**FOR IMMEDIATE RELEASE**
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# ICRA Lanka assigns [SL]A- with a stable outlook to BRAC Lanka Finance PLC

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the [SL]A- (pronounced SL A minus) with stable outlook to BRAC Lanka Finance PLC ("BRAC"/"the Company"). Lanka Orix Leasing Company PLC ("LOLC"/ "HoldCo") holds 55.55% directly and the LOLC group has an effective holding of 99.89% of BRAC. The rating reflects the significant operational and financial linkages that LOLC has with its subsidiaries (especially financial services), where the contribution of all financial services entities to the total income and consolidated group PBT (unaudited) was about 92% and 90% respectively in Q1FYE2018 and accounted for 97% of the group assets.

The rating factors 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, good financial flexibility and adequate profitability (consolidated RoA for FY 2017 at 4.1% as compared with 11.0% for LOLC, including LKR 9 Bn gain from revaluation and disposal of subsidiaries). The rating also takes 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 LOLC. ICRA Lanka notes that the group level gearing increased to 5.1 times as on June 30, 2017 from 4.9 times in March 31, 2017 and 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 (including LOFC, LOMC, CLC and BRAC) marginally weakened from 2.3% as at March 31, 2016 to 2.9% 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 1.4% as at March 31, 2016 to 1.2% as at March 31, 2017, while the gross NPA ratios of LOFC and CLC increased from 4.3% to 4.4% and from 1.1% to 1.9% respectively, during the above mentioned period.

BRAC is a licensed finance company with presence in 76 locations and having 16 CBSL approved branches. Group micro lending is the key product accounting for 96.1% of the portfolio as on June 30,2017. The company reported a LKR 11.3 Bn portfolio in March2017 with an y-o-y growth of 42%; y-o-y growth during the quarter ended June 30, 2017 was about 13%. The modest capital position of the company resulted in tempered business growth in Q1FY2018. Going forward, with fresh capital infusion via rights issue, the company envisages a growth rate of 50% per annum for the period FY2018-FY2020. The company also offers micro enterprise development loans, micro housing loans and leasing facilities to its customers. Leasing facilities are provided to 2-wheelers, 3-wheelers and light weighted vehicles. The company is in the process of diversifying its loan portfolio and in the medium term it expects to increase the leasing exposure to 15% and group micro lending to moderate to 70% in the long term; remaining would be contributed by individual loans granted under micro enterprise and micro housing schemes.

The gross NPA of the company was 0.82% in Mar-16, which increased to 2.6% in Dec-16, it however reduced to 0.58% in Mar-17, as the company wrote off about 2.3% of the advances during the year. Due to heavy floods reported in May-17, gross NPA increased to 1.82% in Jun-17. The company carries adequate provisions as characterized by net NPA of -1.6%.

Aggressive growth impacted the core capital, which decreased to 9.71% in Mar-17 from 21.14% in Mar-15 (11.22% in Mar-16). Total capital ratio decreased to 10.96% in Mar-17 from 21.14% in Mar-15 (11.63% in Mar-16). The company's capitalization however improved post the LKR 1.3 Bn capital raised through rights issue in May-17; BRAC's core capital ratio stood at 19.96% and total capital ratio at 21.21% in Jun-17. BRAC's gearing consequently moderated to 4.4 times in Jun-17 from about 8.4 times in Mar-17 (9.0 times in Mar-16). Going forward, the company is expected to maintain the gearing at about 6-7 times. The company would require regular capital infusion to support the envisaged growth, if the internal generation[1] does not improve from the current levels (21.6% for FY2017). ICRA Lanka expects timely support from the LOLC group to maintain a prudent risk adjusted capital structure, while the company expands its portfolio.

Deposits accounted for about 25% of the total borrowings of BRAC; total borrowings stood at LKR 10.9 Bn as on June 2017. Loans from banks and from group entities constituted to 24% and 38% respectively of the total borrowings as on June 2017. The company is envisaging to increase the deposit share to 50% in the near to medium term by focusing on corporate deposits. ICRA Lanka expects timely liquidity support from the LOLC group, which provides a comfort.

The company enjoys good business yields of about 32-34%, which supports a healthy net interest margin of about 18-19%. The operating expenses are however relatively high at 14.6% (12.6% in FY2016) in FY2017. The increase in operating expenses during FY2017 was because of the augmentation in internal control & monitoring, and on account of the branch renovation and upgradation. In FY2017, the company was faced with a high credit cost (3.0%) on account of the write-offs. BRAC's profitability indicators consequently moderated, RoA stood at 1.96% as compared with 2.3% in FY2016. During the latest quarter ended Jun-17, the company reported a ROA of 1.35%, as credit costs remained high at about 6% (annualized) because of the adverse weather condition that prevailed during the quarter. Ability to control credit costs and improving operating efficiencies would be crucial for incremental profitability.

**Company Profile**

BRAC International established its Sri Lankan operations as a NGO in 2004 to serve the tsunami affected community in southern and eastern provinces. Subsequently, along with LOLC as a joint venture, it acquired Nanda Investment and Finance PLC (incorporated in 1961) to extend micro finance. In 2014, the company became a wholly owned subsidiary of Commercial Leasing & Finance PLC (CLC, 99% owned subsidiary of LOLC), when BRAC international divested its holding. In May 2017, BRAC raised additional capital amounting to LKR 1.3 Bn by way of a rights issue which was fully subscribed by LOLC. Post the right issue, LOLC became the largest shareholder with a 55.6% holding, while CLC held 44.3% share. BRAC is a licensed finance company and it is in the business of providing group micro finance, micro lease and individual loans to its customers.

During the FYE2017, BRAC reported net profit of LKR 220 Mn on a total asset base of LKR 12.9 Bn compared to net profit of LKR 152 Mn on a total asset base of LKR 9.5 Bn in the corresponding period of the previous fiscal. During the latest quarter ended Jun-17, it reported a net profit of LKR 47 Mn on a total asset base of LKR 15.1 Bn.

[1] PAT less dividend as proportion of average networth

During the FYE2017, LOLC group reported net profit of LKR 20.9 Bn 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. During the latest quarter ended Jun-17, it reported a net profit of LKR 5.1 Bn on a total asset base of LKR 690 Bn.

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