

# Debenture Issue Briefing paper



**ASHA PHILLIP  
SECURITIES LTD**

Sri Lanka

## DFCC BANK PLC - Debenture Issue 2016 –



### Corporate Profile

DFCC Bank PLC was founded in 1955 and is one of the oldest development banks in Asia. Recently DFCC Bank and its subsidiary, DFCC Vardhana Bank got amalgamated and formed DFCC Bank PLC as a fully-fledged Licensed Commercial Bank, operating through 137 branches and service points. The group in addition to traditional products offers balance sheet restructuring; preference shares; guarantees; leasing; payment services; credit, debit, and travelers cards; and wealth management and priority banking services, as well as Internet and mobile banking services.

In addition, it provides dual currency deposits, treasury bills and bonds, repurchase and reverse repurchase agreements backed by government securities, repurchase agreements backed by corporate debt instruments, and Sri Lanka development bonds; and investment banking products and services, such as corporate finance and advisory, equities, fixed income, loan syndications and structured finance, derivatives and treasury products, and capital marketing and funding services.

Its Subsidiaries, Joint Venture & Associates are DFCC Consulting, LINDEL, SYNAPSYS, ACUITY Partners and NAMAL.

### ISSUE AT A GLANCE

<b>Issuer</b>	DFCC Bank PLC			
<b>Instrument</b>	Subordinated, Unsecured, Redeemable, Rated Debentures			
<b>Issue Rating</b>	'A+ (Ika)' by Fitch Ratings Lanka Limited			
<b>Issuer Rating</b>	AA- (Ika/Negative) by Fitch Ratings Lanka Limited			
<b>Trustees to the Issue</b>	Deutsche Bank AG – Colombo Branch			
<b>Number of Debentures to be Issued</b>	An initial issue of Forty Million (40,000,000) Debentures with an option to issue up to a further Ten Million (10,000,000) of said Debentures and with a further option to issue up to Twenty Million (20,000,000) of said Debentures at the discretion of the Bank in the event of an oversubscription of each tranche			
<b>Total Value of the Issue</b>	Sri Lanka Rupees Four Billion (LKR 4,000,000,000/-) with an option to raise further up to Sri Lanka Rupees One Billion (LKR 1,000,000,000/-) and with a further option to raise up to Sri Lanka Rupees Two Billion (LKR 2,000,000,000/-) at the discretion of the Bank in the event of an oversubscription of each tranche			
<b>Par/ Issue Value of a Debenture</b>	LKR 100/- per Debenture			
<b>Interest Rate</b>	Type	Interest rate	AER	Redemption
	Type A	12.15% Payable Annually	12.15%	60 Months (05 Years)
	Type B	12.75% Payable Annually	12.75%	84 Months (07 Years)
<b>Issue Opening Date</b>	02 November 2016			

<b>Issue Closing Date</b>	<p>22 November 2016 or such earlier date on which;</p> <ul style="list-style-type: none"> <li>✓ The maximum of 70 Mn Debentures are fully subscribed; or</li> <li>✓ The Board of Directors of the Bank decides to close the Issue upon the issue of 50Mn Debentures becoming fully subscribed</li> <li>✓ The Board of Directors of the Bank decides to close the Issue upon the initial issue of 40Mn Debentures becoming fully subscribed</li> </ul> <p>In the event the Board of Directors of DFCC decides to exercise the option to issue the second tranche of 10Mn Debentures but subsequently decides to close the subscription list prior to full subscription of the second tranche, and/or; further decides to issue the third tranche of 20Mn Debentures but subsequently decides to close the subscription list prior to full subscription of the third tranche, such decisions made shall be notified to the CSE on the day such decisions are made and the subscription list will be closed on the following Market Day</p>
<b>Minimum Subscription</b>	Applicants are allowed to invest in either; Debentures of Type A; and/or Type B subject to the minimum subscription of One Hundred (100) Debentures (LKR 10,000/-) and in Multiples of One Hundred (100) Debentures (LKR 10,000/-)
<b>Listing</b>	The Debentures will be listed on the Colombo Stock Exchange

### Objectives of the Issue

The main objective the Debenture offering is to strengthen the Tier II capital of the Bank. Further, these funds would supplement the ongoing deposit mobilization drive of the Bank to support the lending activities of DFCC as part of its normal course of business. The average net LKR lending per month is approximately LKR 1.3 Billion. DFCC will use these mobilized funds to support the lending in Corporate, Business and the SME sectors and the Debenture proceeds will be allocated to this purpose depending on the demand for credit arising from the above mentioned sectors during the financial year 2017. The Debenture issue would enable DFCC to better manage its asset and liability maturity mismatches and interest rate sensitivity gaps as well.

It is the understanding of the Bank that the main objective of strengthening the Tier II capital of the Bank will be achieved by the end of 2016. Further, approval has been obtained from the Central Bank of Sri Lanka to include the Debentures as Tier II capital of the Bank.

### Risks Related To Achieving The Objectives Of The Issue

Funds raised through this Debenture Issue will supplement the ongoing deposit mobilization drive of the Bank to support the lending and investment activities of DFCC as part of its normal course of business.

Given the forecasted growth in asset for the year 2017, we are confident that the monies so raised could be utilized in full within the year 2017. The Bank declares that the proceeds of the Debenture issue will not be utilised for Related Party Transactions.

Further, the long term Debenture Issue would also enable DFCC to better manage its asset and liability maturity mismatches and interest rate sensitivity. Since the proposed Debenture Issue is to raise up to LKR 7 Billion and as there is a strong demand for credit there is no specific risk factor that may lead to non-achievement of the objective of the Issue. However, if the Bank is unable to lend these funds before 31.12.2017 due to subdued credit growth, then those funds could be invested in Government Securities at zero default risk.

The Bank undertakes to disclose the progress of the utilization of proceeds in all of their future interim and annual financial statements, until funds are fully utilized for the respective objectives stated in the prospectus.

## Taxes With Regard To Interest Payment on Listed Debentures

As per Section 9(o) the Inland Revenue Act No.10 of 2006 as amended subsequently by Inland Revenue (Amendment) Act, No.18 of 2013, the interest income from any investment made on or after 01st January 2013 in corporate debt securities (i.e. Debentures), quoted in any stock exchange licensed by the SEC is exempted from income tax. Furthermore, in terms of Section 13(xxxxxxx) of the same Act, the profits and income earned from any such investment has also been exempted from income tax.

However, different tax treatment could be brought in by the future amendments to the same Act.

## Procedure for Application

- All applicants should indicate their CDS account number.
- Applicants should apply only for one Type of Debentures (i.e. either Type A Debentures or Type B Debentures) under one Application Form. In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used.
- Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/s, bank draft/s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS/SLIPS transfers directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to the following:
  - ❖ Payments for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by a Bank draft/cheque drawn upon any licensed commercial bank operating in Sri Lanka. Cheques or Bank Drafts should be payable to “**DFCC BANK PLC – DEBENTURE ISSUE 2016**” crossed “Account Payee Only” and must be honoured on the first presentation.
  - ❖ Payments for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either
    - ✓ Bank guarantee issued by a licensed commercial bank; or
    - ✓ Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-.
    - ✓ RTGS transfer with value on the date of the Issue Opening Date.
  - ❖ Multiple cheques or RTGS will not be accepted for Application values **below** LKR 100 Mn.
  - ❖ Payment for the Debentures by **Non-Residents** should be made only out of the monies available to the credit of a “Securities Investment Account” (SIA) maintained with any licensed commercial bank in Sri Lanka in accordance with the directions given by the Controller of Exchange in that regard to licensed commercial banks.

**An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the SIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the SIA.**

## Long Term Instruments and their corresponding interest rates

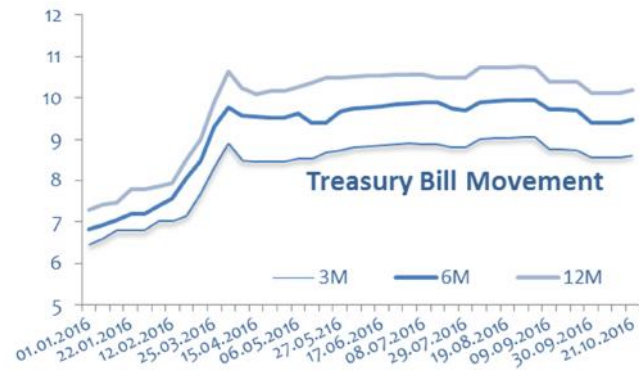
Treasury Bond			
Date	Rate	AER	Maturity
03 <sup>rd</sup> Oct 16	10.61%	10.89%	4 Years
1 <sup>st</sup> Sep 16	11.76%	12.11%	5 Years
03 <sup>rd</sup> Oct 16	10.96%	11.26%	8 Years
03 <sup>rd</sup> Oct 16	11.06%	11.37%	10 Years

5 Year Fixd Deposit Rates (~ AER)		
BANK	Rate	With effect from
NDB	11.35%	25 <sup>th</sup> Oct 2016
Sampath	8.45%	11 <sup>th</sup> Oct 2016
COMB	10.50%	13 <sup>th</sup> Oct 2016
HNB	10.55%	8 <sup>th</sup> Sep 2016

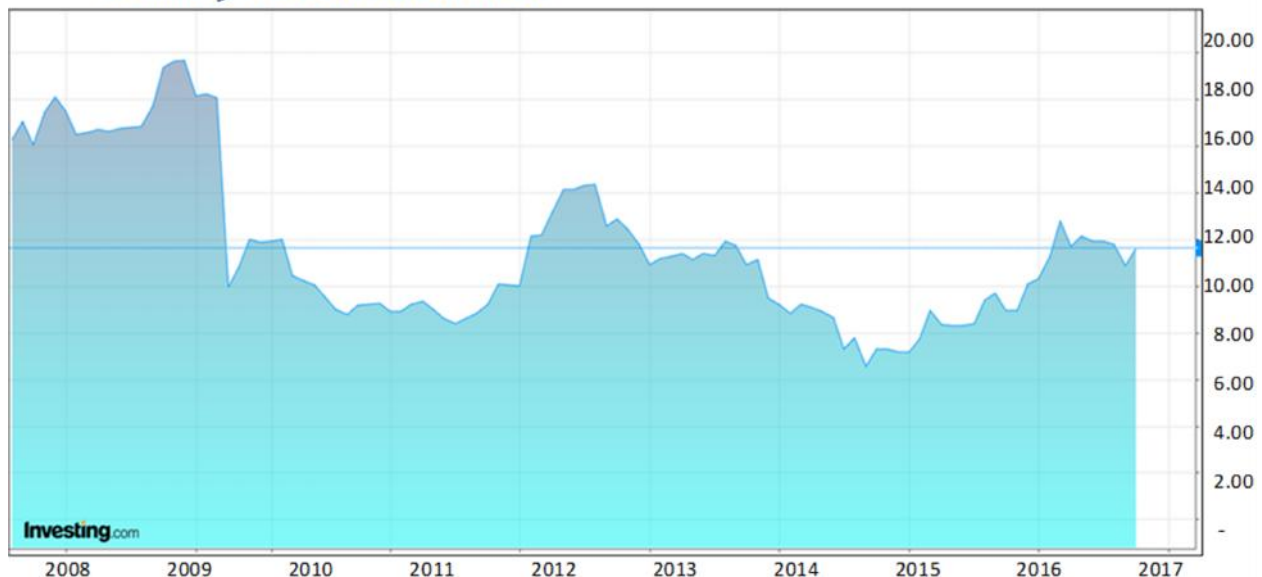
Central Bank's Policy Rates	
Description	Rate ( PA)
Standing Deposit Facility (SDF)	7.00 %.
Standing Lending Facility (SLF)	8.50 %.
Bank Rate	15.00 %.
Statutory Reserve Ratio (SRR)	7.50 %.

Recent Debenture Issues		
Company	Issue Rating	Rate
SFIN- 2016 Mar	BBB (Fitch)	12.00% (4Y)
SAMP - 2016 Jun	A+ ( Fitch)	12.75% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.00% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.75% (7Y)
COMB -2016 Oct	AA- ( Fitch)	12.00% (5Y)
COMB -2016 Oct	AA- ( Fitch)	12.25% (10Y)
HNB – 2016 OCT	A+ ( Fitch)	11.75% (5Y)
HNB – 2016 OCT	A+ ( Fitch)	13.00% (7Y)

Treasury Bill Rates (364 Days)	
Date	Rate ( PA)
26 <sup>th</sup> Oct 2016	10.24
19 <sup>th</sup> Oct 2016	10.19
05 <sup>th</sup> Oct 2016	10.11



Sri Lanka 5-Year Bond Yield Overview



## Financial Information of the Group

OPERATING RESULTS	2011/12	2012/13	2013/14	2014/15	2015 *9M
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Gross Income	12,606	18,197	20,376	20,094	17,503
Profit Before Taxation	3,694	4,456	4,117	5,416	2,553
Taxation	656	882	902	977	911
Profit After Taxation	3,038	3,574	3,215	4,439	1,642
Other Comprehensive Income, Net of Income Tax	(4,467)	1,677	1,455	4,855	(3,358)
Total Comprehensive Income	(1,429)	5,251	4,670	9,294	(1,716)
<b>Assets</b>					
Deposits	45,619	62,750	80,917	92,712	110,551
Borrowings and Debentures	44,426	47,739	50,075	64,975	87,381
Loans & Receivables (Net)	89,560	104,033	117,715	138,886	164,945
Total Assets	125,491	151,194	174,995	210,610	247,109

Performance Indicators		2011/12	2012/13	2013/14	2014/15	2015 *9M
Return on Average Assets	%	2.90	2.70	2.10	2.50	0.80
Return On Average Equity	%	12.10	13.10	10.90	14.00	5.60
Income Growth	%	(20.37)	44.35	11.97	(1.38)	(12.89)
Dividend Cover	Times	3.10	2.80	2.00	2.20	0.70
Property, Plant and Equipments to Shareholder's Funds	%	3.46	3.45	3.28	2.76	2.93
Total Assets to Shareholder's Funds	Times	3.81	4.05	4.33	4.36	5.62
Total Deposit Liabilities to Capital (Equity)	Times	1.39	1.68	2.00	1.92	2.51
Capital Funds to Liabilities (Including Contingent Liabilities)	%	24.67	24.37	21.03	20.33	15.75
Liquid Assets to Liabilities	%	52	53	77	48	22

## Analysis for Investment

The Type A debentures of DFCC Bank PLC will generate an Annual Equivalent Rate of 12.15 % and is for tenure of Five Years. The Type B debentures of DFCC Bank PLC will generate an Annual Equivalent Rate of 12.75 % which is having a maturity of Seven Years.

The AER for 5-year period fixed deposits with interest paid annually of four selected leading high credit worthy banks in Sri Lanka (such as NDB, Sampath, COMB, and HNB) range between 8.45% to 11.35%. The 5-year Treasury bond will yield an AER of 12.11% and the 10-year Treasury bond will yield an AER of 11.37% .

In terms of risk levels, Treasury Bonds and Bills are the least risky in comparison to Commercial Banks as they are government gilt edged securities. The selected Commercial Banks are rated high by the various credit rating agencies and thus have a low risk level.

DFCC Bank PLC debentures are Listed Unsecured Subordinated Redeemable Debentures. Rated “A+ (lka)” by Fitch Ratings Lanka Limited and are redeemable at the time of maturity. Listed Debentures are tradable on the secondary market but are fairly illiquid in the present context.

The decision to invest is based on the expected risk-return profile of the investor.

## Contact Information

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