

People's Leasing Company PLC

Update

Ratings

National

Long-Term Rating	A+(lka)
Senior unsecured	A+(lka)

Sovereign Risk

Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-

Outlooks

National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

People's Leasing Company PLC	30 Sep 11	31 Mar 11
Total assets (USDm)	645.4	494.5
Total assets (LKR)	72,925	55,874
Total equity (LKR)	10,758	8,442
Net income (LKR)	2,442	2,579
ROA (%) ^a	7.58	5.95
ROE (%) ^a	50.9	35.2
Equity/assets (%)	14.8	15.1

^a Annualised

Key Rating Drivers

Parent Support: People's Leasing Company PLC's (PLC) National Long-Term Rating was upgraded by one notch in January 2012 to 'A+'(lka)/Stable. The move reflected the potential support deemed to be available from the state-owned People's Bank (Sri Lanka) (PB, 'AA(lka)'/Stable, 75% ownership of PLC) given PLC's strategic importance to the bank and improving operational integration. At end-March 2011 (FYE11), PLC accounted for 9% of PB's group assets. At end-2010, PLC contributed 26% to PB group's profits.

Parent-Linked Branch Network: Operationally, PLC benefits from PB's extensive branch network, through which PLC operates over 120 "window offices". This has enabled PLC to maintain a wide reach, yet keep operating costs low compared to peers. At FYE11, PLC's cost/income ratio stood at 27%, compared to a 46% median for rating peers.

Market Share Rapidly Increasing: PLC recorded high loan growth rates of 78% and 28%, respectively, in FY11 and in the six months to end-September 2011 (6MFY12), considerably higher than the sector. Fitch Ratings expects PLC's loan growth to ease over the medium term, as much of the growth stemmed from its lease book, which was supported by the surge in new vehicle registrations subsequent to the lowering of import duties in early 2010

Inadequate Internal Capital Generation: PLC's capitalisation improved as a result of its initial public offer (IPO) on 23 November 2011, which raised LKR7bn. Equity/assets is estimated by Fitch to have improved to over 20% after the IPO (end-September 2011: 14.8%). However Fitch expects PLC's capitalisation to weaken from post-IPO levels, as the rate of asset growth (FY11:81%) is expected to outstrip the company's rate of internal capital generation (FY11: 40%).

Nevertheless, the agency expects PLC's capitalisation to remain healthy, at above 17% through FY13 and FY14, based on management's target growth rates and Fitch's base-case estimate for PLC's internal capital generation.

Funding and Securitisations: PLC has a diverse funding portfolio and is one of the largest issuers of asset-backed securitisations (which are termed securitisations in the local context, but remain on-balance sheet.), which funded 14% of company assets at FYE11. Promissory notes funded a further 30% of PLC's company-level assets at FYE11. The remainder consisted mostly of bank borrowings, shareholder capital and commercial paper.

Weakening Asset Quality: While the underlying loan quality in PLC's lease and hire-purchase loan portfolio (94% of the lending at FYE11) has remained largely steady despite the high growth, Fitch expects that PLC's asset quality ratios to weaken marginally as the portfolio seasons.

Weaker NPA Provision Coverage: As a result of the reversal in PLC's general provision reserve of LKR1.6bn in June2011 (3% of loans in June 2011), PLC's provision cover of non-performing assets (NPA) in arrears for over six months fell to 88%, and for over three months it fell to 34% at end-September 2011 (FY11: 272%, 131%). Net NPA /equity for over three-month arrears was 13% at-end September 2011 (FY11: -6%).

What Could Trigger a Rating Action

Parent association: Any changes in Fitch's assessment of PB's ability and willingness to support to its subsidiaries could trigger rating actions at PLC.

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BALANCE SHEET ANALYSIS		Mar-08	Mar-09	Mar-10	Mar-11	Sep-11
People's Leasing Company PLC		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
A	LOANS					
	1. Customer Loans	21,506	24,452	29,046	51,582	65,825
	2. Other Loans	-	-	-	-	-
	3. (Loan Loss Reserves)	(2,284)	(1,919)	(2,329)	(2,197)	(735)
	4. (Interest in Suspense)					
	TOTAL A	19,222	22,533	26,717	49,385	65,090
		-	-	-	-	-
B	OTHER EARNING ASSETS					
	1. Deposits with Banks	459	1,509	1,711	1,460	1,670
	2. Treasury Bills	25	143	373	69	-
	3. Other Securities	-	-	-	-	-
	4. Equity Investments	50	275	1,147	2,052	2,775
	TOTAL B	534	1,927	3,231	3,581	4,445
C	TOTAL EARNING ASSETS (A + B)	19,755	24,460	29,948	52,966	69,535
		19,705	24,185	28,802	50,914	66,759
D	FIXED ASSETS	279	378	485	356	416
E	NON-EARNING ASSETS	637	720	415	2,552	2,975
F	TOTAL ASSETS	20,672	25,558	30,848	55,874	72,925
G	CUSTOMER & SHORT-TERM FUNDING					
	1. Fixed Deposits	-	-	-	-	-
	2. Certificate of Deposits	-	-	-	-	-
	TOTAL G	-	-	-	-	-
H	BORROWINGS					
	1. Short Term	3,399	2,283	1,608	4,095	28,996
	2. Medium Term	11,501	14,865	15,305	24,804	13,117
	3. Long Term	350	1,350	3,185	11,057	12,630
	TOTAL H	15,250	18,498	20,097	39,955	54,743
I	OTHER (Non-int. bearing)	2,155	2,963	4,522	7,477	7,425
	TOTAL LIABILITIES	17,405	21,461	24,619	47,432	62,167
J	EQUITY	3,267	4,097	6,229	8,442	10,758
	Minority Interest of SML	-	-	-	-	-
L	TOTAL LIABILITIES & EQUITY	20,672	25,558	30,848	55,874	72,925

Related Criteria

[Global Financial Institutions Rating Criteria \(August 2011\)](#)

[National Ratings Criteria \(January 2011\)](#)

[Finance and Leasing Companies Criteria \(December 2010\)](#)

INCOME STATEMENT ANALYSIS		Dec-00	Mar-09	Mar-10	Mar-11	Sep-11
People's Leasing Company PLC		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
		38%	22%			
1	Interest Received	4,114	5,831	6,523	8,263	5,638
2	Interest Paid	2,202	3,251	3,133	3,542	2,785
3	NET INTEREST REVENUE	1,912	2,579	3,390	4,722	2,853
4	Other Operating Income	476	565	632	949	413
6	TOTAL INCOME	2,388	3,145	4,022	5,671	3,265
7	Provision for Loan Losses	223	55	533	18	(1,504)
8	Provisions - other	-	-	-	-	2
9	Personnel Expenses	262	320	386	593	364
10	Other Non-Int. Expense	555	651	728	965	629
11	TOTAL EXPENSES	1,040	1,027	1,647	1,576	(509)
12	PRE-TAX PROFIT	1,348	2,117	2,375	4,094	3,774
14	Taxes	586	1,113	1,175	1,514	1,332
15	NET INCOME	762	1,005	1,200	2,580	2,442

RATIO ANALYSIS		Mar-08	Mar-09	Mar-10	Mar-11	Sep-11
I	PROFITABILITY LEVEL	<u>12 mths</u>	<u>12 mths</u>	<u>12mths</u>	<u>12mths</u>	<u>Annualised</u>
	1. Net Interest Margin	10.67%	11.75%	12.80%	11.85%	9.70%
	2. Pre-tax profit/Total Assets (av.)	7.15%	9.16%	8.42%	9.44%	11.72%
	3. Net Income/Equity (av.)	26.07%	27.29%	23.25%	35.17%	50.88%
	4. Net Income/Total Assets (av.)	4.04%	4.35%	4.26%	5.95%	7.58%
	5. Total Non-Int. Expense(excl provi)/ Net Int. Rev + Other Operating Income	34.22%	30.90%	27.70%	27.49%	30.40%
	6. Net Interest Rev./Total Assets (av.)	10.14%	11.16%	12.02%	10.89%	8.86%
	7. Non Interest Rev/Total Assets (av.)	2.53%	2.45%	2.24%	2.19%	1.28%
II	CAPITAL ADEQUACY (year end)					
	1. Equity/Total Assets	16%	16.0%	20.2%	15.1%	14.8%
	2. Equity/Loans	17%	18%	23%	17%	17%
	3. Capital/Risks Assets	16%	17%	22%	16%	15%
	4. Net NPA's/Equity - Over 3m (includes gen prov)	4%	3%	-7%	-6%	13%
	5. Net NPA's/Equity - Over 6m (includes gen prov)	-58%	-37%	-23%	-16%	1%
III	LIQUIDITY (year end)					
	1. Liquid Assets/Customer Deposits	n/a	n/a	n/a	n/a	n/a
	2. Loans/Customer Deposits	n/a	n/a	n/a	n/a	n/a
IV	ASSET QUALITY					
	1. Loan Loss Provisions/Loans (av.)	1%	0%	2%	0%	-5%
	2. Loan Loss Reserves/Loans	11%	8%	8%	4%	2%
	5. Loan Loss Reserves/ 3m NPLs	94%	94%	122%	131%	34%
	6. Loan Loss Reserves/ 6m NPLs		341%	266%	272%	88%
	6. 3m Non Performing Loans/Gross Loans	11.3%	8.3%	6.6%	3.2%	3.2%
	7. 6m Non Performing Loans/Gross Loans	1.8%	2.3%	3.0%	1.6%	1.3%

BALANCE SHEET ANALYSIS		COMPANY	GROUP	GROUP	GROUP
People's Leasing Company PLC Group		Mar-08	Mar-09	Mar-10	Mar-11
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
A	LOANS				
	1. Customer Loans	21,506	24,607	30,959	57,962
	2. Other Loans	-	-	-	-
	3. (Loan Loss Reserves)	(2,284)	(2,074)	(2,450)	(2,333)
	4. (Interest in Suspense)				
	TOTAL A	19,222	22,533	28,509	55,629
B	OTHER EARNING ASSETS				
	1. Deposits with Banks	459	1,512	1,567	1,597
	2. Treasury Bills	25	143	629	1,416
	3. Other Securities	-	-	-	-
	4. Equity Investments	50	50	273	310
	TOTAL B	534	1,704	2,469	3,323
C	TOTAL EARNING ASSETS (A + B)	19,755	24,238	30,978	58,952
D	FIXED ASSETS	279	628	980	1,624
E	NON-EARNING ASSETS	637	672	932	3,275
F	TOTAL ASSETS	20,672	25,538	32,890	63,852
G	CUSTOMER & SHORT-TERM FUNDING				
	1. Fixed Deposits	-	-	1,509	4,193
	2. Certificate of Deposits	-	-	158	455
	TOTAL G	-	-	1,667	4,647
H	BORROWINGS				
	1. Short Term	3,399	2,283	1,736	4,285
	2. Medium Term	11,501	14,849	18,633	37,803
	3. Long Term	350	1,350	1,350	-
	TOTAL H	15,250	18,482	21,720	42,088
I	OTHER (Non-int. bearing)	2,155	2,968	4,674	8,634
	TOTAL LIABILITIES	17,405	21,449	28,061	55,369
J	EQUITY	3,267	4,089	4,823	8,383
	Minority Interest of SML	-	-	6	100
L	TOTAL LIABILITIES & EQUITY	20,672	25,538	32,890	63,852

INCOME STATEMENT ANALYSIS		Mar-08	Mar-09	Mar-10	Mar-11
People's Leasing Company PLC Group		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
1	Interest Received	4,114	5,744	6,776	8,916
2	Interest Paid	2,202	3,250	3,565	3,902
3	NET INTEREST REVENUE	1,912	2,580	3,325	5,014
4	Other Operating Income	476	565	537	1,071
6	TOTAL INCOME	2,388	3,146	3,862	6,084
7	Provision for Loan Losses	223	55	540	52
8	Provisions - other	-	-	-	-
9	Personnel Expenses	262	323	431	686
10	Other Non-Int. Expense	555	658	801	1,103
11	TOTAL EXPENSES	1,040	1,036	1,772	1,840
12	PRE-TAX PROFIT	1,348	2,109	2,090	4,244
14	Taxes	586	1,113	1,181	1,632
15	NET INCOME	762	996	909	2,612

RATIO ANALYSIS		Mar-08	Mar-09	Mar-10	Mar-11
People's Leasing Company PLC Group					
I	PROFITABILITY LEVEL	<u>12 mths</u>	<u>12 mths</u>	<u>12mths</u>	<u>12mths</u>
	1. Net Interest Margin	10.64%	11.73%	12.04%	11.15%
	2. Pre-tax profit/Total Assets (av.)	7.15%	9.13%	7.16%	8.77%
	3. Net Income/Equity (av.)	26.07%	27.09%	20.41%	39.55%
	4. Net Income/Total Assets (av.)	4.04%	4.31%	3.11%	5.40%
	5. Total Non-Int. Expense(excl provi)/ Net Int. Rev + Other Operating Inco	34.22%	31.18%	31.90%	29.39%
	6. Net Interest Rev./Total Assets (av.)	10.14%	11.17%	11.38%	10.36%
	7. Non Interest Rev/Total Assets (av.)	2.53%	2.45%	1.84%	2.21%
II	CAPITAL ADEQUACY (year end)				
	1. Equity/Total Assets	15.81%	16.01%	14.66%	13.13%
	2. Equity/Loans	17.00%	18.15%	16.92%	15.07%
	3. Capital/Risks Assets	16.18%	17.12%	15.71%	13.78%
	4. Net NPA's/Equity - Over 3m (incl	4.19%	-1.04%	-11.17%	1.36%
	5. Net NPA's/Equity - Over 6m (includ	-59.53%	-33.54%	-28.76%	-13.25%
III	LIQUIDITY (year end)				
	1. Liquid Assets/Customer Deposits	n/a	n/a	131.7%	64.8%
	2. Loans/Customer Deposits	n/a	n/a	1710%	1197%
IV	ASSET QUALITY				
	1. Loan Loss Provisions/Loans (av.)	1.13%	0.24%	1.94%	0.12%
	2. Loan Loss Reserves/Loans	10.62%	8.43%	7.91%	4.02%
	5. Loan Loss Reserves/NPLs (3m)	94.35%	102.08%	128.20%	95.34%
	6. 3m Non Performing Loans/Gross L	11.26%	8.26%	7.46%	4.22%
	7. 6m Non Performing Loans/Gross L	1.58%	2.86%	4.15%	2.11%

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