

ICRA Lanka Reaffirms the issuer rating of LOLC Development Finance PLC and rating watch with developing implications removed

May 21, 2020

Instrument	Rated Amount (LKR Mn)	Rating Action
Issuer rating	N/A	[SL]A- (Stable) reaffirmed; rating watch with developing implications removed

Rating action:

ICRA Lanka Limited has reaffirmed the issuer rating of [SL]A- (pronounced as S L A minus) for LOLC Development Finance PLC (“LDFP” / “the Company”), formerly known as BRAC Lanka Finance PLC), while revising the outlook to Stable from rating watch with developing implications.

Update:

ICRA Lanka has taken the consolidated view of the LOLC group, which has interests in various segments including financial services, insurance, manufacturing, trading, plantation, renewable energy, and leisure when arriving at the ratings.

On April 10, 2020, LOLC Group has divested 70% of its stake in PRASAC for a total consideration of about USD 603 Mn. The investment was held by LOLC International Private Limited (LOLCIPL), a fully owned subsidiary of LOLC holdings, incorporated in Singapore. Accordingly, LOLCIPL has received USD 422 Mn being the first tranche of the sales proceeds, in line with the share purchase agreement that had been entered into by the parties. The Group has used a significant portion (about USD 130Mn) of the proceeds to repay the debt at the holding company level. The balance sales proceeds amounting to USD 181 Mn will be received in 2022.

ICRA Lanka takes cognizance of the improvement of the capitalization profile of the holding company, with standalone gearing expected to moderate to about 0.80x vis-à-vis 1.83x in December 2019 and 1.62x in March 2019. Consolidated Group gearing is also expected to moderate to about 3.7x vis-à-vis 6.3x in September 2019.

The rating also factors the significant moderation of the overall size and scale of LOLC Group, post divestment. As in September 2019, PRASAC accounted for about 45% of group assets and about 57% of the Group’s loan book. Also, PRASAC accounted for about 70% of the LKR 19.6 Bn PAT reported by the Group in FY2019. With the divestment of PRASAC, the Group’s overall size will significantly reduce, and the Group’s overall profitability will also moderate as PRASAC’s high yielding microfinance operation generated higher profits.

The rating also factors in the weakened asset quality (consolidated NPAs of the local NBFIs increased to 7.25% in Sep-19 from 5.29% in Sep-18) and earnings profiles (consolidated RoA moderated to 1.34% in H1FY2020 vis a vis 1.61% in H1FY2019) of the Sri Lanka based NBFs (LOLC Finance PLC, Commercial Leasing & Finance PLC and LOLC Development Finance PLC) of the group over the recent past, which would account for the 60% of the group’s assets post PRASAC divestment and, drive the group level performance over the near to medium. Post the divestment of PPRASAC, ICRA Lanka expects the consolidated profitability to moderate further as PRASAC was the most profitable (RoA2 of 3.69% and 3.81% respectively of the 11MCY2019 and CY2018) subsidiary of the Group.

For the detailed rating rationale, please refer the rationale dated February 07, 2020: <https://www.icralanka.com/rationale/rating-of-lolc-development-finance-plc-is-placed-on-watch-with-developing-implications/>

About LDFP:

BRAC International established its Sri Lankan operations as an NGO in 2004 to serve the tsunami affected community in southern and eastern provinces. Subsequently, along with LOLC as a joint venture, it acquired Nanda Finance PLC (incorporated in 1961) to extend microfinance. In 2014, the Company became a wholly owned subsidiary of Commercial Leasing & Finance PLC (CLC, 99% owned subsidiary of LOLC), when BRAC International divested its holding. In May 2017, LDFP raised additional capital amounting to LKR 1.3 Bn by way of a rights issue which was fully subscribed by LOLC. Post the rights issue, LOLC became the largest shareholder with a 55.6% holding, while CLC held 44.3% share. LDFP is a licensed finance company and it is in the business of providing group microfinance, micro lease and individual loans to its customers.

During the FY2019, LDFP reported a loss of LKR 154 Mn on a total asset base of LKR 13.8 Bn compared to a net profit of LKR 362 Mn on a total asset base of LKR 16.5 Bn in the corresponding period of the previous fiscal. The Company reported a net profit of LKR 53 Mn during HIFY2020 on a total asset base of LKR 16.1 Bn in Sep-19.

Key financial indicators-LDFP

In LKR Mn	FY2018	FY2019	HIFY2019 (Unaudited)	HIFY2020 (Unaudited)
Net Interest Income	2,807	2,750	1,492	1,192
Profit after Tax	362	(154)	(34)	53
Net worth	2,826	2,559	2,766	2,616
Loans and Advances	13,529	11,134	11,775	13,054
Total Assets	16,494	13,839	14,380	16,071
Return on Equity	18.32%	-5.71%	-2.44%	4.12%
Return on Assets	2.46%	-1.01%	-0.44%	0.71%
Gross NPA	1.64%	7.44%	5.18%	7.71%
Net NPA	-0.89%	-0.70%	-1.45%	-0.32%
Capital Adequacy Ratio	20.84%	15.16%	16.30%	13.54%
Gearing (times, adjusted for revaluation reserves)	4.70	4.29	3.98	5.02

Rating history for the last three years:

Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
	Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			Jan 2020	Jan 2020	Feb 2019	Aug 2017
Issuer rating	N/A	N/A	[SL]A- (Stable)	[SL]A- (under rating watch with developing implications)	[SL]A- (Stable)	[SL]A- (Stable)

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