

ICRA Lanka assigns [SL]A rating for the proposed Senior Unsecured Listed Debenture program of Commercial Leasing and Finance PLC

July 31, 2020

Commercial Leasing and Finance PLC

Instrument	Rated Amount (LKR Mn)	Rating Action
Proposed Listed Senior Unsecured Redeemable Debenture Programme	5,000	[SL]A (Stable); Assigned
Issuer rating	N/A	[SL]A (Stable); Outstanding
Listed Senior Unsecured Redeemable Debenture Programme	5,000	[SL]A (Stable); Outstanding

Rating action:

ICRA Lanka Limited has assigned the issue rating of [SL]A (pronounced as S L A) with Stable outlook for the proposed LKR 5,000 Mn Listed Senior Unsecured Redeemable debenture program of Commercial Leasing and Finance PLC (“CLC” / “the Company”).

ICRA Lanka has an outstanding issuer rating of [SL]A (pronounced as S L A) with Stable outlook on CLC and an issue rating of [SL]A (pronounced as S L A) with Stable outlook on the Company’s existing LKR 5,000 Mn Listed Senior Unsecured Redeemable Debenture Programme.

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-commercial-leasing-and-finance-plc-is-placed-on-watch-with-developing-implications/>

About CLC:

CLC was incorporated in the year 1988 as a Specialised Leasing Company. The LOLC Group acquired controlling stake and then 100% of the Company in 2008. The main product lines of CLC include leasing and loans for vehicles & equipment, and factoring. CLC obtained the license to operate as a LFC in December 2011. Subsequently, CLC has also started offering savings and deposit products. CLC primarily operates with borrowers in the retail and MSME¹ segments. CLC was relisted on the Colombo Stock Exchange (CSE) on June 05, 2012 to comply with the requirements of the Central Bank of Sri Lanka (CBSL) and LOLC group currently has an effective equity stake of 99%. In November 2015, CLC acquired 94.35% stake in LOLC Development Finance PLC and the same was reduced to 44% after LDFFP's rights issue program in May 2017.

During the year ended March 31, 2020, CLC reported a net profit of LKR 1,547 Mn on a total asset base of LKR 70 Bn as compared to a net profit of LKR 1,198 Mn on a total asset base of LKR 71 Bn in the previous financial year.

Key financial indicators-CLC

In LKR Mn	FY2018	FY2019	FY2020
Net Interest Income	6,353	7,430	6,632
Profit after Tax	2,144	1,198	1,547
Net worth (adjusted for revaluation reserves)	15,558	16,514	17,902
Loans and Advances	59,777	53,493	54,139
Total Assets	73,508	70,856	69,632
Return on Equity	13.9%	7.1%	8.5%
Return on Assets	2.8%	1.7%	2.2%
Gross NPA	2.62%	4.90%	7.05%
Net NPA	1.00%	0.99%	2.14%
Capital Adequacy Ratio	21.7%	19.5%	21.8%
Gearing (times, adjusted for revaluation reserves)	3.5	3.1	2.7

¹ MSME- micro, small and medium enterprises

Rating history for last three years:

Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
Type	Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019
			Jul 2020	May 2020	Jan 2020	Feb 2019
Issuer rating	N/A	N/A	[SL]A (Stable)	[SL]A (Stable)	[SL]A (under rating watch with developing implications)	[SL]A (Stable)
Listed senior unsecured redeemable debenture	5,000	5,000	[SL]A (Stable)	[SL]A (Stable)	[SL]A (under rating watch with developing implications)	[SL]A (Stable)
Proposed listed senior unsecured redeemable debenture	5,000	N/A	[SL]A (Stable); Assigned	N/A	N/A	N/A

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