

ICRA Lanka assigns [SL]A2+ rating for the enhanced commercial paper programme of First Capital Holdings PLC

February 20, 2017

Instrument	Amount in LKR Mn	Rating Action
Commercial Paper Programme	1,500 (Enhanced from 1,000)	[SL]A2+; assigned/ outstanding

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has assigned the [SL]A2+ (pronounced SL A two plus) rating to the LKR 1,500 Mn (enhanced from LKR 1,000 Mn) commercial paper programme of First Capital Holdings PLC.

Further, ICRA Lanka has an issuer rating outstanding of [SL]A- (pronounced SL A minus) with stable outlook for First Capital Holdings PLC (FCH or the company) and the rating of [SL]A- (pronounced SL A minus) with stable outlook for the LKR 500 Mn senior unsecured redeemable debenture programme of the company.

ICRA Lanka has taken a consolidated view of FCH and its subsidiaries due to their common brand and senior management team and, other operational and financial linkages between the group entities. The ratings factor in the FCH's status as the holding company of First Capital Treasuries PLC (FCT, a standalone primary dealer in Sri Lanka with issuer rating of [SL]A- with stable outlook). ICRA Lanka notes that FCH's performance is largely dependent on performance of FCT, as the contribution from the other entities presently is quite modest. FCT accounted for about 54% of the total consolidated asset base (adjusted for inter company assets) of FCH as on December 31, 2016. Thus, FCH's performance is expected to be susceptible to the risks inherent in the primary dealer business. The ratings also factor the FCH group's established clientele of over 2500, and strong relationships with banks and other financial institutions, which provide comfort on the liquidity profile.

FCH, being a holding company derives its income from the dividends from the group entities and income from its investments, which includes interest income and profit from investments. Total standalone income for 9MFY2017 improved (LKR 748Mn total income in 9MFY2017 vis a vis LKR 239 Mn in the corresponding period, previous fiscal) due to higher dividend income of LKR 210 Mn, which is linked to performance of the principal subsidiary FCT. Improvement of the primary dealer's performance, FCT, was due to higher net interest margin opportunities that were available during the period.

The company's funding profile is characterized largely by short term funding, which accounted for close to 83% of the total standalone debt as on December 31, 2016, while the remaining was in the form of long term debentures and bank loans. FCH's asset profile (Standalone) largely consists of short term loan funding to its group entities and investments in various debt instruments. The company's standalone gearing has increased to about 6.5 times as on December 31, 2016 vis a vis 5.3 times as on March 31, 2016; however the FCH group's access to sanctioned bank lines (total sanction limit as on December 31, 2016 stood at about LKR 1.8 Bn) and its liquid assets provides comfort from a liquidity perspective.

First Capital Limited (FCL), which is 99.9% held by FCH, is involved in corporate debt structuring, corporate finance and advisory services, reported a total fee income of LKR 35 Mn in 9MFY2017 (111 Mn in FY2016). FCL is the step-down holding company for the other entities in the FCH group including, First Capital Treasuries PLC (FCT), First Capital Asset Management Limited (FCAML), a

licensed Investment Manager by the Securities and Exchange Commission of Sri Lanka, First Capital Markets Limited (FCML), which is involved in providing margin trading facilities, First Capital Equities (Pvt) Limited (FCEL), which is engaged in stock broking activities and the newly formed First Capital Trustee Services (PVT) Limited. FCAML reported a fee income of LKR 30 Mn on a total AUM of about LKR 3.8 Bn in 9MFY2017 as compared with LKR 56 Mn on a total AUM of about LKR 5.4 Bn in FY2016. FCML reported a total income of LKR 52 Mn (LKR 59 Mn in FY2016) and FCEL reported a total income of LKR 36 Mn (LKR 56 Mn in FY2016) in 9MFY2017. ICRA Lanka notes the group's efforts to improve the business volumes of FCAML, FCML and FECL over the recent past; however, the group performance is expected to be driven by the primary dealership, FCT.

Company Profile

Incorporated in the year 1992, FCH is a public limited company listed on the Colombo Stock Exchange. FCH is the holding company for the financial services businesses of Dunamis Capital PLC, which holds 75.1% in FCH. The company is engaged in making investments and managing its subsidiaries i.e. First Capital Treasuries PLC (FCT) which is an authorised primary Dealer, First Capital Limited (FCL) involved in structuring and placement of corporate debt and corporate financial advisory services, First Capital Asset Management Limited (FCAML) involved in unit trust and portfolio management; First Capital Markets Limited (FCML) involved in providing margin trading facilities, First Capital Trustee Services Limited (FCTS) which is a trustee services provider and First Capital Equities (Pvt) Limited (FCEL) which is engaged in stock broking activities and First Capital Investments (Private) Limited, which is the holding entity of FCEL.

During 9MFY2017, FCH reported a consolidated net profit of LKR 132 Mn on a total asset base of LKR 32,158 Mn as compared to a net profit of LKR 47 Mn on a total asset base of LKR 20,780 Mn in FY2016

The company reported a standalone net profit of LKR 238 Mn on a total asset base of LKR 6,502 Mn as compared to LKR 47 Mn on a total asset base of LKR 3,986 Mn in FY2016

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