

ICRA Lanka assigns [SL] A with a stable outlook to the proposed senior, unsecured, unlisted, redeemable, rated, debenture programme of Lanka ORIX Leasing Company PLC

July 05, 2017

Instrument	Amount	Rating Action
Senior, unsecured, unlisted, redeemable, rated debenture programme	LKR 2,000 Mn (with the option to raise further LKR 750 Mn)	[SL]A(stable); assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the [SL]A (pronounced SL A) with stable outlook to the LKR 2,000 Mn (with the option to raise further LKR 750 Mn) senior, unsecured, unlisted, redeemable, rated debenture programme of Lanka ORIX Leasing Company PLC (LOLC or the HoldCo). ICRA Lanka has the issuer rating of [SL]A (pronounced SL A) with stable outlook and issue rating of [SL]A (pronounced SL A) with stable outlook for the LKR 5,000 Mn listed senior unsecured redeemable debenture programme of LOLC.

Given the significant operational and financial linkages with the subsidiaries (especially 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 to the total income and consolidated group PBT(unaudited) was about 90% and 81% respectively in FYE2017 and accounted for 97% of the group assets.

The ratings 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 positive outlook by Moody's) which has a 30% stake in the entity. ICRA Lanka notes that the group level gearing increased to 4.9 times in March 31, 2017 from 4.3 times in March 31, 2016. The increase was partly due to its leveraged acquisition of Prasac Micro Finance Institution Limited (PRASAC). 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. LOLC's group level asset quality indicators marginally weakened from 2.30% as at March 31, 2016 to 2.85% as at March 31, 2017, however the same is comfortable. LOLC Micro Credit Limited (LOMC) recorded improvements in asset quality during FYE2017. LOMC's gross NPA ratio reduced from 1.44% as at March 31, 2016 to 1.22% as at March 31, 2017, while the gross NPA ratio of LOFC and CLC increased from 4.33% to 4.41% and from 1.09% to 1.93% respectively, during the above mentioned period.

LOLC group's NIMs reduced to 4.2% in FYE2017 from 5.9% in FYE2015 due to increase in systematic interest rates and consolidation of its newest subsidiary during FY2017. LOLC's net profitability improved because of the LKR 7.0 Bn revaluation gain on LOLC's stake in PRASAC and LKR 3.5 Bn gain recorded from the sale of its stake in two non-financial subsidiaries. The consolidated RoA therefore improved to 4.1% for FYEE2017 as compared with 3.0% in FYE2016. RoA adjusted for the above extraordinary gains would be moderate at about 2.0% for FYE2017, largely because of the margin compression.

The overall composition of the LOLC (standalone) investment profile is characterized by investments in its subsidiaries, which accounted for 92% of the total investments as of March 31, 2017 as compared with 82% as on March 31, 2016 levels. The investments in other group companies accounted for 6% in March 31, 2017. Other investments include investment in securities properties etc. The standalone gearing is moderate at 1.1 times and the group has adequate financial flexibility, which provides comfort on the liquidity front.

LOLC Group's general and life insurance business reported a combined growth of 26% in its gross premium written ("GWP") to LKR 4.8 Bn in FYE2017 (LKR 3.8 Bn combined GWP in FYE2016). The insurance business reported a PBT of LKR 632 Mn in FY2017 against a loss of LKR 76 Mn in FY2016. The trading segment reported a PBT of LKR 2,188 Mn on an income of LKR 18 Bn. However, the leisure business continued to incur loss of LKR 903 Mn for FYE2017 (LKR 618 Mn loss for FYE2016). LOLC's power and plantation segments reported a PBT of LKR 4,823 Mn for FY2017 as against a loss of LKR 669 Mn.

Company Profile

Setup in 1980, Lanka ORIX Leasing Company PLC (LOLC) is a leading player in leasing, lending and other financial services activities with ORIX Corporation of Japan holding 30% of LOLC since its inception. With the group diversifying into other sectors 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, 2017 financial services contributed 81% of PBT (unaudited) of the group while leisure sector reported losses.

During the FYE2017, LOLC group reported net profit of LKR 20.9 Bn (unaudited) on a total asset base of LKR 640 Bn compared to net profit of LKR 9.3 Bn on a total asset base of LKR 379 Bn in the corresponding period of the previous fiscal.

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