

## ICRA Lanka reaffirms the Issuer and Issue Ratings of Lanka Orix Leasing Company PLC

January 31, 2017

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the ratings of Lanka Orix Leasing Company PLC (LOLC or the HoldCo) and its key financial services subsidiaries, LOLC Finance PLC (LOFC) and Commercial Leasing and Finance PLC (CLC). The outlook on the ratings are Stable. LOLC's LKR 750 Mn long term unsecured redeemable debenture programme was settled in full and as such ICRA Lanka has withdrawn the [SL]A (Stable) rating of the instrument. ICRA Lanka has also withdrawn the [SL]A-(Stable) rating of the LKR 3,000 Mn senior unsecured redeemable debenture programme of LOLC Micro Credit Limited (LOMC) as the proposed debentures were not issued. The rating actions taken on these four entities are tabulated below:

Company	Instrument	Amount	Rating Action
LOLC	Issuer Rating	N/A	[SL]A(Stable); reaffirmed
	Listed Senior Unsecured Redeemable Debenture Programme	Rs. 5,000 Mn	[SL]A(Stable); reaffirmed
LOFC	Issuer Rating	N/A	[SL]A(Stable); reaffirmed
	Listed Subordinated Unsecured Redeemable Debentures	LKR 5,000 Mn	[SL]A-(Stable); reaffirmed
CLC	Issuer Rating	N/A	[SL]A(Stable); reaffirmed
	Listed Senior Unsecured Redeemable Debentures	LKR 5,000 Mn	[SL]A(Stable); reaffirmed

### Ratings withdrawn

Company	Instrument	Amount	Rating Action
LOLC	Unsecured Redeemable Debenture Programme matured and settled in August 2016	Rs. 750 Mn	[SL]A(Stable); withdrawn
LOMC	Proposed Senior Unsecured Redeemable Debentures as instrument was not issued	LKR 3,000Mn	[SL]A-(Stable); withdrawn

Given the significant operational and financial linkages with the subsidiaries (especially pertaining to financial services), ICRA Lanka continues to take a consolidated financial analysis of the HoldCo and the key subsidiaries in the financial sector. The contribution of all financial services entities in the group to the PBT and total income was about 82% and 73% in FYE2016 and accounted for 93% of the group assets.

The rating reaffirmations factor in LOLC Group's long track record in the retail finance sector, its established franchise and leadership position in the Sri Lankan retail financial market, experienced

management team, commensurate risk management systems, comfortable asset quality and adequate profitability. The ratings also take note of the committed support and oversight from its largest institutional investor-ORIX Corporation of Japan (rated Baa1 with stable outlook by Moody's) which has a 30% stake in the entity. ICRA Lanka notes that the group level gearing increased to 4.3 times in March 31, 2016 from 3.1 times in March 31, 2015; it remained at 4.3 times as on June 30, 2016. The increase was partly due to the sizeable long-term foreign currency funding secured by the group for its financial services entities (namely LOFC, CLC and LOMC) during FY2016, which is held as deposit, for hedging against exchange rate movements and the local currency borrowings against these deposits resulted in double count of liabilities. ICRA Lanka would continue to monitor the performances of other entities, including the non-financial services entities, in the group and improvement in the performances of the same would be key rating sensitivity going forward. Going forward, envisioned regulatory changes in the vehicle financing space and the consequent impact of the same on the NBFI sector would also be a key monitorable.

LOLC's group level asset quality has improved from 4.9% as at March 31, 2014 to 2.8% as at March 31, 2015 to 2.3% as at March 31, 2016. The three key financial services subsidiaries (LOFC, CLC and LOMC) recorded improvements in asset quality during FYE2016. LOFC's gross NPA ratio reduced from 4.9% as at March 31, 2015 to 4.3% as at March 31, 2016, while the gross NPA ratio of CLC and LOMC reduced from 1.9% to 1.1% and 2.4% to 1.4% respectively, during the above mentioned period. During H1FY2017, gross NPA for LOFC, CLC and LOMC stood at 4.2%, 1.2% and 1.5% respectively.

LOLC group's NIMs reduced to 5.5% (5.9% for FYE2016) in H1FYE2017 from 7.6% in FYE2015 due to moderation in business yields and higher cost of funds. However, lower credit costs (0.96% in FYE2016 from 1.70% in FYE2015), supported overall profitability to an extent. Consolidated RoA which stood at 3.0% and return on average networth which was about 29.5% for FYE2016, moderated to 2.5% and 25.1% respectively in H1FYE2017. The Holdco's standalone earnings comprised mainly of shared services fees and interest income charged from on-lending to subsidiaries. The standalone RoA was 1.0% for FYE2016 and 1.4% for H1FYE2017.

LOLC Group's general and life insurance business reported a combined growth of 35% in its gross premium written ("GWP") to LKR 3.8 Bn in FYE2016 (LKR 2.8 Bn combined GWP in FYE2015). The insurance business continued to report losses, however the losses moderated to LKR 82 Mn in FY2016 as compared with LKR 236 Mn in FY2015. The trading segment reported a PBT of LKR 1,124 Mn on an income of LKR 15 Bn. However, the leisure business continued to incur loss of LKR 618 Mn for FYE2016 (LKR 560 Mn loss for FYE2015). LOLC's power and plantation segments also reported losses; about LKR 669 Mn for FY2016.

LOLC's total investments grew by 1% for FYE2016. ICRA Lanka expects no significant investments by LOLC over the near to medium term except for the infusion of capital into its micro finance operations.

The Overall composition of the LOLC Group's investment profile remains unchanged with significant investment in its subsidiaries as of March 31, 2016, (82% of Total Investments) from March 31, 2015 (82% of Total Investments) levels. The Investments in other group companies accounted for 15% in March 31, 2016. Other investments include investment securities, investment properties and trading securities.

## **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 trading, plantation, leisure and energy in the past few years,

LOLC surrendered its Specialized Leasing Company (SLC) license from CBSL and transformed itself into a holding company by transferring all operations to its subsidiaries. At the end of March 31, 2016 financial services contributed 82% of PBT of the group while interests in leisure, Plantations and power reported losses.

During the FYE2016, LOLC group reported net profit of LKR 9.3 Bn on a total Asset base of LKR 379 Bn compared to net profit of LKR 6.2 Bn on a total Asset base of LKR 242 Bn in the corresponding period of the previous fiscal. The Group reported a net profit of LKR 4.9 Bn on a total asset base of LKR 412 Bn for the period ended September 30, 2016.

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