



Lanka Rating Agency

## Rating Report

### LOLC Holdings PLC - Commercial Paper - LKR 15 Bn

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Sep-2023	-	A1	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The rating reflects LOLC Holding's (the HoldCo) position as the ultimate Holding Company of the LOLC Group (the Group) - one of the largest conglomerates of Sri Lanka in terms of its asset base (LKR~1.5trn – FY23) and profitability (PAT LKR~21bln - FY23). The HoldCo manages a diversified portfolio of investments spanning across sectors in the local and international markets. The Group's operating segments are clustered into financial and non-financial segments, with financial segment possessing the higher share of ~64% in the Group's revenue. In its non-financial segment, the Group holds diversified interests in various sectors including Manufacturing and Trading, Agriculture and Plantation, Leisure, Construction and Real Estate, Digital Empowerment, Research and Innovation, Strategic Investment and Mining. With over 200 subsidiaries, the Group's structure is well-poised to place most of the entities in different sub-groups within the Group, while some subsidiaries are directly owned by the HoldCo itself. The assigned rating reflects the cumulative impact of the financial performance of the Group in addition to the standalone performance of the HoldCo. The Group's financial risk profile is characterized with a sound capital structure and liquidity position, coupled with modest revenue growth and wholesome profitability, primarily on account of geographical and sectoral diversification. The rating also factors in the HoldCo's strong governance framework designed to manage and oversee the strategic direction of its subsidiaries. Moreover, the HoldCo also provides function-based services to its subsidiaries, jointly controlled entities and associates, representing a strong oversight of its sub-groups and their subsidiaries.

The rating is dependent on the Group's ability to uphold its market position and growth trajectory, especially in the global market, while keeping up with a sound financial discipline. Meanwhile, enhanced cashflows from operations are imperative to improve debt coverage at the HoldCo level.

#### Disclosure

<b>Name of Rated Entity</b>	LOLC Holdings PLC - Commercial Paper - LKR 15 Bn
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Commercial Paper Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-22)
<b>Related Research</b>	Sector Study   Holding Company(Oct-22)
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## Issuer Profile

**Profile** LOLC Holdings PLC is a public quoted company incorporated in 1980. The address of the Company's registered office is No. 100/1, Sri Jayawardenapura Mawatha, Rajagiriya, Sri Lanka and the principal place of business is situated at the same place. LOLC Holdings PLC is the ultimate holding Company of the Group. LOLC Group is one of the largest and established conglomerates in the country. LOLC holdings has diversified into group has interests in Manufacturing & trading, Agriculture & plantations, leisure, construction and real estate, Financial Services, Digital Empowerment, Research & Innovation, Strategic Investment and Mining. It has expanded their global presence in 22 countries.

**Ownership** The largest shareholding of the company is with Mr. I C Nanayakkara with an ownership of 48.90%. And 30.99% is held by LOLC Capital (Private) Limited which is 100% shareholding is with Mr. I C Nanayakkara. Mr. Ishara Nanayakkara is one of Sri Lanka's leading entrepreneurs and he is holding a key position within the LOLC Group as Deputy Chairman in LOLC Holdings PLC and Executive Chairman and director in other subsidiaries. The LOLC Group under Mr. Ishara Nanayakkara's leadership has diversified beyond the financial service arena, with large scale investments in leisure, construction, plantations, trading and manufacturing. Mr. Ishara Nanayakkara is a prominent entrepreneur serving on the Boards of many corporates and conglomerates internationally. Coming from a strong business background, involved in their family enterprises, he ventured into the arena of financial services with a strategic investment in LOLC Holdings PLC and was appointed to the Board in 2002.

**Governance** LOLC Board comprises 06 members; three non-executive and three executive directors, with two independent directors on the Company's Board. The Board of Directors comprises highly qualified individuals with decades of experience. Their diversified backgrounds and extensive experience provide holistic guidance to the Company. Mr. Ishara Nanayakkara is Executive Deputy Chairman and he has more than 20 years of experience in LOLC Board. The Board ensures effective governance through five committees, namely Audit Committee, The Talent Development and Remuneration Committee, Related Party Transaction Review Committee, The Integrated Risk Management Committee and The Corporate Governance Committee. There were four board meetings held during FY22 with majority attendance.

**Management** LOLC Holdings PLC has a functional organization structure and all HOD are reporting to Group Managing Director. The company equipped with well experience and qualified management team. Mr. Kapila Jayawardana, operates as Group Managing director and he has joined to LOLC Group in 2007. He has 15 years' experience in LOLC both locally and internationally in the several fields. He also has served several boards and committees. The management of the company ensure its effectiveness by efficient coordination between its SBUs by conducting meetings at different intervals as per the requirements. All the senior managements are well experienced and well qualified in their background.

**Business Risk** LOLC Group has consolidated its position as the most profitable diversified corporate under Financial, Agriculture & Plantations, Leisure, Renewable Energy, Construction & Real Estate, Manufacturing & Trading, Technology, Research & Innovation Sectors. Financial services sector is the predominant sector which contributes the major portion of the profitability as well as the asset base of the Group. The trading sector of the Group is mainly represented by Brown & Company, providing a variety of trading services. The LOLC group invested in the leisure industry in Sri Lanka in 2009 it expanded to Maldives and Mauritius. The Leisure sector of the Group comprise of 'The Eden Resort & Spa, Beruwala', Dickwella Resort & Spa, Dickwella', The Paradise Resort & Spa, Dambulla' and 'The Calm Resort & Spa, Passikudah, and The Sheraton Turtle Beach Resort Kosgoda. The Group holds the widest plantations extent in Sri Lanka. The main plantation crops being tea, rubber, cinnamon and sugarcane. BI becomes one of the plantation companies in the country with a total of 49 estates under management. Browns Engineering & Construction (Pvt) Ltd is a Subsidiary of Browns Investments, established with the key intention of serving as the engineering and construction arm of the group. LOLC Group is having its centralized IT services and technologies operations which play a critical role as providers of efficient and effective IT solutions to all business sectors of the Group locally & globally. The Group continues to explore technology and innovation by LOLC Advanced Technologies (Pvt) Ltd which provides advanced technologies consultation support to companies under LOLC group. LOLC Holdings PLC aims for sustainable income flows, in the form of Interest income, Shared Service Income, Tea brokering income and Travel reservation income. As standalone basis company has earned LKR 52Bn in FY23 and LKR 26Bn in FY22. On a consolidated basis, the group's top-line stood at LKR 333Bn for FY23. The Company's consolidated bottom line closed at a net profit of LKR 21 Bn for FY23.

**Financial Risk** LOLC Group's borrowing profile consists of a diversified mix of public deposits, bank funding, debt instruments that provide long term funding at competitive terms. Company gearing stood at 42.7% in FY23 as compared to 37.4% in FY22.

## Instrument Rating Considerations

**About The Instrument** LOLC Holdings PLC has LKR 15Bn commercial paper which is a short term, non-collateralised (Unsecured) debt instrument. The tenure of the commercial paper will span for 1 month to 12 months depending on the appetite of the investors. The Commercial Papers will be rolled over at maturity. The purpose of the CP is retire some outstanding short term borrowings amounted to LKR 33bln. The indicative rate of the CP is around 14.20% - 14.50%.

**Relative Seniority/Subordination Of Instrument** N/A

**Credit Enhancement** N/A



# Lanka Rating Agency

LOLC Holdings PLC Holding Company	Mar-23	Dec-22	Mar-22	Mar-21	Mar-20
	12M	9M	12M	12M	12M
	Unaudited	Management	Audited	Audited	Audited
<b>A BALANCE SHEET</b>					
1 Investments	42,031	36,151	26,986	29,353	10,014
2 Related Party Investments	400,491	409,820	366,501	210,618	172,644
3 Non-Current Assets	6,593	6,682	6,905	6,231	5,828
4 Current Assets	8,492	9,763	9,534	6,750	3,255
5 Total Assets	457,607	462,416	409,926	252,953	191,741
6 Current Liabilities	12,885	24,055	18,138	8,429	2,435
7 Borrowings	189,648	157,336	146,388	105,762	96,452
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	296	274	288	305	320
10 Net Assets	254,778	280,750	245,112	138,457	92,533
11 Shareholders' Equity	254,778	280,750	245,112	138,457	92,533
<b>B INCOME STATEMENT</b>					
1 Total Investment Income	55,842	40,869	62,653	37,628	4,648
a Cost of Investments	(32,768)	(21,782)	(11,579)	(9,508)	(10,670)
2 Net Investment Income	23,073	19,086	51,074	28,120	(6,022)
a Other Income	8,547	10,474	14,552	4,171	2,115
b Operating Expenses	(8,133)	(4,429)	(4,632)	(4,047)	(5,352)
4 Profit or (Loss) before Interest and Tax	22,431	24,189	61,064	28,317	(9,094)
a Taxation	(20)	-	99	(276)	(119)
6 Net Income Or (Loss)	22,411	24,189	61,163	28,041	(9,213)
<b>C CASH FLOW STATEMENT</b>					
a Total Cash Flow	733	7,503	11,156	(10,727)	977
b Net Cash from Operating Activities before Working Capital Changes	(26,341)	(10,171)	283	(19,603)	(8,726)
c Changes in Working Capital	(58,264)	(27,424)	(47,621)	2,328	(19,887)
1 Net Cash (Used in) or Available From Investing Activities	41,007	25,946	7,325	8,052	6,352
2 Net increase (decrease) in long term borrowings	(9,592)	(9,272)	(178,801)	22,505	(1,712)
3 Net Cash (Used in) or Available From Financing Activities	42,316	10,015	41,485	9,763	25,517
4 Net Cash generated or (Used) during the period	(1,281)	(1,634)	1,472	540	3,255
<b>D RATIO ANALYSIS</b>					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value of	39.9%	39.9%	43.2%	60.9%	59.0%
b Core Investments / Market Value of Equity Investments	94.9%	94.9%	100.0%	100.0%	100.0%
c Marketable Investments / Total Investments at Market Value	6.0%	7.1%	9.2%	14.5%	2.5%
2 Coverages					
a TCF / Finance Cost	0.0	0.3	1.0	-1.1	0.1
b TCF / Finance Cost + CMLTB	0.0	0.2	0.3	-0.4	0.1
c Loan to Value (Funding / Market Value of Equity Investments )	1.3	1.1	1.1	1.1	1.0
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	42.7%	35.9%	37.4%	43.3%	51.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	74.4%	63.1%	67.8%	96.4%	108.5%

<b>E NOTES</b>					
	Note : Financial Summary does not include all line items of the financial statements.				

## Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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**Rating Team Statements**

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. (<https://www.sec.gov.lk/index.php/credit-rating-agency/>)

**2) Conflict of Interest**

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

**Restrictions**

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

**Conduct of Business**

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

**Independence & Conflict of interest**

(7)LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8)LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

**Monitoring and review**

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

**Probability of Default**

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

**Proprietary Information**

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