

ICRA Lanka assigns [SL]BBB+ rating for the proposed Senior Unsecured Redeemable Debenture programme of Softlogic Capital PLC

October 03, 2019

Instrument	Previous Rated Amount (LKR Mn)	Rated Amount (LKR Mn)	Rating Action
Proposed senior, unsecured, listed, redeemable, debentures programme	N/A	1,500	[SL]BBB+ with Stable outlook Assigned
Issuer rating	N/A	N/A	[SL]BBB+ (Stable) Outstanding

Rating action

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service has assigned the issue rating of [SL]BBB+ (pronounced SL triple B plus) with Stable outlook for the proposed Senior, Unsecured, Listed, Redeemable debentures programme of Softlogic Capital PLC (SCAP/"the Company"), amounting to LKR 1,500 Mn. The Company presently has an issuer rating of [SL]BBB+ (pronounced SL triple B plus) with Stable outlook.

Rationale

The rating factors in the Company's sizeable shareholding (about 52%) in Softlogic Life Insurance (SLI; rated [SL]A/Stable for insurance financial strength), the fourth largest life insurer in Sri Lanka and the synergies from being part of the diversified conglomerate, Softlogic Holdings PLC (SHL; rated [SL]BBB+/stable). ICRA Lanka, however, notes that the large capex plans of the group entities of SHL would limit its ability to provide any sizeable financial support to SCAP. ICRA Lanka is cognizant of SCAP's dependence on dividend income from its subsidiaries, SLI and Softlogic Finance PLC (SFP; issuer rating of [SL]BB/negative outlook), as a key source of revenue, which can expose it to the risk of experiencing cashflow/dividend volatility. Nevertheless, the growth of the Company's fund management business and anticipated increase in fee-based income may somewhat mitigate the cashflow risk in the future. The rating factors in SCAP's current low leverage (standalone gearing of 0.49x as in June 2019 vis-à-vis 0.39x in March 2019), however the immediate capital needs of SFP to meet regulatory requirements has necessitated additional borrowings by SCAP in the near term. Going forward, performance of the subsidiaries, and maintaining healthy levels of liquidity and capitalization, are key from a ratings perspective.

Outlook: Stable

The outlook may be revised to "Positive" if SCAP's standalone financial profile improves significantly or if the risk profile of the subsidiaries improves. The outlook may be revised to "Negative" in case of an increase in standalone leverage, weakening in its liquidity and earnings or in case of a deterioration in the risk profile of its subsidiaries.

Key rating drivers

Credit strengths

Part of the Softlogic group; sizeable shareholding in Softlogic Life insurance: SCAP represents the financial services arm of diversified conglomerate, SHL. Being part of the Softlogic group provides access to managerial and financial support from the group entities and the ability to leverage synergies between different business units. However, ICRA Lanka takes note of the large capex plans of group entities that would limit SHL's ability to support SCAP in the near to medium term. SCAP holds a 52% stake in SLI, the fourth largest life insurance provider in Sri Lanka as in March 2019. SLI's core net profits (excluding deferred tax assets and one-off gains) stood at LKR 1,106 Mn and LKR 1,095 Mn in CY2017¹ and CY2018, respectively; for the 6M ended June 2019, SLI reported a PAT of LKR 1,208 Mn. Healthy internal generation of the life insurer is expected to support its growth capital requirements; thus, SCAP may not have to extend any support to the subsidiary in the medium term. However, conversely, regulatory requirements and expansion needs of SLI would limit it from extending any additional financial support, apart from regular dividends (dividend pay-out has been on average 33% in the past five years).

Adequate near-term liquidity; medium term repayments have to be refinanced: The Company does not have any sizeable repayments in FY2020 (LKR 247 Mn) and in FY2021 (LKR 22Mn) and sizeable repayments (LKR 1,047 Mn) fall due in FY2022. SCAP has structured all its debt payments into long term bullet repayments, as opposed to regular loan amortization, which provides some comfort from a near term liquidity perspective; however, ICRA Lanka notes that the Company would have to refinance these bulk repayments over the medium term. As the parent company, SCAP has not provided sizable guarantees for its group companies, except for the corporate guarantee of LKR 75 Mn extended to Softlogic Stock Brokers.

Credit challenges

Capital requirements of Softlogic Finance PLC: As in June 2019, SCAP was the controlling shareholder of SFP, with 67% ownership. Currently, SFP operates below the regulatory capital requirement and will require additional equity capital over the next 2 years, out of which LKR 500-600 Mn will be required in the near term. ICRA Lanka expects SCAP to provide temporary funding support to SFP to meet the immediate capital deficiency by raising long term debt. Given the Company's healthy capitalization profile and relationships with banks, ICRA Lanka envisages same to be raised comfortably. However, considering the sizable capital requirement for SFP over the medium term, it would be crucial to raise fresh equity capital in a timely manner.

Lumpy earnings profile; dependence on dividend income: As in March 2019, investments in group entities accounted for close to 92% (94% in March 2018) of the total standalone asset base of SCAP. Correspondingly, dividend income from subsidiaries (mainly SLI) has been a key source of income for SCAP (68% of total revenue in FY2019 vis-à-vis 15% in FY2018 and 80% in FY2017), with the balance represented by fee income from providing services, including fund management, to its subsidiaries. ICRA Lanka notes that the dividend payouts of SLI and SFP, are subject to the regulatory and growth capital requirements of the respective entities, which exposes SCAP to the risk of dividend/cashflow volatility. However, rating takes comfort from high degree of dividend visibility from its key subsidiary, Softlogic Life Insurance, due to healthy growth and profitability indicators of the life insurer.

Analytical approach: For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below. **Links to applicable criteria:** [ICRA Lanka Issuer Rating Methodology](#)

¹ CY- Calendar Year

About the Company:

Softlogic Capital PLC (SCAP) is a holding company under the Softlogic Group, a diversified conglomerate, listed on the Colombo Stock Exchange (CSE) with interests in healthcare, retail, financial services, ICT, leisure and automotive sectors. A listed Company itself, Softlogic Capital PLC has two listed subsidiaries, Softlogic Life Insurance PLC, (a licensed insurance company, with 52% holding) and Softlogic Finance PLC (a licensed finance company, with 67% holding). The Company also fully owns Softlogic Stock Brokers (Pvt) Ltd, a licensed stock broker of the Colombo Stock Exchange and Softlogic Asset Management (Pvt) Ltd, an investment management company.

For FY2019, SCAP (standalone) reported a net profit of LKR 49 Mn on a gross income of LKR 414 Mn as compared with a net profit of LKR 108 Mn on a gross income of 435 Mn in the previous fiscal. For the quarter ended June 30, 2019 SCAP reported a net loss of LKR 58 Mn on a gross income of LKR 33 Mn.

For FY2019, the SCAP group reported a consolidated net profit of LKR 3,202 Mn (PBT LKR 1,033 Mn) on a gross income of LKR 15.0 Bn, compared to a net profit of LKR 2,207 Mn (PBT LKR 1,788 Mn) on a gross income of LKR 12.9 Bn in the previous fiscal. For the quarter ended June 30, 2019 group reported a net profit of LKR 387 Mn on a total gross income of LKR 4,323 Mn.

Key financial indicators (Audited)

Stand-alone

	FY2017	FY2018	FY2019	Q1FY2020*
Total Income	730	435	414	33
Profit after Tax	476	108	49	(59)
Net worth	3,145	2,982	3,027	2,967
Total Assets	4,455	4,280	4,587	4,452
Return on Equity	15.44%	3.52%	1.63%	(7.85%)
Return on Assets	10.68%	2.47%	1.11%	(5.20%)
Reported Gearing (times)	0.41	0.43	0.50	0.49

*Unaudited

Consolidated

	FY2017	FY2018	FY2019	Q1FY2020*
Total Income	10,299	12,868	15,023	4,323
Profit Before Tax	1,096	1,788	1,033	574
Net worth	2,976	4,394	5,267	5,395
Total Assets	34,857	37,860	42,178	42,831
Return on Equity	26.10%	34.51%	36.42%	16.08%
Return on Assets	3.46%	6.07%	7.99%	3.65%
Reported Gearing (times)	7.41	4.72	4.22	3.99
Gearing Adjusted for Deferred Tax (times)	7.41	5.28	7.20	7.21

* Unaudited

ANALYST CONTACTS

Mr. Rasanga Weliwatte
+94 11 4339907
rasanga@icralanka.com

Mr. Sahil Udani
+91 22 61143429
sahil.udani@icraindia.com

RELATIONSHIP CONTACT

Mr. W. Don Barnabas
+94 11 4339907
wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

© Copyright, 2019 ICRA Lanka Limited. All Rights Reserved.
Contents may be used freely with due acknowledgement to ICRA Lanka.

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on ICRA Lanka ratings outstanding. All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents