

# Debenture Issue Briefing paper



**ASHA PHILLIP  
SECURITIES LTD**

SriLanka

## PEOPLE'S LEASING & FINANCE PLC - Debenture Issue 2016 -



### Corporate Profile

People's Leasing and Finance PLC was founded in 1995 and is one of the leaders in the leasing sector of the country. As a subsidiary of People's Bank, the group enjoys government protection along with private sector flexibility. Group provides finance leases, term loans, Islamic finance, public deposits, and margin trading services to individuals, small & medium enterprises and blue chip companies. Group diversified into five subsidiaries operates through Lease and Hire-Purchase, Loans, Islamic finance, insurance, and other segments.

In addition to traditional deposit products, group provides promissory notes, commercial papers & other debt instruments. The group's loans and leasing products comprise finance & operating leases, hire purchases, mortgage, term and refinance loans; and letters of guarantee. It also provides micro finance products, fleet management services and develops commercial buildings, as well as provides financial support to realtors and builders of condominiums and commercial purpose buildings, offers general insurance, such as motor, fire, engineering, marine, and miscellaneous insurance products; and provides margin trading services.

Its Subsidiaries are People's Insurance Limited, People's Leasing Property Development Limited, People's Leasing Havelock Properties Limited, People's Leasing Fleet Management Limited and People's Microfinance Limited.

Group has expanded the geographical reach by adding 92 branches across the country and 110 window offices located in People's Bank branches all over the country. The total staff strength is 1,834 and total customer base is 292,481 as at end of March 2016.

ISSUE AT A GLANCE				
<b>Issuer</b>	People's Leasing & Finance PLC			
<b>Instrument</b>	Rated Senior Unsecured Redeemable Debentures			
<b>Issue Rating</b>	"AA- (Ika)" by Fitch Ratings Lanka Limited			
<b>Issuer Rating</b>	"AA-(Ika)" with a "Stable Outlook" by Fitch Ratings Lanka Limited			
<b>Trustees to the Issue</b>	Bank of Ceylon			
<b>Number of Debentures to be Issued</b>	An initial Issue of Sixty Million (60,000,000) Rated Senior Unsecured Redeemable Debentures with an option to issue up to a further Twenty Million (20,000,000) of said Debentures, at the discretion of the Company, in the event of an oversubscription of the initial Issue			
<b>Total Value of the Issue</b>	Sri Lanka Rupees Six Billion (LKR 6,000,000,000/-) with an option to raise up to a further Sri Lanka Rupees Two Billion (LKR 2,000,000,000/-), at the discretion of the Company, in the event of an oversubscription of the initial Issue			
<b>Par/ Issue Value of a Debenture</b>	LKR 100/- per each Debenture			
<b>Interest Rate</b>	Type	Interest rate	AER	Redemption
	Type A	11.90% Payable Semi Annually	12.25%	36 Months (03 Years)
	Type B	12.25% Payable Semi Annually	12.63%	48 Months (04 Years)
	Type C	12.60% Payable Semi Annually	13.00%	60 Months (05 Years)

<b>Issue Opening Date</b>	07 <sup>th</sup> November 2016
<b>Issue Closing Date</b>	25 <sup>th</sup> November 2016 or such earlier date on which; <ul style="list-style-type: none"> <li>✓ The maximum of 80Mn Debentures are fully subscribed; or</li> <li>✓ The Board of Directors of the Company decides to close the Issue upon the initial Issue of 60Mn Debentures becoming fully subscribed or such other higher amount less than the maximum amount of 80Mn Debentures becoming fully subscribed</li> </ul> with the notification to the CSE on the occurrence of the above. In the event the Board of Directors of the Company decides to exercise the option to issue further upto 20Mn Debentures (having subscribed the initial Issue) but subsequently decides to close the subscription list upon part of the further Issue of 20Mn Debentures becoming subscribed, such decision is to be notified to the CSE on the day such decision is made and the subscription list will be closed on the following Market Day.
<b>Minimum Subscription</b>	Applicants are allowed to invest in either; Debentures of Type A; and/or Debentures of Type B; and/or Debentures of Type C Subject to the minimum subscription under each type as given below. A minimum of One Hundred (100) Debentures (LKR 10,000/-) and in multiples of One Hundred (100) Debentures (LKR 10,000/-) thereafter
<b>Listing</b>	The Debentures will be listed on the Colombo Stock Exchange

### Objectives of the Issue

The funds raised through this Debenture Issue will be utilized to finance the budgeted lending portfolio and working capital requirements. It is the intention of the Company to utilize the entirety of the Debenture proceeds to finance the budgeted lending portfolio in the ordinary course of business within the next 12 months from the date of allotment which in turn will manage assets and liability mismatch and to minimize the interest rate risk.

Further, the proceeds of the Issue would not be utilized to fund the proposed acquisition of Alliance Leasing & Finance Co. Ltd in Bangladesh. The Company has access to array of funding sources, including different types of deposits and borrowings. As such, the proceeds of the Debenture Issue is only one such source in financing its term budgeted lending portfolio. In the case of an under subscription of the Debenture Issue, the Company will pursue on the other normal funding sources afore mentioned to finance any gaps required to achieve the budgeted lending portfolio. The Company will disburse the proceeds of the Issue in the ordinary course of business as stated above and does not intend to lend the funds raised from this Debenture Issue to related parties.

The proceeds of this Debenture Issue will not be taken for Tier II Capital of PLC. The utilization of the proceeds of the Debenture Issue will be disclosed in the Annual Report and the Interim Financial Statements from the Issue Opening Date and until the objectives of the Debenture Issue are achieved.

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

During the first four months of the FY 2016/17, the total disbursement of loans and receivables has been over LKR 25.5 Billion compared to the budgeted lending of approximately LKR 26.6 Billion for the said period. Since PLC forecasts a higher demand for loans and receivables than the amount to be raised via the Debenture Issue, the Company foresee no specific risk factor in granting loans and receivables from the proceeds of the issue within the specified time period.

However, if the Company fails to grant such loans and receivables within the expected time period, the proceeds can be invested in Government Securities at zero default risk in the interim period until such funds are disbursed for lending purposes. Hence, the proceeds of the Issue would be utilized for the above stated objective and will not be utilized to settle any outstanding long term borrowings of the Company.

However, if there are any outstanding short term borrowings (such as overdraft facilities, short term bank borrowings) which were utilized for working capital requirements at the time of the Company receiving the funds raised by this Debenture Issue, the Company intends to settle such short term borrowings.

### **Taxes With Regard To Interest Payment on Listed Debentures**

As per Section 9(o) of the Inland Revenue Act No. 10 of 2006 (as amended by Section 4 of the Inland Revenue (Amendment) Act No. 18 of 2013), as at the date of this Prospectus, the interest income from any investment made on or after 01<sup>st</sup> January 2013 in corporate debt securities (i.e. debentures), quoted in any stock exchange licensed by the SEC is exempt from income tax. Furthermore, in terms of Section 13(xxxxxxx) of the Inland Revenue Act No. 10 of 2006 (as amended by Section 5 of the Inland Revenue (Amendment) Act No. 18 of 2013), as at the date of this Prospectus, the profits and income earned from any such investment has also been exempted from income tax.

### **Procedure for Application**

- All applicants should indicate their CDS account number.
- Applicants should apply only for one Type of 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.
- Application Forms may be signed by a third party on behalf of the Applicant(s) provided that such person holds the Power of Attorney (POA) of the Applicant(s). A copy of such POA certified by a Notary Public as “True Copy” should be attached with the Application Form. Original of the POA should not be attached.
- 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 “**PEOPLE’S LEASING & FINANCE PLC – DEBENTURE ISSUE 2016-1**” 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.
  - ❖ Funds for the investment in Debentures and the payment for Debentures by **Non-Residents** should be made only out of the monies available to the credit of a “Securities Investment Account” (SIA) of the Non-Resident Applicants opened and maintained in a 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

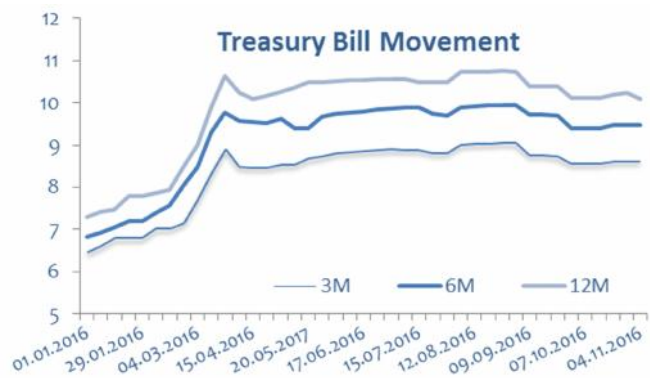
Treasury Bond			
Date	Rate	AER	Maturity
03 <sup>rd</sup> Oct 16	10.61%	10.89%	4 Years
1 <sup>st</sup> Sep 16	11.76%	12.11%	5 Years
03 <sup>rd</sup> Oct 16	10.96%	11.26%	8 Years
03 <sup>rd</sup> Oct 16	11.06%	11.37%	10 Years

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%	3 <sup>rd</sup> Nov 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
SAMP - 2016 Jun	A+ ( Fitch)	12.75% (5Y)
SEYB- 2016 Jul	BBB+(Fitch)	13.00% (5Y)
COMB -2016 Oct	AA- ( Fitch)	12.00% (5Y)
COMB -2016 Oct	AA- ( Fitch)	12.25% (10Y)
HNB – 2016 OCT	A+ ( Fitch)	11.75% (5Y)
DFCC - 2016 Nov	A+ ( Fitch)	12.15% (5Y)
NTB - 2016 Nov	A- ( Fitch)	12.65% (5Y)

Treasury Bill Rates	182 Days	364 Days
Date	Rate ( PA)	Rate ( PA)
4 <sup>th</sup> Nov 2016	9.47	10.14
26 <sup>th</sup> Oct 2016	9.48	10.24
19 <sup>th</sup> Oct 2016	9.46	10.19



Sri Lanka 5-Year Bond Yield Overview



## Financial Information of the Company

OPERATING RESULTS	2011/12	2012/13	2013/14	2014/15	2015/16
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Gross Income	12,912	18,205	20,628	20,542	19,186
Profit Before Taxation	3,781	4,135	4,387	5,375	6,143
Taxation	1,206	1,285	1,263	1,622	1,796
Profit After Taxation	2,575	2,850	3,124	3,753	4,347
Loan Impairment Charges	308	698	1,218	1,645	258
FINANCIAL POSITION					
Deposits	-	18,847	40,921	34,094	33,836
Borrowings and Debentures	58,740	56,232	48,605	49,848	60,819
Loans & Receivables (Net)	71,289	88,404	90,218	98,411	09,872
Total Assets	78,658	97,437	113,776	112,323	24,336

PERFORMANCE INDICATORS		2011/12	2012/13	2013/14	2014/15	2015/16
Return on Average Assets	%	5.62	4.70	4.15	4.75	5.19
Return On Average Equity	%	20.39	16.36	16.79	18.61	19.80
Income Growth	%	40.00	41.00	13.00	-	(7.00)
Dividend Cover	Times	3.01	1.46	1.58	1.90	2.20
Interest Cover	Times	1.60	1.41	1.39	1.58	1.77
Current Ratio	Times	0.58	0.85	0.88	0.93	0.85
Debt-to-equity	Times	3.49	3.29	2.68	2.36	2.67
Tier 1 Capital ratio (Min 5%)	%	25.50	21.15	19.12	20.22	19.56
Loans-to-Deposits	%	na	469.06	220.47	288.65	324.72

## Analysis for Investment

The Type A debentures of “People’s Leasing & Finance PLC” will generate an Annual Equivalent Rate (AER) of 12.25 % and is for tenure of Three Years. The Type B debentures will generate an AER of 12.63% which is having a maturity of Four Years. Type “C” Debentures will generate an AER of 13.00% which is having a maturity of Five Years. Coupon Payment Frequency of all three types of debentures are on Semi Annual basis.

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.

People’s Leasing & Finance PLC debentures are Listed Senior Unsecured Redeemable Debentures. Rated “AA-(Ika)” by Fitch Ratings Lanka Limited and are redeemable at the time of maturity. Listed Debentures are tradable on the secondary market but are relatively illiquid in the present context.

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

## Contact Information

### Contact Information (Head Office)

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Kiribathgoda	Embilipitiya	Kandy
#94, Udeshi City Shopping Complex, 2nd Floor, #2/12, Makola Road, Kiribathgoda. Tel. 011 2908511	#62, Sampath Bank Building, Main Street, Embilipitiya. Tel. 047 2261950	# 88, Ceybank House, Dalada Vidiya, Kandy. Tel. 081 2204750
Anuradhapura	Negombo	Gampaha
# 2nd floor, 488/8/2, Town hall place, Maithreepala senanayaka mawatha, Anuradhapura Tel. 025 2234705	#72 A 2/1, Old Chilaw Road, Negombo. Tel. 031 2227474	#107, Sanasa Ideal Complex, Buddhaloka Mawatha, Gampaha. Tel. 033 2234888

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