

ICRA Lanka upgrades Lanka ORIX Leasing Company to [SL]A

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ICRA Lanka Limited, a wholly owned subsidiary of ICRA Ltd., a group company of Moody's Investors Service, has upgraded the ratings of Lanka ORIX Leasing Company PLC (LOLC or the HoldCo) and its key financial services subsidiaries Lanka Orix Finance PLC (LOFC) and Commercial Leasing and Finance PLC (CLC) and outlook is Stable. ICRA Lanka Limited has also assigned a fresh issue rating to LOLC Micro Credit Limited (LOMC). The rating action taken on these four entities are tabulated below:

Company	Instrument	Amount	Rating Action
LOLC	Issuer Rating	N/A	Upgraded to [SL]A with stable outlook from [SL] A- with stable outlook
	Long Term Unsecured Redeemable Debenture Programme	Rs. 750 Mn	
	Long Term Senior Unsecured Redeemable Debenture Programme	Rs. 5,000 Mn	
LOFC	Issuer Rating	N/A	Revised to [SL] A with stable outlook from [SL]A- with stable outlook
	Subordinated Unsecured Redeemable Debentures	LKR 5,000 Mn	Revised to [SL] A- with stable outlook from [SL]BBB+ with stable outlook
CLC	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	
LOMC	Proposed Senior Unsecured Redeemable Debentures	LKR 3,000Mn (with option to increase up to LKR 5,000 Mn)	[SL]A- Assigned (Outlook-Stable)

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 financing subsidiaries namely, LOMC (LOLC Micro Credit, LOFC (LOLC Finance PLC) and CLC (Commercial Leasing and Finance PLC). The rating of LOMC is notched down from the other financing entities in the LOLC group to reflect the relatively riskier target customer segment, which could increase the portfolio vulnerability vis a vis the other key financing entities in the group. The above mentioned entities contributed to about 68% of the consolidated PBT¹ in FYE2015. The contribution of all financial services entities in the group to the PBT and total income was about 87% and 78% in FYE2015 and accounted for 87% of the group assets.

ICRA Lanka's assessment to revise the ratings follows the improvement in the asset quality and profitability indicators of LOLC over the last 12-18 months. LOFC, CLC and LOMC witnessed improvement in the asset quality indicators, as incremental slippages moderated and, also as the entities carried out recoveries and, wrote-offs loans without significantly impacting its profitability indicators. The group GNPA's improved to 2.8% as in March 2015 as compared to 4.9% in March 2014

¹ PBT-Profit Before Tax

and the consolidated Return on Assets (RoA) improved to 3.1% for FYE2015 as compared to 1.9% in FYE2014. Further improvements in the overall group's asset quality levels, through effective management of incremental slippages, effective recoveries and, continued improvement in the group level earnings profile would be key rating sensitivities.

The ratings continue to factor LOLC Group's long track record in the retail finance sector, its leadership position in the Sri Lankan retail finance market, professional and experienced management team and adequate risk management systems with strong retail franchise. The rating also derives support from the committed support and oversight from its largest 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 indicators have remained stable at about 3.1 times over the last two financial years. ICRA expects the consolidated gearing to remain at moderate levels as no significant investment plans are envisaged over the near to medium. ICRA would closely monitor the performances of the other entities, especially the non-financial services entities, in the group and improvement in the performances of the same would be crucial from a rating perspective going forward.

LOLC's group level Asset Quality has improved significantly from 4.9% as at March 2014 to 2.8% as at March 2015. The three key financial services subsidiaries (LOFC, CLC and LOMC) recorded improvements in Asset quality during FYE2015. Gross NPA of LOFC improved from 5.1% as at March 2014 to 4.8% as at March 2015, while the gross NPA ratio of CLC and LOMC improved from 2.4% to 2.0% and 4.4% to 2.4% respectively, during the above mentioned period. With stability in the operating environment, ICRA Lanka expects incremental slippages to moderate going forward thus supporting the overall asset quality of the group.

LOLC group's overall earning profile improved during FYE2015 as the NIMs expanded to 7.6% for FYE2015 from 5.3% as in FYE2014 due to the prevailing low interest rate scenario. The group's operating costs and credit costs remained largely stable over the last two financial years at about 7.3-7.4% and 1.8-1.9% respectively. The above supported the improvement in the RoA to 3.1% and Return on average networth to about 13.7% for FYE2015. The Holdco's standalone earnings comprised mainly of shared services fees and interest income charged from on-lending to subsidiaries. The standalone RoA was about 0.9% for FYE2015.

LOLC Group's insurance business reported a growth in the gross premium written to LKR 2.8 Bn for FYE2015 (LKR 2.2 Bn for FYE2014), though PBT levels declined to LKR 27 Mn for FYE2015 from LKR 82 Mn for FYE2014. The Trading segment has performed well in its core trading business recording LKR 10 Bn in revenue and PAT of LKR 577Mn. However, the leisure business continued to incur loss of LKR 560 Mn for FYE2015 (LKR 335 Mn loss for FYE2014). LOLC's power and plantation segments also reported losses.

The Group's total investments grew by 25% for FYE Mar-15. The investments in subsidiaries grew by 29%. The key investments in the financial sector included the acquisition of BRAC Lanka Finance PLC (100% stake) and Thaneakea Phum (60% stake), the fifth largest microfinance entity in Cambodia. The group invested LKR 3.3 Bn for the above. The group has also fully acquired FLC Capital Joint Venture (Pvt) Limited by investing LKR 1.3 Bn for the remaining 50% stake. This investment has resulted in the group taking control of Maturata and Pussellawa plantation companies. The LOLC group has also

pumped in additional LKR 3 Bn into its existing leisure investments. ICRA expects no significant investments by the LOLC group over the near to medium.

The Overall composition of the LOLC Group's investment profile remains unchanged with significant investment in its subsidiaries as of March 2015 (82% of Total Investments) from March 2014 (80% of Total Investments) levels. The Investments in other group companies accounted for 15% in March 2015. Other investment securities, Investment properties and trading securities were the other categories of investments.

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 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 2015, financial services contributed 87% of PBT of the group while interests in leisure, Plantations and power reported losses.

During the quarter ended June 2015, LOLC group reported net profit of LKR 2 Bn on a total Asset base of LKR 265 Bn compared to net profit of LKR 1 Bn on a total Asset base of LKR 172 Bn in the corresponding period of the previous fiscal.

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