

Update on LOLC PLC

April 17, 2018

Instrument	Rated Amount (LKR Mn)	Ratings
Issuer rating	N/A	[SL]A (Stable)
Listed Senior Unsecured Redeemable Debenture Programme	5,000	[SL]A (Stable)
Unlisted Senior Unsecured Redeemable, Debenture Programme	2,750	[SL]A (Stable)

Update

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service, takes note of the exit of ORIX Corporation of Japan (ORIX) from Lanka ORIX Leasing Company (LOLC) on April 02, 2018 by divested its 30% shareholding in LOLC. The divested shareholding was acquired by LOLC Holding Pvt Ltd (LOLCH) for a consideration of LKR 12.8 Bn. Mr. Ishara Nanayakara is the sole shareholder of LOLCH. Consequently, Mr. Nanayakkara's shareholding increased to about 79% from ~49% and effective ownership of Nanayakkara Family is closer to 85%.

LOLC is the holding company of the LOLC group. While arriving at the ratings of LOLC, ICRA Lanka had taken a consolidated performance of the group, which has interest in financial services, insurance, manufacturing and trading, plantation and renewable energy, and leisure. At group level, the ratings had factored in the group's long track record and leadership position in the Sri Lankan retail finance market, its experienced management team, commensurate risk management systems, its comfortable asset quality and adequate profitability indicators. The ratings had also factored in the support and oversight from ORIX (rated Baa1 with positive outlook by Moody's).

ICRA Lanka notes that ORIX, during the period of its investment, largely contributed at the strategic/ Board level. LOLC group, during the same period, has significantly augmented its overall risk management, internal controls and IT /MIS systems. The group has also been able to implement it across the various group entities and, as and when it expanded to newer geographies. ICRA Lanka notes that, LOLC, is one of the large business groups in Sri Lankan with a healthy financial and business risk profile and, having a good financial flexibility to support its growth and expansion going forward. In view of the above, ICRA Lanka expects no significant impact on LOLC' credit risk profile, on account of ORIX's exit.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria: [ICRA Lanka's Credit Rating Methodology for Non-Banking Financial Institutions](#)

About LOLC:

Setup in 1980, Lanka Orix Leasing Company PLC (LOLC) has evolved itself from a financial services provider to a holding company which has interests in trading, plantation, leisure and energy. The ORIX Corporation of Japan which had 30% of LOLC since its inception, has presently divested the same. The group has diversified geographically into Cambodia, Myanmar and Pakistan. As of December 31, 2017, financial services contributed to about 81% of PBT of the group and 96% of total assets of the group.

During the FY2017, LOLC group reported net profit of LKR 21 Bn on a total Asset base of LKR 641 Bn compared to net profit of LKR 9 Bn on a total Asset base of 380 Bn in the previous fiscal. The Group reported a net profit of LKR 13 Bn on a total asset base of LKR 770 Bn for 9MFY2018.

Key financial indicators - LOLC (Consolidated)

In LKR Mn	FY2016	FY2017	9MFY2018 (Unaudited)
Net Interest Income	20,366	24,776	32,146
Profit after Tax	9,331	20,921	13,244
Net worth	62,942	96,014	109,307
Loans and Advances	291,445	556,597	657,952
Total Assets	379,595	640,925	770,224
Return on Equity	28.3%	43.3%	28.1%
Return on Assets	3.0%	4.1%	2.5%
Gross NPA	5.1%	4.9%	N/A
Net NPA	0.4%	0.0%	N/A
Capital Adequacy Ratio	N/A	N/A	N/A
Gearing (times)	4.7	6.1	6.3

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
	Type	Amount Rated (LKR Mn)	Date & Rating Apr 2018	Date & Rating in FY2017 Nov-17	Date & Rating in FY2017 Jan-17	Date & Rating in FY2016 Nov-15
Issuer rating	N/A	N/A	[SL]A (Stable)	[SL]A (Stable)	[SL]A (Stable)	[SL]A (Stable)
Issue rating	Listed Senior Unsecured Redeemable Debenture Programme	5,000	[SL]A (Stable)	[SL]A (Stable)	[SL]A (Stable)	[SL]A (Stable)
Issue rating	Unlisted Senior Unsecured Redeemable, Debenture Programme	2,750	[SL]A (Stable)	[SL]A (Stable)	N/A	N/A

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