

SOFTLOGIC HOLDINGS PLC

February 05, 2016

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]BBB(Stable) Assigned
Senior Unsecured Redeemable Debentures	1,000	[SL]BBB(Stable) Assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, A Moody's Investors Service Company has assigned an Issuer rating of [SL]BBB (pronounced S L triple B¹) for Softlogic Holdings PLC ("SHL"/ "the Company"). ICRA Lanka has also assigned a rating of [SL]BBB for the Company's LKR 1,000 Mn Senior Unsecured Redeemable debentures currently listed on the Colombo Stock Exchange. The outlook on both the ratings is stable.

The rating takes into account SHL's position as the primary holding company of one of Sri Lanka's leading conglomerates - Softlogic group of companies - which is into diverse sectors such as healthcare, retail, technology product distribution (ICT), hotels, financial services and automobile dealerships. The rating draws comfort from the fact that several of SHL's group entities hold leading market shares in high growth sectors such as healthcare and retail, besides improving share in the financial services segment, which are expected to benefit from Sri Lanka's rapid economic growth. Over the years, the group has also diversified its revenue streams with no sector contributing more than 20% of revenues (except the retail segment). The revenue diversification efforts have led the group to record annualized revenue CAGR of over 37% since April 2010 to September 2015. While arriving at the ratings ICRA Lanka also factors the induction of industry professionals into SHL's key business functions and the group's evolving corporate governance structures as key positives.

The rating also factors in the substantial market buffer over the book value of SHL's investments in quoted subsidiaries, SHL's strong relationship with the large financial institutions, easy access to capital markets, SHL's liquid investment portfolio of LKR 1.5bn, besides the Company's access to undrawn sanctioned lines of ~LKR 1.5bn which provide comfort on the overall liquidity position. The strategic importance of the group (and SHL in particular) to the promoters and their past track record of divesting / diluting stake in group entities provides incremental comfort on the group's ability to raise capital for meeting growth and repayment needs.

These positives are partially offset by SHL's primary dependence on dividend income as source of revenues, exposing it to the risk of experiencing cash flow / dividend volatility from key sectors such as healthcare, retail and financial services. Regulations restricting dividend policy could greatly affect SHL's debt servicing ability, given the Company's heavy reliance on short term borrowings which requires periodic refinancing. ICRA Lanka also takes note of SHL's highly geared capital structure, with the Company acting as a lender for the investee entities, which in turn have large debt funded capex plans. While, proposed corporate governance structures would be critical to mitigate this risk over the long term, ICRA Lanka expects SHL to bear a major portion of the finance / operational risk of the group entities engaged in retail, leisure and automobile, where significant amount of funding is needed to pursue growth (retail) as well as to fund start-ups and expected losses (leisure and automobile). The ratings also factor in the group's inclination to pursue aggressive debt funded organic or inorganic growth, which could adversely stress capital structure and key debt metrics, thereby impacting debt servicing ability.

The management has indicated several capital raising plans including equity infusion and monetization of land banks held by group entities. Ability of the company to quickly crystallize these plans would be critical to improve the group's financial profile and hence, would be key sensitivity to our rating. Ability of the group to stabilise operations of loss making entities such as leisure and automobiles, whilst also realising the anticipated

¹For complete ratings scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

synergies in the retail sector (post the large debt funded acquisition of ODEL Plc) would also be crucial to support the improvement in SHL's overall credit profile.

ICRA Lanka would continue to monitor the performance of the group and would assess the impact of any material equity infusion or further debt funded inorganic growth on SHL's credit profile on a case-to-case basis.

Company Profile

Softlogic Holdings PLC (SHL / "the Company") was founded in 1991 and was listed on the Colombo Stock Exchange in June 2011. The company had commenced operations in 1991 as a software company with just 12 employees. Today, the Company acts as the primary holding company for the Softlogic Group of entities with businesses across healthcare, retail, financial services, Information and Communication Technology (ICT) distribution, leisure / hotels and automobile dealerships. The Group now provides employment to over 8,000 individuals generating an annual turnover of more than LKR 50 Billion (annualized for 2015-16) and has market leading positions in segments such as healthcare, retail and ICT distribution. The group is led by Mr. Ashok Pathirage.

On a consolidated basis, for the six month ended September 30, 2015, SHL reported a net profit (concern share) of LKR 199.7 Million on an operating income of LKR 26,198.9 Million, as against a net profit (concern share) of LKR 143.3 Million on an operating income of LKR 16,690.8 Million for a similar period ended September 30, 2014. For the year ended March 31, 2015, SHL reported a net profit (concern share) of 555.8 Million on an operating income of LKR 39,563.9 Million.

February 2016

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