

ICRA Lanka Reaffirms the issuer rating of [SL]BBB for Softlogic Holdings PLC

May 24, 2017

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Senior Unsecured Redeemable Debenture	LKR 1,000 Mn	Rating withdrawn

ICRA Lanka Limited, subsidiary of ICRA Limited, Group Company of Moody's Investors Service, has reaffirmed the Issuer rating of [SL]BBB (pronounced S L triple B) for Softlogic Holdings PLC ("SHL" / "the Company"). The outlook on the rating is stable. Further, ICRA Lanka has withdrawn the issue rating for the LKR 1,000 Mn Senior Unsecured Redeemable debenture programme of the company, as the instrument has been fully redeemed.

The rating reaffirmation takes into account SHL's continued position as the primary holding company of one of Sri Lanka's key diversified conglomerates, with several group entities holding leading market positions in high growth sectors such as healthcare and retail. Also the rating takes cognizance of the improving contribution from the financial services segment, led by the life insurance subsidiary. The recent consolidation of the department store, Odel PLC resulted in group revenue recording a growth of 42% in FY2016, compared to the previous fiscal year. When reaffirming the rating, ICRA Lanka also factors the experienced and the competent management team at various group companies of Softlogic group, as well as at the holding company level.

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 large financial institutions, proven access to capital markets, and liquid investment portfolio of LKR 1,592 Mn (at stand-alone company level), besides the Company's access to undrawn sanctioned lines of ~ LKR 1,500 Mn, which provide comfort from an overall liquidity point of view. Further, the strategic importance of the group to the promoters and their past track record of divesting/diluting stakes in group entities provides incremental comfort on the group's ability to raise capital for meeting growth and repayment needs. However, the fact that a significant portion of the investments are pledged for funding facilities, mitigates the comfort to some extent.

Nevertheless, the rating is constrained by the geared capital structure of SHL, on account of previous debt funded acquisitions and financial support extended to various group companies, including retail, automobile and leisure. The rating also factors in the group's inclination to pursue aggressive debt funded organic and inorganic growth, which could adversely stress capital structure and key debt metrics, thereby impacting debt servicing ability. Standalone gearing as on December 31, 2016 was 2.4 times vis-à-vis 2.1 times as on March 31, 2016. Further, the rating is affected by SHL's high debt repayment commitments in the medium term and primary dependence on dividend income from subsidiaries, exposing it to risk of cash flow/dividend volatility from key sectors such as healthcare, retail and financial services and necessitates refinancing. However, the risk is partly mitigated by flexibility enjoyed by the holding company in accessing funds from the subsidiaries (except for financial services entities). The holding company has also extended loans to group entities (total receivable balance from group companies was about LKR 4,537 Mn as on December 31, 2016) and expected recovery of part of the advances/loans will also support the company's liquidity profile.

ICRA also notes that although the management's plan for an equity infusion at the holding company level has been put on hold due to unfavourable capital market outlook, the group also has plans for monetization of non-core assets held under various entities. Ability of the company to crystallize these plans in a timely manner would be crucial to improve the group's 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. 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 generates an annual turnover of over LKR 50 Bn (LKR 56 Bn in FY2016) and has market leading positions in segments such as healthcare, retail and ICT distribution. SHL was found by the prominent Sri Lankan entrepreneur Mr. Ashok Pathirage, who has the controlling stake of the company.

On a consolidated basis, for the nine month ended December 31, 2016, SHL reported a PAT of LKR 996 Mn (from continuing operations) on a total operating income of LKR 45,099 Mn vis-a-vis PAT of LKR 1,504 Mn on a total operating income of LKR 41,050 Mn during the same period previous fiscal.

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