



Date

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Applicable Criteria

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

Related Research

- Sector Study | Leasing & Finance Companies | Dec-22

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LRA Assigns Initial Rating to LOLC Finance PLC

| Rating Type | Entity |
|--------------|---------------------|
| | Current (16-Mar-23) |
| Action | Initial |
| Long Term | A |
| Outlook | Stable |
| Rating Watch | - |

The rating emanates from the leading position LOLC Finance PLC (LOFC or the Company) holds in the sector as the largest Licensed Finance Company (LFC). LOFC amalgamated with Commercial Leasing and Finance PLC (CLF) in March 2022 following the merger of CLF with Singhaputhra Finance PLC (SFPLC). LOFC further merged with LOLC Development Finance PLC (LODF) in January 2023 consolidating its position as the largest player in LFCs. The Company draws strength from the diversified investments and financial strength of LOLC Group. During 9MFY23, the Company's net interest income increased to LKR 23bln due to mergers, even though the Company's core spread decreased. Despite higher provisions due to a higher interest rate scenario, the Company's profits improved at an absolute level. Going forward, stability in the country and the impact of the mergers are expected to improve the performance of the company. Its Non-Performing Loans (NPL) remain below industry averages with a 120 day gross and net NPL of 12.6% and 8.3% respectively. Ratings reflect its solid capitalization position with the Capital Adequacy Ratio (CAR) maintained at 20.2% (FY22: ~20.7%) as at 9MFY23, which is well above the regulatory requirement of the Central Bank of Sri Lanka (CBSL). The merger in March 2022, further improved its equity base to LKR ~94bn as at 9MFY22.

The ratings remain dependent upon maintaining its leading position in the sector and navigating through challenging economic times while maintaining and improving asset quality. Any future rating action will be dependent upon sustainable synergies developed through the merger resulting in operational efficiencies and better performance.

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 81.04%. The Board of Directors has eight 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 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.