

**FOR IMMEDIATE RELEASE**

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**ICRA Lanka has put the ratings of Softlogic Finance PLC and Softlogic Capital PLC under watch with developing implications**

Company	Instrument	Rated Amount (LKR Mn)	Outstanding Amount (LKR Mn)	Rating Action
Softlogic Capital PLC	Issuer Rating	N/A	N/A	[SL]BBB+; rating put on watch with developing implications
Softlogic Capital PLC	Senior Unsecured Redeemable Debenture	1,500	1,500	[SL]BBB+; rating put on watch with developing implications
Softlogic Finance PLC	Issuer Rating	N/A	N/A	[SL]BB-; rating put on watch with developing implications

**Material Event**

On September 29, 2020, Softlogic Capital PLC (SCAP) and Softlogic Finance PLC (SFP) made a disclosure to the CSE, announcing that Softlogic Capital, the parent company of Softlogic Finance PLC, has agreed to acquire 49.67% of Abans Finance PLC (BB+; Negative by Fitch) from its major shareholder Abans PLC (BBB+; Negative by Fitch), at a price of LKR 30.10 per share. As in June 2020, Abans Finance PLC had 66.56 million ordinary shares outstanding and Abans PLC owned 49.67% while Ironwood Investment Holdings Pvt Ltd owned 41.89%. Softlogic Capital has further announced that the Company intends to merge Abans Finance PLC (AFP) with its existing subsidiary Softlogic Finance PLC. As per the disclosure, AFP's shareholders will receive 11 ordinary shares of SFP for every 6 shares they hold in AFP. The above transaction is subject to necessary regulatory approvals.

**Impact of the Material Event**

**Capitalisation profile to improve for the merged entity:** The capitalization profile of SFP remains weak, with risk-weighted core capital adequacy ratio negative 5.6% as in March 2020, compared to the regulatory minimum of 6.5%; and the gearing ratio stood high at about 9.4 times. SFP's reported net worth stood at about LKR 2 Bn as in March 2020, and the Company is required to increase the same to LKR 2.5 Bn by December 2021, as per the minimum core capital requirements stipulated by the CBSL. ICRA Lanka expects SFP's capitalization profile to be favourably affected by the proposed merger, as Abans Finance had a reported net worth of LKR 1.6 Bn as in March 2020, while the risk-weighted core CAR stood at 14.3%, well above the regulatory minimum. The gearing ratio of the merged entity is expected to moderate to about 7.0 times, based on the two entities' reported net worth as in March 2020.

**Merger likely to result in scale benefits and cost synergies:** From the business profile point of view, portfolios of the two entities will compliment as SFP is trying to pivot towards vehicle leasing (from SME and working capital financing it previously focused on), while AFP's core product is two-wheeler leasing. The total asset base of the merged entity will be about LKR 30 Bn (SFP - LKR 21.7 Bn and AFP - LKR 9.1 Bn as in March 2020), which would give a scale advantage, especially among the mid-sized NBFIs. Further, ICRA Lanka expects the merged entity's cost to income ratio to improve through synergies.

**Asset quality expected to remain weak:** Both the entities report high NPA ratios compared to the systemic average. The Gross NPA of SFP stood at about 18.4% as in June 2019, while the AFP's gross NPA was about 23%<sup>1</sup> as in September 2019, compared to the system average of about 12% as in March 2020. ICRA Lanka expects the asset quality indicators of the merged entity to remain weak over the short to medium term due to subdued macroeconomic outlook.

ICRA will continue to monitor the developments closely and take appropriate rating action once there is more clarity on the proposed business plans of the combined entity post the conclusion of the transaction.

**Links to previous detailed rationale:** [Softlogic Finance PLC](#), [Softlogic Capital PLC](#).

**Links to applicable criteria:** [ICRA Lanka's Issuer Rating Methodology](#); [ICRA Lanka's Credit Rating Methodology for Non - Banking Finance Companies](#).

### **About Softlogic Capital PLC:**

Softlogic Capital PLC (SCAP) is a holding company under the Softlogic Group, a diversified conglomerate, listed on the Colombo Stock Exchange (CSE) with interests in healthcare, retail, financial services, ICT, leisure and automotive sectors. As in March 2020, Softlogic Holdings owned about 75% of the shareholding of SCAP. A listed Company itself, Softlogic Capital PLC has two listed subsidiaries, Softlogic Life Insurance PLC, (a licensed insurance company, with 52% holding) and Softlogic Finance PLC (a licensed finance company, with 73% holding). The Company also fully owns Softlogic Stock Brokers (Pvt) Ltd, a licensed stock broker of the Colombo Stock Exchange and Softlogic Asset Management (Pvt) Ltd, an investment management company.

For FY2020, SCAP (standalone) reported a net loss of LKR 267 Mn on a gross income of LKR 191 Mn as compared with a net profit of LKR 49 Mn on a gross income of 414 Mn in the previous fiscal. For the quarter ended June 30, 2020 SCAP reported a net loss of LKR 92 Mn on a gross income of LKR 59 Mn.

For FY2020, the SCAP group reported a consolidated net profit of LKR 1,168 Mn (PBT LKR 1,370 Mn) on a gross income of LKR 17.8 Bn, compared to a net profit of LKR 3,201 Mn (PBT LKR 1,033 Mn) on a gross income of LKR 15.0 Bn in the previous fiscal. For the quarter ended June 30, 2020, group reported a net loss of LKR 440 Mn on a total gross income of LKR 3,967 Mn.

### **About Softlogic Finance PLC:**

SFP was incorporated in 1999 as Capital Reach Leasing PLC (Capital Reach), a Specialised Leasing Company and, in 2007 the Company got registered as a Licensed Finance Company. In 2010, the Softlogic Group acquired the controlling stake of Capital Reach through its subsidiary Softlogic Capital PLC and renamed it as Softlogic Finance PLC. As of March 2020, Softlogic Capital PLC (SCAP) holds about 73% of the Company. Currently, as one of the mid-sized LFCs in Sri Lanka, SFP offers working capital and term loans to the SME segment, personal loans, gold loans and vehicle financing.

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<sup>1</sup> Source: Fitch rating release dated April 20, 2020

During FY2020, SFP reported a net loss of LKR 334 Mn on a total asset base of LKR 21,747 Mn via-a-vis LKR 204 Mn PAT in FY2019 on a total asset base of LKR 22,405 Mn

### Rating history for last three years:

Company	Instrument	Current Rating (CY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating	Date & Rating in	Date & Rating in	Date & Rating in	
Softlogic Capital PLC	Issuer rating	N/A		FY2021 [SL]BBB+; On watch with developing implications	FY2020 [SL]BBB+; Stable	FY2019 N/A	FY2018 N/A	
	Senior Unsecured Redeemable Debenture	1,500	1,500	[SL]BBB+; On watch with developing implications	[SL]BBB+; Stable	N/A	N/A	
Softlogic Finance PLC	Issuer rating	N/A		[SL]BB-; On watch with developing implications	[SL] BB-; Negative	[SL] BB; Negative	[SL] BB+; Stable	
	Guaranteed Redeemable Debenture programme	1,400	-	-	[SL]AAA (SO); Withdrawn	[SL]AAA (SO); Stable	[SL]AAA (SO); Stable	

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