

ICRA Lanka Reaffirms the ratings of LOLC Finance PLC and rating watch with developing implications removed

May 21, 2020

LOLC Finance PLC

Instrument	Rated Amount (LKR Mn)	Issued Amount (LKR Mn)	Rating Action
Issuer rating	N/A		[SL]A (Stable) reaffirmed; rating watch with developing implications removed
Listed Subordinated Unsecured Redeemable Debenture Programme	3,500	2,500	[SL]A- (Stable) reaffirmed; rating watch with developing implications removed

Rating action:

ICRA Lanka Limited has reaffirmed the issuer rating of [SL]A (pronounced as S L A) for LOLC Finance Company PLC ("LOFC" / "the Company"), while revising the outlook to Stable from rating watch with developing implications. ICRA Lanka has also reaffirmed the issue rating of [SL]A- (pronounced as S L A Minus) for the LKR 3,500 Mn Subordinated Unsecured Redeemable Debenture Programme, while revising the outlook to Stable from rating watch with developing implications.

Update:

ICRA Lanka has taken the consolidated view of the LOLC group, which has interests in various segments including financial services, insurance, manufacturing, trading, plantation, renewable energy, and leisure when arriving at the ratings.

On April 10, 2020, LOLC Group has divested 70% of its stake in PRASAC for a total consideration of about USD 603 Mn. The investment was held by LOLC International Private Limited (LOLCIPL), a fully owned subsidiary of LOLC holdings, incorporated in Singapore. Accordingly, LOLCIPL has received USD 422 Mn being the first tranche of the sales proceeds, in line with the share purchase agreement that had been entered into by the parties. The Group has used a significant portion (about USD 130Mn) of the proceeds to repay the debt at the holding company level. The balance sales proceeds amounting to USD 181 Mn will be received in 2022.

ICRA Lanka takes cognizance of the improvement of the capitalization profile of the holding company, with standalone gearing expected to moderate to about 0.80x vis-à-vis 1.83x in December 2019 and 1.62x in March 2019. Consolidated Group gearing is also expected to moderate to about 3.7x vis-à-vis 6.3x in September 2019.

The rating also factors the significant moderation of the overall size and scale of LOLC Group, post divestment. As in September 2019, PRASAC accounted for about 45% of group assets and about 57% of the Group's loan book. Also, PRASAC accounted for about 70% of the LKR 19.6 Bn PAT reported by the Group in FY2019. With the divestment of PRASAC, the Group's overall size will significantly reduce, and the Group's overall profitability will also moderate as PRASAC's high yielding microfinance operation generated higher profits.

The rating also factors in the weakened asset quality (consolidated NPAs of the local NBFIs increased to 7.25% in Sep-19 from 5.29% in Sep-18) and earnings profiles (consolidated RoA moderated to 1.34% in H1FY2020 vis a vis 1.61% in H1FY2019) of the Sri Lanka based NBFCs (LOLC Finance PLC, Commercial Leasing & Finance PLC and LOLC Development Finance PLC) of the group over the recent past, which would account for the 60% of the group's assets post PRASAC divestment and, drive the group level performance over the near to medium. Post the divestment of PPRASAC, ICRA Lanka expects the consolidated profitability to moderate further as PRASAC was the most profitable (RoA2 of 3.69% and 3.81% respectively of the 11MCY2019 and CY2018) subsidiary of the Group.

For the detailed rating rationale, please refer the rationale dated February 07, 2020: <https://www.icralanka.com/rationale/rating-of-lolc-finance-plc-is-placed-on-watch-with-developing-implications/>

About LOFC:

LOLC Finance PLC (LOFC), (set up in 2001) established initially as a wholly owned subsidiary of LOLC (Lanka Orix Leasing Company PLC), has a strong Retail Franchise among Licensed Finance Companies (LFCs) in Sri Lanka. In July 2011, as per the Central Bank of Sri Lanka (CBSL) directions, LOLC divested 10% of its stake in LOFC and was listed on the Colombo Stock Exchange (CSE). The LOLC Group is one of the largest business groups in the country, with the parent (LOLC) being among the first leasing company to be established in Sri Lanka. The LOLC group has interests in trading, plantation, leisure and energy. LOFC offers savings and deposits in local and foreign currency, extends loans mainly for auto finance and Islamic finance.

During the year ended March 31, 2019, LOFC reported a net profit of LKR 5,963 Mn on a total asset base of LKR 211 Bn as compared to a net profit of LKR 2,201 Mn on a total asset base of LKR 211 Bn in the previous financial year. The company reported a net profit of LKR 931 Mn for the H1FY2020 on a total asset base of LKR 205 Bn.

Key financial indicators-LOFC

In LKR Mn	FY2018	FY2019	H1FY2019 (Unaudited)	H1FY2020 (Unaudited)
Net Interest Income	9,916	21,772	9,940	8,902
Profit after Tax	2,201	5,963	2,084	931
Net worth (adjusted for revaluation reserves)	16,865	22,525	18,958	28,308
Loans and Advances	151,317	136,191	152,118	134,702
Total Assets	211,114	211,035	219,309	204,730
Return on Equity	19.8%*	29.9%	22.9%	7.6%
Return on Assets	1.3%	2.8%	1.9%	0.9%
Gross NPA	3.87%	6.75%	6.07%	8.31%
Net NPA	1.12%	2.64%	2.90%	3.97%
Capital Adequacy Ratio	11.1%	12.3%	11.0%	15.0%
Gearing (times, adjusted for revaluation reserves)	11.0	7.9	10.0	5.8

*After adjusting LKR 5.9 Bn for the merger of LOLC Finance PLC and LOLC Micro Credit Limited

Rating history for last three years:

Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
Type	Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating	Date & Rating FY2020	Date & Rating FY2019	Date & Rating in FY2018
			May 2020	Jan 2020	Feb 2019	Feb 2018
Issuer Rating	N/A	N/A	[SL]A (Stable)	[SL]A (under rating watch with developing implications)	[SL]A (Stable)	[SL]A (Stable)
Subordinated unsecured redeemable debenture	3,500	2,500	[SL]A- (Stable)	[SL]A- (under rating watch with developing implications)	[SL]A- (Stable)	[SL]A- (Stable)

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