/A	[SL]A- reaffirmed; outlook revised from negative to stable

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.

ICRA Lanka’s assessment to revise the rating outlook follows the stability witnessed in the overall operating environment over the past Financial Year (FY), the group’s ability to moderate incremental slippages from the peak levels observed in March –September 2013, the same nevertheless continues to be higher than FY2012 and FY2013 levels and, the increase in the group level profitability indicators including the key financial services subsidiaries. LOFC (Lanka Orix Finance PLC) and CLC (Commercial Leasing and Finance PLC) witnessed moderation in the incremental slippages and carried out substantial recoveries during FY2014 resulting in improvements in Gross NPA and Net NPA Ratios. The said Companies also carried out write offs during the same period (20% of the opening NPAs and slippages for FY2014 for LOFC and 61% of the opening NPAs and slippages for FY2014 for CLC) in order to clear out longstanding NPAs. ICRA Lanka takes note of the decline in overall slippages recorded by the two LFCS over the past FY and expects the trend to improve further in FY2015. Further improvements in the overall group’s asset quality levels, through effective management of incremental slippages, recovery initiatives and, continued improvement in the group level earnings profile would remain key rating sensitivities.

The ratings continue to factor 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 strong retail franchise. The rating also derives support from the committed support and oversight from its largest investor–ORIX Corporation of Japan (rated Baa2 with stable outlook by Moody’s), which has a 30% stake in the entity. ICRA Lanka takes note of the consistent progress made by the management to de-



leverage the Holdco as the reported gearing levels improved from 0.6 time as on end Mar-13 to 0.4 time¹ by end Mar-14 through the transfer of the residual lending portfolio to its financial services subsidiary and reducing intra-group exposures. ICRA Lanka however notes that the group level gearing indicators have increased over the past 2 FYs from 2.16 times as of end Mar-12 to 2.65 times as on end Mar-14. Ability of the HoldCo and the LOLC group to improve on their operating margins while reducing the standalone leverage would be critical from a rating perspective.

LOLC Group's insurance business reported steady growth in its overall business and profitability levels during the FY2014, but accounts for a small portion of the group's profits. LOLC's non-financial services businesses also registered recovery during the same period with the leisure business cutting the losses by 63% (Rs 904Mn – Mar-13 to Rs 335 Mn – Mar-14) during FY2014. The trading segment of the group also reported improvement in overall profitability at PBT levels (Rs 148 Mn – Mar-13 to Rs 542 Mn – Mar-14) supported by gain from sale of investments (12 % of the profits in FY2014). LOLC's power segment reported losses while the plantation segment reported marginal profits for the FY2014.

The Holdco's trading investment portfolio has been scaled down over the FY2014. The trading and investments securities portfolio declined to around Rs. 900 Mn as at end Mar-14 from Rs 1,200 Mn reported as at end Mar-13. During the FY2014 the Holdco increased its stake in its key financial services subsidiary CLC from 90% (Mar-13) to 99% (Mar-14). At Group level, the incremental investments have been mostly in government securities, which accounted for 31% of the total investments in Mar-14 as compared to 22% in Mar-13 and, the composition of equity investments have declined during the FY2014.

ICRA Lanka notes that the group has been able to secure longer tenure borrowings at favourable rates, which is expected to support the overall liquidity profile and profitability going forward. Group level earnings recovered during the FY2014 with the ROAA improving to 1.84% from 1.66% in FY2013 largely on account of improved margins in the financial services subsidiaries and improved financial performances of the non-financial services businesses.

Key Financials:

<i>Rs Mn</i>	LOLC (Group)		LOFC		CLC	
	<i>Mar-14</i>	<i>Mar-13</i>	<i>Mar-14</i>	<i>Mar-13</i>	<i>Mar-14</i>	<i>Mar-13</i>
Net worth (inc. Minority Interest)	44,854	43,373	6,534	5,424	8,856	7,837
Net Lending portfolio	90,545	87,815	43,068	40,198	27,570	24,985
Total Assets	175,543	162,982	53,432	47,569	32,934	27,229
Net Interest Margin / ATA	5.09%	4.36%	9.96%	9.08%	15.13%	13.09%
Other Operating Income / ATA	6.06%	6.65%	0.66%	0.24%	0.61%	0.69%
Operating costs / ATA	8.52%	8.50%	5.05%	4.13%	7.69%	6.80%
Credit costs / ATA	2.06%	1.36%	2.72%	2.88%	3.76%	1.02%
PAT / ATA	1.84%	1.66%	1.98%	1.60%	3.11%	4.36%
Return on Average Net worth	7.05%	5.90%	16.73%	13.52%	11.21%	16.01%
Gross NPA %	-	-	5.13%	5.30%	2.38%	2.98%
Net NPA %	-	-	1.37%	1.70%	-1.67%	-0.33%
Gearing	2.65	2.46	6.92	7.45	2.49	2.27

Please refer www.icralanka.com for detailed Rationales of LOLC, LOFC and CLC.

August 2014

¹ Reported gearing under IFRS

For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan, (Tel No. +91-22-30470028)

karthiks@icraindia.com

Relationship Contacts:

Mr. W. Don Barnabas, (Tel. No. +94-11-4339907)

wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

An Associate of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

Contents may be used freely with due acknowledgement to ICRA Lanka.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

