

## **ICRA Lanka Upgrades Commercial Leasing and Finance PLC to [SL] A**

November 10, 2015

<b>Instrument</b>	<b>Amount</b>	<b>Rating Action</b>
Issuer Rating	N/A	Revised to [SL]A with stable outlook from [SL]A- with stable outlook
Listed Senior Unsecured Redeemable Debentures	LKR 5,000 Mn	Revised to [SL]A with stable outlook from [SL]A- with stable outlook

ICRA Lanka has revised the issuer rating of Commercial Leasing and Finance PLC (CLC or the Company) to [SL]A (pronounced SL A) with stable outlook from [SL]A- (pronounced SL A minus) with stable outlook. ICRA Lanka has also revised the LKR 5,000 Mn Listed Senior Unsecured Redeemable Debentures to [SL]A (pronounced SL A) with stable outlook from [SL]A- (pronounced S L A minus) with a stable outlook. Given the significant operational and financial linkages with the Holding company (Holdco; Lanka Orix Leasing Company PLC), ICRA Lanka continues to take a consolidated financial analysis of the HoldCo and the key financing subsidiaries namely, CLC, LOFC (LOLC Finance PLC) and LOMC (LOLC Micro Credit Limited).

At Group level the rating factors in LOLC Group's ("the group") long track record in the retail finance sector, its leadership position in the Sri Lankan retail finance market along with a strong retail franchise, professional and experienced management team and adequate risk management systems. The rating also derives support from the committed support and oversight from its key investor in the Holdco-ORIX Corporation of Japan (rated Baa1 with stable outlook by Moody's), which has a 30% stake in the entity. The Group's performance is largely dependent on its key financial service subsidiaries as contribution from the non-financial services subsidiaries is quite modest. ICRA Lanka notes that the LOLC group's consolidated NPA has moderated to about 2.8% as in March 2015 as compared to 4.9% in March 2014 and the consolidated profitability improved with RoA at 3.1% for FY2015 as compared to 1.9% in FY2014, largely on account of the improvement in the performance of the financial services entities. The financial services entities contributed to about 87% of the group PBT<sup>1</sup> in FY2015. Going forward, ability of the group to contain incremental slippages while achieving good recoveries in the financial services business, maintain good profitability indicators and, improved performance of the non-financial subsidiaries would be crucial from a rating perspective.

At company level, ICRA Lanka factors in CLC's demonstrated track record of operating profitably in the retail finance segment, its well established franchise combined with a professional and experienced management team, improvement in profitability indicators, comfortable liquidity and its adequate capitalization levels. CLC is one of Sri Lanka's leading NBFIs offering solutions ranging from leasing, fixed deposits, savings and factoring facilities. The company has a good asset quality profile as compared to most peers; ability of the company to restrict incremental slippages and maintain good profitability indicators would be key rating sensitivities.

CLC's recorded 19% growth in its overall portfolio for the FYE Mar-15 as compared to the 10% growth reported in FYE Mar-14. CLC's lending portfolio mainly comprises of Loans (54%), Lease (38%) and Factoring (7%) as of Mar-15. The portfolio's asset quality registered improvement during the FYE Mar-15 driven mainly by moderation in overall slippages. CLC's reported Gross NPA ratio as at Mar-15 was 1.96% down from 2.38% as at Mar-14. CLC's NPA provisioning level is very conservative resulting in net NPA of -0.61% in Mar-15 as compared to -1.67% in March 2014.

During FYE Mar-15, CLC acquired 59% of BRAC Lanka Finance PLC (BRAC) from BRAC Lanka Investments an additional 35% from LOLC Micro Investments Limited, a Group Company, and the

<sup>1</sup> PBT-Profit Before Tax

balance from the market through a mandatory offer; thus giving CLC an ownership of 100 of BRAC. The acquisition has not impacted the financial risk profile of the company. CLC's capitalization levels remained strong with consolidated gearing at 3.21 times as at Mar-15.

CLC's liquidity position has improved with raising of long Senior Unsecured Redeemable Debentures during the period. However, with the accelerated pace of mobilizing fixed deposits (mostly shorter term) there is widening of shorter term ALM (Asset-Liability Maturity) mismatches. ICRA Lanka however takes note of the good renewal rates of around 60% of the fixed deposits.

CLC's overall profitability levels for FYE Mar-15 has improved compared to FYE Mar-14 mainly due to an improvement in the lending spreads. The company has been able to re-finance its shorter term borrowings at lower rates taking advantage of the declining interest rate environment during CY2014, leading to considerable reduction in overall cost of funds. Decrease in provisioning costs resulting from some moderation in the incremental slippages supported CLC's profitability indicators. Consequently, CLC's Return on Average Assets (RoAA) improved to 3.8% for FYE Mar-15 as compared to 3.1% in FYE Mar-14 and Return on Average Net Worth for FYE Mar-15 improved to 15.00% compared to 11.21% for FYE Mar-14.

## **Company Profile**

CLC was incorporated in the year 1988 as a Specialised Leasing Company. LOLC Group acquired controlling stake and then 100% of the company in 2008. The main product lines of CLC include leasing, hire purchase and loans for vehicles and equipment and, factoring. CLC obtained the license to operate as a LFC in December 2011. Subsequently, CLC has also started offering savings and deposit products. CLC operates primarily in the SME and Micro Sectors. Business is mostly sourced by third-party Business introducers, but the company has managed to maintain a strict control over originations standards. CLC was relisted in the Colombo Stock Exchange (CSE) on June 05, 2012 to comply with the requirements of the Central Bank of Sri Lanka (CBSL). In Nov-15 CLC acquired 100% stake in BRAC Lanka Finance PLC for LKR 968 Mn..

During the year ended Mar-15, CLC reported a net profit of LKR 1.4Bn on a total asset base of LKR 42.5 Bn as compared to a net profit of LKR 936 Mn on a total asset base of LKR 32.9 Bn in the previous financial year.

**November 2015**

*For further details please contact:*

**Analyst Contacts:**

**Mr. Karthik Srinivasan, (Tel No. +91-22-6114 3444)**

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Relationship Contacts:**

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

[wdbarnabas@icralanka.com](mailto:wdbarnabas@icralanka.com)





*Subsidiary of*

**ICRA Limited**

*A Group Company 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](mailto:info@icralanka.com); Website: [www.icralanka.com](http://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.

