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Applicable Criteria

- Methodology | Non-Banking Finance Companies Rating | Jun-22

Related Research

- Sector Study | Leasing & Finance Companies | Aug-23

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Lanka Rating Maintains Entity Rating of LOLC Finance PLC, Assigns "Positive" Outlook

Rating Type	Entity	
	Current (08-Aug-24)	Previous (16-Mar-23)
Action	Maintain	Initial
Long Term	A	A
Outlook	Positive	Stable
Rating Watch	-	-

LOLC Finance PLC ("LOFC" or "the Company") maintains its very strong position as the largest Licensed Finance Company (LFC) in the sector, strengthened by a series of strategic amalgamations. In March'22, LOFC merged with Commercial Leasing and Finance PLC (CLF) following CLF's merger with Sinhaputhra Finance PLC (SFPLC). Subsequently, LOFC consolidated further by merging with LOLC Development Finance PLC (LODF) in January'23. As at FY24, LOFC's asset base stood at LKR~378bn representing ~22% of the LFC industry asset base. The Company's dominant position is underpinned by its association with LOLC Group that has diversified investments in several sectors. During FY24, LOFC's net interest income surged to LKR~38bn, ~15.4% increase from FY23. Additionally, the Company's core spread improved ~11% in FY24 (FY23: ~10%), in line with decreasing interest rates in Sri Lanka as liabilities were re-priced at lower rates. In terms of profitability, LOFC's Profit After Tax (PAT) rose significantly by ~40%, reaching to LKR~21.6bn in FY24 (FY:23 LKR~15.4bn). This was on account of improved net interest income and substantial supplementary income. However, the Company's operational and non-markup expenses remain high in relevance to its total interest income. LOFC's core income constitutes ~73.8% of its total income, while its non-core income, including fair value gains from investment properties and government securities, and write-backs of provisions, makes up a significant share of ~26.2%. In terms of credit risk, the Company's Non-Performing Loans (NPLs) ratio remains below the industry average, with a 90-day gross NPL of ~13.86% and a net NPL of ~10.49% in FY24 but is higher than comparable peers. The rating incorporates the Company's solid capitalization with its Capital Adequacy Ratio (CAR), clocking in at ~23% in FY24 (FY23: ~21.71%), well above the regulatory requirement set by the Central Bank of Sri Lanka (CBSL).

The assigned "Positive Outlook" reflects the Company's improved performance indicators. Continuation of the growth momentum and sustenance of strong key performance and financial indicators are essential for an upgrade consideration. In addition, improvement in core income and rationalization of administrative expenses are imperative as the Company consolidates its position after series of mergers. The Company continues to be a vital profit-generating entity for the Group, therefore, the flow of funds to the Holding level is largely influenced by the Company's profitability. Significant slowdown in growth, rise in NPLs and reduction in total capital through dividends to lower capita augmentation will be negative for rating.

About the Entity

LOLC Finance PLC ("LOFC" or "the Company") is registered as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. It is also registered under the Securities and Exchange Commission as a Market Intermediary to perform the functions of a Margin Provider. The largest shareholder of the Company is LOLC Ceylon Holdings PLC with an ownership of ~90.96%. The Board of Directors has seven members, out of which six are Non-Executive Directors. The Chief Executive Officer, Mr. D M D K Thilakarathne has over 25 years of experience and is supported by a well-qualified and experienced management team.

The primary function of LRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. LRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. LRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.