

**ICRA Lanka assigns [SL]A- with stable outlook to the Rs 1.25 Bn  
unsecured debenture programmes of Lanka ORIX Leasing Company  
PLC**

January 17, 2013

Instrument	Amount	Rating Action
Long Term Unsecured Redeemable Debenture Programme	Rs. 750 Mn	[SL]A- (Stable) assigned
Long Term Unsecured Redeemable Debenture Programme	Rs. 500 Mn	[SL]A- (Stable) assigned

ICRA Lanka has assigned [SL]A- (pronounced SL A minus)<sup>1</sup> with a stable outlook to the Rs 1.25Bn Long Term Unsecured Redeemable Debenture Programmes of Lanka ORIX Leasing Company PLC (LOLC or the HoldCo). The ratings continue to factor LOLC Group's long track record of profitable operations, its leading position in the Sri Lankan Financial services business market, professional and experienced management team, adequate risk management systems with strong retail franchise. The rating also takes into account 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 has taken a consolidated rating view of the HoldCo and the key asset financing subsidiaries given the significant operational and financial linkages with the subsidiaries (especially pertaining to financial services). In the current fiscal, the Group's asset quality has deteriorated with gross NPAs increasing to 2.73% in September 2012 from 2.03% in March 2012, partly owing to the moderation in the operating environment. The Net NPA Ratio for the group remains comfortable at 0.58% as on September 2012 though it has deteriorated from the March levels of 0.20%. Incrementally, maintaining control over asset quality and credit costs would remain a key rating sensitivity.

HoldCo's gearing remains unchanged at 2x in September 2012, despite the run-down of its lending portfolio, though intra-group exposures recorded marginal decreases from March 2012 levels. Given that the HoldCo's standalone operating income levels have dropped sharply, it would be important to reduce standalone leverage in the short term. The ability of the HoldCo and the LOLC group to improve on their operating margins given the volatile interest rate scenario and the group level asset quality indicators will remain the key rating sensitivities. The rating also factors in that the HoldCo currently does not intend to provide any material guarantees to any of its subsidiaries or undertake any major debt funded acquisition in the near term which could impact its credit profile.

The Group Lending Portfolio has recorded marginal negative growth of 1% for the six months ended Sep-12. The Holdco's lending portfolio has reduced over the last 2 quarters in line with its strategy to offload lending operations to its financial services subsidiaries, however the Group Level Asset quality of the lending portfolio has been deteriorating over the last 2 quarters in the current financial year with Gross NPA Ratio increasing to 2.73% as on September 30, 2012 from 2.03% reported as on March 31, 2012. The Net NPA Ratio for the group remains comfortable at 0.58% as on September 2012 though it has deteriorated from the March levels of 0.20%. ICRA Lanka would be closely monitoring the Group level asset quality as further significant declines would lead to rating action.

<sup>1</sup> For complete rating scale and definitions please refer to ICRA Lanka's Website [www.icralanka.com](http://www.icralanka.com) or other ICRA Rating Publications

No significant reduction in the Holdco's investment securities portfolio was seen during the last 2 quarters with the portfolio remaining at Rs 3.3Bn as at Sep-12 compared to Rs 3.5Bn reported as at Mar-12 mainly because of adverse market conditions. ICRA notes that scaling down the trading portfolio would be important for the Holdco to reduce its short term debt levels. The Group has raised one round of long term foreign currency debt in LOMC (a subsidiary) however; the ALM Position is largely unchanged from Mar-12. The pipeline of overseas long term debt is robust and could support the ALM position going forward.

Profitability from core operations (operating profit net of provisions) improved to 2.87% in YTD Sep-12 from 2.46% in fiscal 2012 at the group level. However, net profitability was lower at 2.0% in YTD Sep-12 compared to 7% in fiscal 2012 as the same was supported by LKR 4 billion profit on sale of investments and Rs. 3.0 Bn in negative goodwill in fiscal 2012. Group level profitability as at Sep-12 has weakened in terms of Return on Net Worth (RONW) and Return on Average Assets (ROAA) compared to Mar-12. RONW recorded at 23.39% as at Mar-12 fell to 7.02% for YTD Sep 12 (5.74% as at Mar-12 excluding one-time gains); whilst ROAA recorded at 6.99% as at Mar-12 fell to 1.96% for YTD Sep-12 (1.67% as at Mar-12 excluding one-time gains). Financial services continues to be the key sector for the Groups recording 99% of the group profits, and the Hold Co continues to be dependent on the financial services subsidiaries for its Income; generated from lending to subsidiaries and shared services fee income charged from subsidiaries. The HoldCo ensures a profitability margin of while pricing shared services of the group.

### **Company Profile**

Setup in 1980 with equity participation from International Finance Corporation, ORIX Corporation and leading domestic financial institutions, Lanka ORIX Leasing Company PLC (LOLC) is a leading player in leasing and other financial services businesses. With the group diversifying into other interests including leisure and energy in the past few years, LOLC surrendered its Specialized Leasing Company (SLC) license from CBSL and is transforming itself into a holding company by transferring all operations to its subsidiaries. At the end of Sep 2012, financial services contributed 99% of the operating profits of the group, while interests in leisure trading, plantations and insurance contributed the rest.

During the six months ended September 2012, LOLC group reported a net profit of Rs. 1.49 billion on a gross income of Rs. 20.43 billion compared to net profit of Rs. 5.8 billion on a total income of Rs. 18.17 billion in the corresponding period of the previous fiscal.

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