

## **ICRA Lanka assigns [SL]A- with stable outlook to Commercial Leasing and Finance Company Limited**

September 28, 2012

### **RATING**

<b>Instrument</b>	<b>Amount</b>	<b>Rating Action</b>
Issuer Rating		[SL]A- (Stable) assigned

ICRA Lanka has assigned an Issuer Rating of [SL]A- (pronounced SL A minus)<sup>1</sup> with stable outlook to Commercial Leasing and Finance Limited (CLC or the Company). The rating factors the operational and financial linkages with the LOLC Group<sup>2</sup> in its position as a strategic finance company of Lanka ORIX Leasing Company PLC (HoldCo), which is rated [SL]A-/stable by ICRA Lanka. Given this, ICRA Lanka has taken a consolidated rating view of the HoldCo and its key asset financing subsidiaries considering the HoldCo or the Group could rely on the key financial services subsidiaries for support. The rating takes into account the demonstrated track record of operating profitably in the retail finance segment, well established franchise combined with a professional and experienced management team and comfortable capitalization levels. The rating draws comfort from the good overall asset quality maintained despite the recent increase in slippages in its factoring book and the current adequate liquidity position supported by limited asset liability mismatch.

CLC's main product lines are Leasing, hire purchase, loans (88% of total Portfolio as at Mar-12) and factoring (12%). CLC operates with an Agent/business introducer based outsourcing model where 70% of its sourcing is carried out through this network whilst the remaining 30% is direct business. CLC has pursued a sustained growth strategy reaping benefits from the surge in economic activity over the post war period expanding its reach in the regions.

Asset quality (Gross NPAs) has remained superior to industry levels at 2.78% as at Mar-12 however registering deterioration from 1.82% recorded as at Mar-11 mainly due to weaker asset quality registered in the factoring portfolio. ICRA also notes that the CLC's factoring book carries a high concentration risk with the 10 largest factoring clients accounting for more than 25% of net worth. Gross NPA levels in the core lending businesses (other than factoring) have improved to 1.29% (FYE Mar-12) from 1.78% (FYE Mar-11).

Capitalization levels remain comfortable as at Mar-12 with Net Worth to Total Assets Ratio at 25% (Mar-11-17%) and Regulatory Total Capital Adequacy Ratio at 25.60%. Capitalization was boosted by the Rs. 2.0 billion gain recorded on the sale of investment in Diriya Investments Ltd to LOLC Investments Limited, coupled with the equity infusion of Rs 1bn from the Parent, Lanka ORIX Leasing Company PLC (LOLC) in FYE Mar-11.

CLC maintains an adequate liquidity position with moderate gaps in the short term ALM position. While the conversion into a LFC<sup>3</sup> in Dec-11 opens up access to public deposits and is expected to support CLC's financial flexibility, continued ability to raise long term institutional funds would be important. The ability of CLC to maintain its liquidity position coupled with the ongoing changes in its funding mix would remain to be seen.

<sup>1</sup> For complete rating scale and definitions please refer to ICRA Lanka's Website [www.icralanka.com](http://www.icralanka.com) or other ICRA Rating Publications

<sup>2</sup> Refers to Lanka ORIX Leasing Company PLC along with its subsidiaries, joint ventures and associates

<sup>3</sup> Licensed Finance Company

CLC's recorded profits of Rs 2.9 Bn which was boosted with the one-time gain (Rs 2.0 Bn) recorded from the sale of Diriya Investments Ltd. in FYE Mar-12. CLC's Return on Average Assets (excluding one-time gains) during FYE Mar-12 was recorded at 3.87% (3.91% in FYE Mar-11) whilst Return on Average Net Worth for FYE Mar-12 stood at 21.5% (23.26% for FYE Mar-11). CLC's operating cost levels improved for FYE Mar-12 as a percentage of Average Assets. With the prevailing volatile interest rates scenario, the ability of CLC to continue its profitability trend to the future through transferring its increasing cost of funds to its customers would be a key rating sensitivity.

### **Company Profile**

CLC was incorporated in 1988 as a Specialised Leasing Company. LOLC Group acquired initially controlling interest and then 100% of the company in 2008. The main product lines of CLC include leasing, hire purchase and loans for vehicles and equipment and factoring. In the past year, CLC has also started offering savings and deposit products. CLC operates primarily in the SME and Micro Sectors. Although CLC is now part of LOLC Group, it continues to maintain its "Commercial Leasing" brand franchise and distinct market positioning. Business is mostly sourced by third-party Agents/business introducers, but the company has managed to maintain strict control over originations standards. CLC obtained the license to operate as a LFC in December 2011. CLC was relisted in the Colombo Stock Exchange (CSE) on June 05, 2012 to comply with the requirements of the Central Bank of Sri Lanka (CBSL).

During the year ended March 2012, CLC reported a net profit of Rs. 2.9 billion (including a one-time gain of Rs. 2.0 billion) on a total income of Rs. 8.7 billion compared to net profit of Rs. 0.7 billion on a total income of Rs. 5.8 billion in the previous FY.

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