

ICRA Lanka reaffirms the long term ratings of Janashakthi PLC

November 08, 2016

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]BBB with Stable Outlook; Reaffirmed
Senior Unsecured Redeemable Debenture Programme	LKR 1,000Mn	[SL]BBB with Stable Outlook; Reaffirmed
Proposed Guaranteed Redeemable Debenture Programme	LKR 1,000Mn (with the option to increase up to LKR 2,000Mn)	[SL]A-(SO) with Stable Outlook; Reaffirmed

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]BBB (pronounced SL triple B) with stable outlook for Janashakthi PLC (Janashakthi or the company). ICRA Lanka has also reaffirmed the issue rating of [SL]BBB (pronounced SL triple B) with stable outlook for the LKR 1,000 Mn Senior Unsecured Debenture Programme of the company.

ICRA Lanka has also affirmed the issue rating of [SL]A-(SO) (Pronounced SL A minus Structured Obligation) with Stable Outlook for the proposed LKR 1,000 Million (with option to increase up to LKR 2,000Mn) Guaranteed Redeemable Debentures programme of the company. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating does not represent ICRA Lanka's opinion on the general credit quality of the issuer concerned. The rating for the Guaranteed Senior Redeemable Debentures is based on the strength of the unconditional and irrevocable guarantee from Seylan Bank PLC (SEYB) covering the principal and two interest instalments (Semi-Annual) of the proposed issue. The guarantor undertakes the obligation to pay, on demand from the Trustee, LKR 2,000 Million, being the total principal sum and, two half-yearly interest instalments of the proposed Guaranteed Senior Redeemable Debentures. The rating also assumes that the guarantee will be duly invoked by the Trustee, as per the terms of the underlying Trust deed and guarantee agreement, in case there is a default in payment by JPLC.

The issuer rating and the issue rating for the existing Debenture programme, continue to factor in the strength derived from the company's sizeable holding (about 76%) in Janashakthi Insurance PLC (Claims paying ability rating of SL[A]with stable outlook by ICRA Lanka), third largest general insurer, and the sixth largest life insurer in Sri Lanka, JIPLC's healthy financial profile and, Janashakthi's experienced management team. Janashakthi is the holding company of the Janashakthi group and is promoted by the Schaffter family who own and manage the company. The ratings take note of the marginal improvement in the gearing, where the company's gearing was 4.7x as in March 31, 2016 compared to 5.6x in March 31, 2015, as it has scaled down its leveraged equity portfolio. Further, the ratings take note of the proposed debt reduction plan, which involves reducing the company's holding in operating subsidiaries and disposing some of the non-core real estate. ICRA Lanka would closely monitor the above developments and the impact on the company's leverage and operating profile. The ratings continue to take cognizance of the lumpy income profile (largely in the form of dividends from JIPLC and income from the equity trading book) and the currently high leverage that exert pressure on the overall liquidity profile of the company. ICRA Lanka however

takes comfort from the group's longstanding relationships with banks and the established position of the promoters, which mitigates such risks to an extent.

As in March 31, 2016, investments in subsidiaries accounted for close to 77% of the total asset base, while the other financial assets and investment property accounted for about 12%. Janashakthi's equity investment portfolio decreased sharply during FY2016 to about LKR 700 Mn as on March 31, 2016 from about LKR 2,000 Mn as on March 31, 2015. Going forward, the company is expected to further reduce its equity portfolio and focus more on debt securities, to take advantage of the prevailing high interest rate environment. ICRA Lanka would assess the investment plans of the company and the corresponding impact on the business plans, gearing and liquidity profile, which would be a rating sensitivity going forward.

Total dividend and investment income (including fair value gains) for FY2016 was LKR 327 Mn, compared to the LKR 620 Mn reported in FY2015. Dividend income from JIPLC accounted for the bulk of operating income and has been the key source of income for the company in the recent past, while gains from the equity portfolio declined during FY2016. Standalone net income for FY2016, LKR 600 Mn was supported by non-recurring gain of LKR 1,018 Mn from the share buy-back of Orient Finance PLC. The significant reliance on a one-time income in the form of dividend from JIPLC vis a vis the regular outflows for the debt service requirements exerts pressure on the overall cash flows and liquidity of the company. The debenture issue of LKR 1 Bn in FYE Mar 2015 supported the liquidity profile to an extent as the share of the long term funding increased to about 55% as on March 31, 2016, compared to 15% as on March 31, 2014. The ratings continue to take comfort from the management's direct involvement in managing debt servicing and JL's established relationships with various banks and financial institutions for timely funding support.

Company Profile

Janashakthi PLC is an investment holding company incorporated in the year 1990. The company is owned and managed by the Schaffter family (Mr. Prakash Schaffter 50%, Mr. Ramesh Schaffter 50%). The main subsidiaries include Janashakthi Insurance PLC, which is an established insurance company in Sri Lanka operating for over two decades and Orient Finance PLC, which is a listed finance company in Sri Lanka.

During the financial year ended March 31, 2016, Janashakthi reported a standalone net profit (unaudited) of LKR 600 Mn (including one-time gain of LKR 1,018 Mn from the share buy-back of Orient Finance), on a total operating income of LKR 327 Mn, compared to net profit of LKR 146 Mn on a total income of LKR 620 Mn in the corresponding period of the previous fiscal. On a consolidated basis, Janashakthi group reported a net profit (unaudited) of LKR 1,426 Mn on a total income of LKR 13,948 Mn in FY2016 compared to a net profit of LKR 1,069 Mn on a total income of LKR 11,565 Mn for the previous fiscal.

Guarantor Profile:

Seylan Bank PLC

Seylan Bank PLC (Seylan) with total asset base of LKR 296.3 Billion as in December 31, 2015 (LKR 249.3 Billion in December 31, 2014) accounted for about 4.2% of sector assets; it also accounted for 4.6% of sector loans and advances and 4.2% of the sector deposits as in December 31, 2015. The bank was incorporated in the year 1987. Sri Lanka Insurance Corporation Ltd (15.0%), Browns and Company PLC (13.9%), Employee Provident Fund (9.9%), LOLC Investments Limited (9.6%), NDB Bank (8.7%)

and Bank of Ceylon (7.5%) are the major voting shareholders of the bank. The bank recorded net profits of LKR 3.8 Billion on a total asset base of LKR 296.3 Billion for the FY2015 and LKR 3.08 Billion on a total asset base of LKR 249.3 Billion for the FY2014, which resulted in ROA (post tax) of 1.40% and 1.33% for the respective periods. The bank had gross NPA ratios of 4.68% and 7.69% as at FY2015 and FY2014 respectively and net NPA ratios of 3.06% and 5.31% respectively for the said periods. The bank had a net worth (excluding revaluation reserve) of LKR 24.4 Billion as on December 31, 2015 with core capital adequacy ratio of 12.2% and total capital adequacy ratio of 12.9%.

The Seylan Bank Group recorded consolidated net profits of LKR 3.25 Billion on a total asset base of LKR 251 Billion for the FY2014 and LKR 3.89 Billion on a total asset base of LKR 298 Billion for the FY2015. The Seylan Bank Group recorded consolidated net profits of LKR 1,749.0 Million on a total asset base of LKR 328.4 Billion for the 6 months ended June 30, 2016. Bank's gross NPA ratio stood at 4.63% as on June 30, 2016.

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Note: Figures as on 31.03.2016 are based on un-audit financials.

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