Lanka Rating Agency

Rating Report

LOLC Holdings PLC - Commercial Paper - LKR 6Bn

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Rating History

Dissemination Date	Short Term Rating	Outlook	Action	Rating Watch
29-Jul-2024	A1	Stable	Preliminary	Yes

Rating Rationale and Key Rating Drivers

The rating reflects LOLC Holding's ("the HoldCo") robust position as the ultimate Holding Company of the LOLC Group (the Group) - one of the largest conglomerates in Sri Lanka (Asset Base of LKR~1.7trn – FY24). The Group has diversified geographically and has presence in 25 countries, primarily in South and South East Asia, Central Asia, Africa, and MENA Region. At the broader level, the Group's operating segments are clustered into financial and non-financial segments, with financial segment possessing the higher share of ~89.5% in the Group's revenue. The assigned rating incorporates the cumulative impact of the financial performance of the Group in addition to the standalone performance of the HoldCo. Historically, the HoldCo's financial performance has remained strong despite economic challenges in Sri Lanka. Diversification in other segments and USD based revenues have provided cushion and strengthened profitability. The HoldCo's net profits have increased to LKR~29.8bn in FY24 from LKR~22.4bn in FY23. The Group's net profit remained stagnant at LKR~21.7bn in FY24 (FY23: LKR~21.6bn). The debt-to-equity ratio remains comfortable at the HoldCo level but has increased to ~51.3% in FY24 (FY23: ~42.7%). The HoldCo's financial liabilities are dominated by short-term debts, mostly Commercial Paper (CP) Programs, representing ~62% of the total debt. This is mainly because of higher intercompany lending (FY24: LKR~195.9bn; FY23: LKR~117.6bn). Reduction in interest rates bodes well for the Group and HoldCo, given high amount of debt. Short-term debt is expected to be successfully rolled over but needs to be managed carefully considering higher quantum of borrowings maturing within 12 months. Meanwhile. the HoldCo's liquidity profile consists of investments, placements with financial institutions and unutilized short-term lines. The Group and HoldCo are taking several initiatives to improve liquidity and reduce debt. The "Rating Watch" signifies these initiatives and materialization of the same in timely manner. These include divestment of certain strategic investments and liquidation of Government Securities.

Successful and timely completion of the management's plan to divest assets and reduce borrowings is important for the rating. Improvement in the debt mix towards long term debt to alleviate pressure on short-term repayments will and reduction in debt level will be positive. Meanwhile, enhanced cashflows from operations and materialization of envisaged plans for income generation are imperative to improve the HoldCo's financial matrix.

Disclosure

Name of Rated Entity	LOLC Holdings PLC - Commercial Paper - LKR 6Bn
Type of Relationship	Solicited
Purpose of the Rating	Commercial Paper Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Jun-22)
Related Research	Sector Study | Holding Company(Mar-24)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Issuer Profile

Profile LOLC Holdings PLC ("the HoldCo") 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. The HoldCo has diversified into sub-group with interests in Manufacturing & Trading, Agriculture & Plantation, Leisure, Construction and Real estate, Financial Services, Digital Empowerment, Research & Innovation, Strategic Investment and Mining. Geographically, the Group has expanded its global presence in 25 countries.

Ownership The largest shareholding of the HoldCo rests with Mr. Ishara Nanayakkara with a direct ownership of ~48.9%. Meanwhile, ~31.0% is held by LOLC Capital (Private) Limited which is ~100% owned by Mr. Nanayakkara, thereby contributing ~80.0% shareholding in the HoldCo. Mr. Nanayakkara is one of Sri Lanka's leading entrepreneurs 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. Nanayakkara's leadership has diversified beyond the financial service arena, with large scale investments in Leisure, Construction, Plantation, 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. LOLC Group is one of the largest conglomerates in Sri Lanka has an asset or equity base of LKR~1.7trn and LKR~488.7bn.

Governance The HoldCo's Board comprises 06 members; three Non-Executive Directors, out of which two are Independent Directors, and the remaining three are Executive Directors. There is no Chairman of the Board, however the Senior Director Mr. M.D.D Pieris acts as a substitute for the Chairman. 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. Nanayakkara is the Executive Deputy Chairman and has more than 20 years of experience on HoldCo's Board of Directors. 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. Ernst & Young (EY) are the External Auditors of the HoldCo. They have given an unqualified opinion on the financial statements for the year ended March 31, 2023.

Management The HoldCo has an organized functional structure, and all Head of Departments (HODs) report to the Group Managing Director (MD). The HoldCo is equipped with well experienced and qualified management team. Mr. Kapila Jayawardana, operates as the Group MD and is associated with the LOLC Group since 2007. He has 15 years of experience in the LOLC Group, both locally and internationally in several fields. He has also served on several Boards and Board Committees within the Group. Prior to joining LOLC, he was the CEO of Citibank for Sri Lanka and Maldives. The management of the HoldCo ensures its effectiveness by efficient coordination between its Strategic Business Units (SBUs) through conducting meetings at different intervals as per the internal SOPs. Senior Management personnel are well experienced and aptly qualified for their roles. The Group has in place an Enterprise-wide Risk Management (ERM) framework to ensure a structured process of Internal Audit and Risk Management. Enterprise risk management unit has its reporting line to the Board of Management via the integrated Risk Management Committee and the Board Audit Committees.

Business Risk The Group has consolidated its position as one of the most profitable diversified corporate under Financial, Agriculture & Plantations, Leisure, Renewable Energy, Construction & Real Estate, Manufacturing & Trading, Technology, Research & Innovation Sectors. The Group's Financial services sector is the predominant one which contributes the major portion (~89.5%) 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 as it expanded to Maldives and Mauritius. The Group holds the widest plantations extent in Sri Lanka. The main plantation crops being tea, rubber, cinnamon and sugarcane. Browns Investments has become one of the large 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 has in place 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. The HoldCo aims for sustainable income flows, in the form of Interest income, Shared Service Income, Tea brokering income and Travel reservation income. On a standalone basis, the HoldCo has earned an income of LKR~51.2bn in FY24 and LKR~51.5bn in FY23. Interest income has increased by ~39.6% to LKR~49.3bn in FY24 as compared to LKR~35.3bn in FY23. The growth is majorly attributed to interest receivable on intercompany lending that has grown significantly during FY24. All other sources of income have declined in FY24. On a consolidated basis, the group's top-line stood at LKR~337.6bn for FY24 and LKR~333.1bn in FY23.

Financial Risk The HoldCo's coverages remained under pressure during FY24 owed to high interest cost and higher portion of non-cash income (EBIDTA: (LKR~9.4bn) resulting in a negative interest cover of 0.2x in FY24. The HoldCo's debt quantum has considerably grown over the period with a large portion of the debt pertaining to short-term borrowings (Commercial Paper Programs: ~62% and short-term loans: ~18%). The HoldCo incurred finance charges of LKR~49.2bn during FY24 (FY23: LKR~32.8bn). LOLC Group's borrowing profile consists of a diversified mix of bank funding, debt instruments that provide short term and long term funding at competitive terms. The debt-to-equity ratio of the HoldCo has increased from ~42.7% in March'23 to ~51.3% in March'24. On a consolidated basis, the Group has a total asset base of LKR~1.7trn as of FY24 (FY23: LKR~1.6trn). Also, the Group's net profit has slightly increased to LKR~21.7bn in FY24 from LKR~21.6bn in FY23.

Instrument Rating Considerations

About The Instrument LOLC Holdings PLC has LKR 6Bn commercial paper which is a short term, non-collateralised (Unsecured) debt instrument. The tenure of the commercial paper will span for 1 month to 24 months depending on the appetite of the investors. The Commercial Papers will be rolled over at maturity. The purpose of the CP is for working capital requirements.

Relative Seniority/Subordination Of Instrument N/A

Credit Enhancement N/A

Lanka Rating Agency

LOLC Holdings PLC	Mar-24	Dec-23	Sep-23	Mar-23	Mar-22
Holding Company	12M	9M	6M	12M	12M
	Unaudited	Unaudited	Unaudited	Audited	Audited
A BALANCE SHEET					
1 *Investments*	42,820	44,443	23,415	21,515	25,762
2 *Related Party Investments*	518,043	498,635	452,777	397,579	361,555
3 *Non-Current Assets*	5,803	6,048	6,269	6,593	6,905
4 *Current Assets*	47,003	44,384	37,523	31,612	15,704
5 Total Assets	613,669	593,510	519,984	457,298	409,926
6 *Current Liabilities*	1,554	1,705	1,125	1,777	1,374
7 *Borrowings*	311,126	289,669	251,418	189,648	146,388
8 *Related Party Exposure*	2,842	6,573	3,368	9,533	15,494
9 *Non-Current Liabilities*	2,341	1,892	1,886	1,871	1,559
10 Net Assets	295,805	293,672	262,186	254,470	245,112
11 Shareholders' Equity	295,805	293,672	262,186	254,470	245,112
B INCOME STATEMENT					
1 Total Investment Income	89,062	74,698	32,454	56,233	62,653
a Cost of Investments	*(49,280)*	*(35,977)*	*(25,430)*	*(32,768)*	*(11,579)*
2 Net Investment Income	39,783	38,721	7,023	23,465	51,074
a Other Income	(1,252)	526	(168)	8,118	14,552
b Operating Expenses	*(8,618)*	*(7,183)*	*(4,112)*	*(8,133)*	*(4,632)*
4 Profit or (Loss) before Interest and Tax	30,209	32,292	2,889	22,394	61,064
a Taxation	*(433)*	-	-	*(20)*	*99*
6 Net Income Or (Loss)	29,776	32,292	2,889	22,374	61,163
C CASH FLOW STATEMENT					
a Total Cash Flow	*(9,395)*	*(5,199)*	*(3,640)*	*(923)*	*11,156*
b Net Cash from Operating Activities before Working Capital Changes	*(53,410)*	*(36,095)*	*(24,544)*	*(27,998)*	*283*
c Changes in Working Capital	*(57,882)*	*(54,720)*	*(47,659)*	*(56,073)*	*(47,621)*
1 Net Cash (Used in) or Available From Investing Activities	(12,939)	(10,423)	6,558	42,664	7,325
2 Net increase (decrease) in long term borrowings	14,715	6,543	2,850	(9,592)	(178,801)
3 Net Cash (Used in) or Available From Financing Activities	120,287	97,826	61,611	42,316	41,485
4 Net Cash generated or (Used) during the period	(3,944)	(3,412)	(4,033)	910	1,472
D RATIO ANALYSIS					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value of	43.1%	37.7%	43.6%	50.3%	49.6%
b Core Investments / Market Value of Equity Investments	80.9%	80.1%	82.8%	90.8%	48.2%
c Marketable Investments / Total Investments at Market Value	0.0%	0.0%	0.0%	0.0%	0.5%
2 Coverages					
a TCF / Finance Cost	-0.2	-0.1	-0.1	0.0	1.0
b TCF / Finance Cost + CMLTB	-0.1	-0.1	-0.1	0.0	0.3
c Loan to Value (Funding / Market Value of Equity Investments)	0.7	0.7	0.6	0.5	0.2
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity]	51.3%	49.7%	49.0%	42.7%	37.4%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	105.2%	98.6%	95.9%	82.3%	67.8%

E NOTES

Note : Financial Summary does not include all line items of the financial statements.

Credit Rating

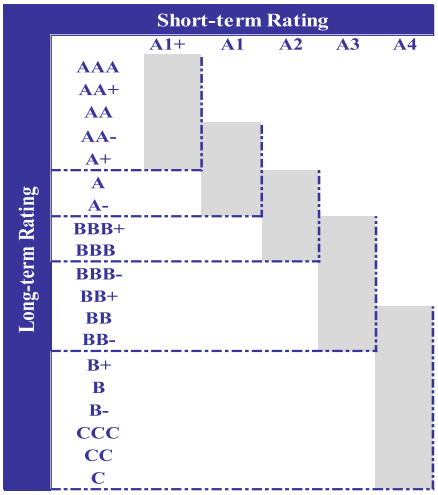
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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 surveill 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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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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/credit-rating-agency/

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii.LRA will 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 35 – Rules applicable to Credit Rating Agencies)

(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

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 will 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 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

(10) LRA's Revenue from the LOLC Holdings PLC is more than 5% of its total earned in the preceeding year.

Monitoring and review

(11) For purposes of transparency the LRA will publish 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 shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies

(12) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(13) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency 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 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(14) 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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