



**PEOPLE'S LEASING CO.LTD**  
We are born to deliver what we promise  
A Subsidiary of the People's Bank

## People's Leasing Co Ltd (PLC)

People's Leasing Co Ltd (PLC) is a group of company, with business operations in Leasing and Hire Purchases, Micro Finance, Islamic Finance and Insurance. Further PLC is a registered finance-leasing establishment incorporated on 22nd August 1995 as a fully owned subsidiary of People's Bank. During the past 16 years, PLC has become a success story to be the market leader in the leasing sector in Sri Lanka, by acquiring 20% of the market share.

PLC provides financial products to the market in the form of finance leasing, Operating Leasing, HP facilities, Asset Financing and term Loans. In addition, PLC operates as a SEC licensed Margin Provider. PLC gained the "A (Ika) Stable" from Fitch Rating Lanka Limited in regard to its strong credit profile and as a group the company is recognized by the public as a "Total Financial Services Provider" due to the large product portfolio of the PLC group through a wide network comprising of 37 regional branches and 121 window offices located through PB branches.

### Initial Public Offering –PLC

PLC is to raise LKR 7Bn by Issuing 390Mn shares to the public at a consideration of LKR 18/- per share. This will be the 2nd largest IPO in Sri Lankan capital market which opens on the 03<sup>rd</sup> of November 2011.

### Objectives of the Offer

The main objective of the issue is to comply with the regulatory requirement of the monetary board of the Central bank of Sri Lanka. Which require all Financial Institutions to obtain a CSE listing as to improve the transparency of the institution; therefore this Offer will facilitate PLC to obtain the Listing on the CSE, and to achieve the required minimum public float of 25% in order to list on the Main Board. Further to this, PLC is to have a minimum of 1,000 public shareholders holding no less than 100 shares each.

**Recommendation – Buy @ LKR 18/- (Long Term)**

Leasing & Hire purchase	Loans	Insurance
Islamic Finance	Micro Finance	Investments
Fleet Management	Property Development	E Friends

IPO @ a Glance	
Ordinary Voting Shares	390,000,040
Issue Price	LKR 18/-
Amount to be Raised	LKR 7,020,000,720
Minimum Subscription	1,000 Shares
Issue Opening Date	3-Nov-11
Issue Closing Date	23-Nov-11
Earliest Issue Closing Date	3-Nov-11
CSE Listing	Main Board
Joint Managers to the Issue	NDBIB & CAL

Allotment Guidelines		
Category	(%)	Shares (Mn)
Employees	10.00%	39.00
Retail Individuals	22.50%	87.75
Unit Trust	10.00%	39.00
Non-Retail Investor	27.50%	107.25
Identified Investor	30.00%	117.00
<b>Total</b>	<b>100.00%</b>	<b>390.00</b>

**Minimum Subscription 1,000 shares @  
LKR 18/- per share**

## Objectives .....

PLC plans to utilize the IPO proceeds to partly finance its disbursements made through leasing, Hire Purchases and Loans. Moreover, PLC estimates that total funding requirement for this disbursement is approximately Rs. 12 – 14 Billion and PLC will allocate the total IPO fund to this purpose and the balance will be financed by bank borrowings, Issuance of Promissory notes and asset backed securitized instruments. PLC expects to utilize the entire IPO fund for the above mentioned purpose before the end of FY 2011/12.

Further the IPO will facilitate to broaden the ownership of the company and this will enhance the brand image of PLC amongst the people at large.

## Investment Synopsis

### • Superior Performance

PLC is well- positioned within the financial sector; PLC has recorded LKR 2.6Bn in after tax profit for 2010/11 period. Therefore surpassing the leading Commercial banks' in terms of profits, for the financial year 2010; the commercial bank performance is as follows NDB (LKR 2.2Bn), NTB (LKR 1Bn), PABC (LKR 362Mn) and UBC (LKR 150Mn). PLC during the first quarter of 2011/12 recorded LKR 1.7Bn in Profits including the transaction of reversal of credit losses valued at LKR 1.6Bn. Excluding this non-recurring event will record a Rs. 615Mn profit for the first quarter of 2011/12 and PLC continue to maintain its profits well above the major banking counters such as, NTB (LKR 494Mn), NDB (LKR 397Mn), PABC (210Mn) and far superior to the fastest growing Finance company, LB Finance (LKR 351Mn) and is a close competitor to the market leader in Finance Companies, Central Finance (LKR 618Mn) between 01<sup>st</sup> April to 30<sup>th</sup> June 2011.

### • Attractive IPO Price

PLC has taken steps to price the IPO fairly and realistically at a consideration of LKR 18/-per share. Based on the recurrent net profit of LKR 615.39Mn and annualized EPS of Rs. 2.10, The counter is priced at 8.57x trailing PER and is at a 37% discount to the prevailing sector PER of Banking & Finance and Insurance Sector. It is to be noted that prior to announcing the IPO, approximately 5% of total share has been allocated to existing employees and those shares have been blocked for a period of one year up until June 2012. It is evident that PLC has worked to minimize risk from the Company's end which could lead to reductions in price level at the trading commencement.

### • Aggressive Future Growth Strategies

PLC will increase its disbursements based on its product portfolio by using LKR 12Bn-14Bn and aggressively expand its presence by increasing its branch network. These strategies will facilitate PLC to further penetrate in to the financial markets and capture a larger market share.

• **Backed by People's Bank (PB)**

PLC is a 95% owned subsidiary of PB and therefore benefits from the expertise management, largest branch network, brand image and visibility of the parent Company. PLC is in a position to carrying out its business promotion activities.

**Ordinary Shareholding structure**

PLC was formed as a fully owned subsidiary of Peoples Bank, and on the 30<sup>th</sup> June 2011, the company carried out a capitalization of reserves and allotted 28,000 shares to People's Bank and committed staff members. Peoples Bank renounced 3.6Mn shares on this course in order to assign that to PLC staff. After that entire shareholding structure was subjected to sub-division of 1 share in to 15 shares.

Shareholder	Pre-IPO		Post-IPO	
	No of Shares	% Ownership	No of Shares	% Ownership
People's Bank	1,115,400,120	95.33%	1,115,400,120	71.50%
Employees - PLC	54,600,000	4.67%	54,600,000	3.50%
IPO investors	-	-	390,000,040	25.00%
<b>Total</b>	<b>1,170,000,120</b>	<b>100.00%</b>	<b>1,560,000,160</b>	<b>100.00%</b>

*The shares allotted to People's Bank and staff (54.6Mn) shares have been blocked for a period of one year from the date of allotment. These shares will not be available on the secondary market until 30<sup>th</sup> June 2012.*

• **Preference Shares**

In addition to the above mentioned Ordinary Shareholding Structure, PLC possesses 2 preference shares schemes.

**1. Fully Paid 17% Cumulative Redeemable Preference Shares issued at Rs 10 each on October 31, 2008**

*This consists of 50Mn shares (period: October 2008 - April 2016) and redemption will commence on October 2011, under this redemption scheme 5Mn preference shares will be redeemed at every 6 months with the principle amount plus interest.*

**2. Fully paid 17% Cumulative Redeemable Preference Shares issued at Rs 10/- per share on March 2009**

*This category too consists of 50Mn shares and the redemption is due to commence during March 2012 by 5Mn shares for every 6 months' and the final redemption will be on September 2016.*

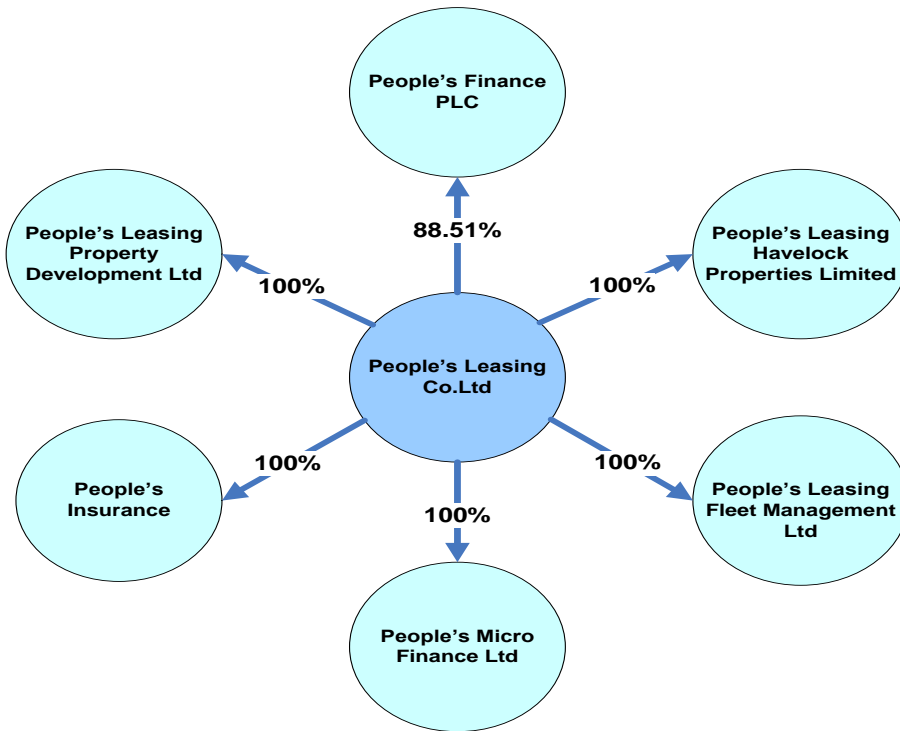
**Retailer category up to 11,100 shares**

Board of Directors
Mr. W. Karunajeewa - Non-Executive Chairman
Mr.D.J.D Jayakody – Non-Executive Director
Mr. N.V. Kumar – Non-Executive Director
Mr.H.G.W.S.S Bandara – Non-Executive Director
Mr. P.A.I.S Perera – Non-Executive Director
Mrs. M.G. Jinadasa – Non-Executive Director

**A (Ika)' Stable from Fitch Ratings Lanka Limited**

- Gold Award - Best Annual Report - 2009
- International Platinum Quality Award - 2009
- Best Corporate Citizen Award - 2009
- Sustainability Reporting Award - 2010
- ISO 27001:2005 Certification - 2010

## PLC – Group Structure



### People's Finance PLC (SMML)

SMML is a listed entity and 88.51% owned by PLC. SMML was acquired in June 2009 and operates as the deposit taking arm of PLC, having recorded LKR 6.04Bn deposit based at the year-end 2010/11. SMML engages in Leasing, HP and other loans and advances. SMML recorded LKR 6.65Bn asset base. In addition, SMML operates an Islamic Finance segment. SMML expects to increase its presence in the Eastern areas. Murabahah accounted for 14% of the lending portfolio in 2010/11, while Ijara portfolio accounted for 16% in FY 2010/11. SMML operates 23 branches and provides financial services through, Leasing & HP, Loans, Quick Cash Loans, Letters of Guarantee and Fixed Deposits & Savings.



### People's Leasing Property Development (PLPD)

This is the property development arm of the PLC group and PLPD undertakes the developments of office

Buildings and spaces for People's Bank and PLC group. Currently, PLPD managing the project of PLC head office at Borella, Colombo 08. This new head office building will have exclusive facilities. PLDL is a fully owned subsidiary of PLC.



### People's Microfinance Limited (PM)

This is a fully owned subsidiary of PLC and the main objective for establishing this company is

to uplift the standard of living of the low income community. At present, PM maintains a lending portfolio of LKR. 30Mn. PM has introduced general loans, Small Enterprise Loans, Poverty Alleviation Microfinance Project Loans and other loans mainly to purchase vehicles.

Further PM has initiated several CSR activities and this is the public welfare arm of the PLC group. PM engages in conducting training and skills development programs for unemployed youth and micro entrepreneurs in order to provide marketing and technical support.



### People's Leasing Fleet Management Ltd (PLFM)

PLFM is a fully owned subsidiary of PLC and product portfolio comprise with Operating Lease, Hiring, Vehicle Servicing, Valuation, Repair Workshop. "PLC Auto Care" new service station commenced vehicle valuation unit and expects provides high contribution. In addition, PLFM manages a fleet of 150-200 vehicles for corporate clients.



**People's Insurance Ltd (PI)**

100% owned subsidiary of PLC

and operates as the insurance arm of PLC group. The company is a high achiever in the insurance market and is currently ranked the 6<sup>th</sup> amongst the general insurance companies, based on the 30<sup>th</sup> June 2011 market statistics. PI has utilized the branch network of PLC to extend its service and has introduced a more innovative products in terms of Fire, Marine, Medical expenses, Goods in transits, Bankers indemnity insurance in addition to its main stream Motor Insurance.

**People's Leasing Havelock Properties Limited (PLHP)**



PLHP was established as a fully owned subsidiary of PLC in order to undertake a BOI approved construction project on Havelock Road, Colombo 05. This is to build an office complex and PLHP was granted a tax holidays to undertake this project.

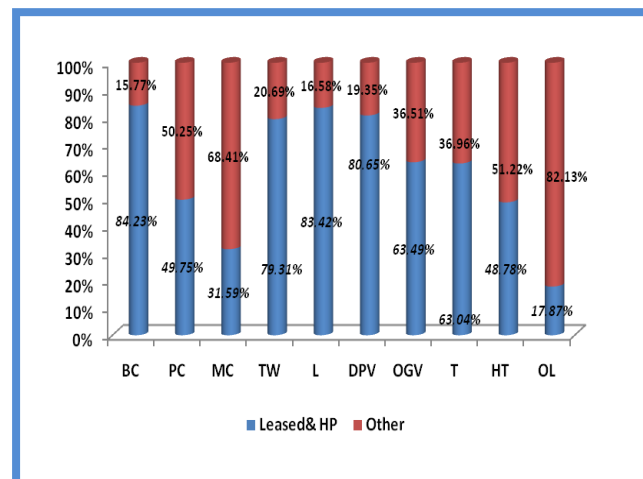
**Industry review**

**Leasing and Hire Purchase**

As at August 2011, there are 69 RFLEs operating in Sri Lanka which includes with 18SLCs, 35 RFCs, 12 LCBs and 4 LSBs. Leasing has become a popular asset financing method in the island due to leasing service providers match the cost of acquiring the asset with the timing of the revenue generated by utilizing the particular asset in a business. Provided VAT facilities has led to HP emerging as the preferred mode of financing the acquisition of used assets, particularly, second-hand vehicles, whilst leasing is utilized of the acquisition of new assets.

The average 50% reduction of import duties on imported vehicles in June 2010 led to exceptional growth in new vehicle registration combined with an eased economy and a simplified tax system. In 2010 the number of imported vehicles increased by 132% against 2009 mainly supported by importation of motor vehicles, which had 283% exceptional growth in 2010. Furthermore, total expenditure on transportation vehicle has increased by 45% to Rs. 72.5Bn in 2010. Recorded total vehicle registration for 2010 was 361,900 compared to 204,075 of 2009.

Vehicle Type	Leased& HP	Other	Total
Buses & Caoches (BC)	2,121	397	2,518
Private Cars (PC)	11,659	11,774	23,433
Motor Cycles (MC)	64,769	140,292	205,061
Three Wheelers (TW)	68,896	17,975	86,871
Lorries (L)	9,046	1,798	10,844
Dual Purpose Vehicle (DPV)	9,531	2,286	11,817
Other Goods Tran: Vehicles (OGV)	753	433	1,186
Tractors (T)	2,733	1,602	4,335
Hand Tractors (HT)	6,362	6,681	13,043
Other Land Vehicles (OL)	499	2,293	2,792
<b>Total vehicles</b>	<b>176,369</b>	<b>185,531</b>	<b>361,900</b>



But, subsequently import duties were raised on cars (with engine capacity below 1600cc) and three wheelers during early 2011 this slowed the growth in vehicle importation. The table above shows that Leasing & Hire purchases funds 50% of private cars, 80% for three wheelers and more than 80% for Buses and Lorries.

**Future of the Industry**

When analyzing the macro-economic factors, it is evident that the economy is utilizing its post-war benefits and it is seen through the economic development activity that has increased the standard of living of the people. The GDP per Capita increased to USD 2,399 in 2010 and is expected to increase to USD 4,000 in 2016. Therefore it will result in an increase in the demand for the credit from the economy. The Private sector credit was 25% of GDP at the end of 2009, and it has been increased further under the post-war era. The credit to GDP ratio is still lower to other Asian countries like Malaysia and Thailand. Therefore, it is evident that there is still spare capacity for growth in the credit market. The existing Finance and Leasing companies intend to capitalize on this opportunity.

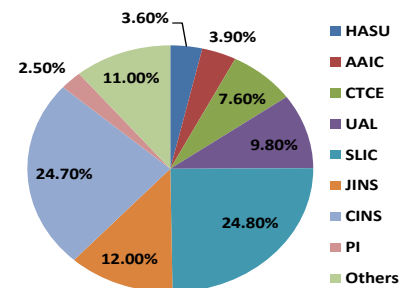
**Insurance Industry**

The Sri Lankan Insurance industry is segmented into 2 main categories. They are as follows, General Insurance and Long- term Insurance (Life Insurance). There are 19 companies operating in the insurance industry, out of which 7 companies are listed on the CSE. Further 12 companies out of the 19 counters offer both Long-term and General Insurance, 5 companies only operate in the General Insurance sector and the remaining 2 companies focus on the Long-term Insurance market.

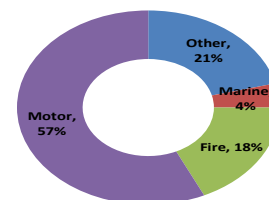
**General Insurance**

The General Insurance sector is dominated by the 2 major players in the industry, Ceylinco Insurance Company Ltd and Sri Lanka Insurance Corporation PLC jointly servicing nearly 50% of the market. In addition, top 5 counters in the industry includes Janashakthi, NDB Aviva and Union Assurance. The top 5 players in the market collectively account for 78% of the GWP in 2010. Gross Written Premium (GWP) of the General insurance sector increased to LKR 37Bn in 2010 and has recorded a CAGR of 14% in 2004. The Motor sector was the key contributor to the growth in the insurance sector. Further the GWP of the Motor industry increased by 19% to LKR 21.2Bn against LKR 17.8Bn in 2009 backed by the reduction in motor vehicle taxes.

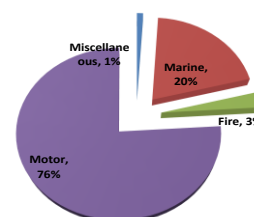
**Market Share in 2010 – General Insurance**



**GWP Breakdown by Segment - 2010**



**Claims Breakdown by Segment - 2010**



The reported total claims have reduced to 62% in 2010 and this is a gradual reduction over the last 5 years due to reduction of claims on fire insurance. But, the claims on motor insurance sector remain flat over the same time period.

### **Future of the Industry**

The insurance sector operates under a heavily regulated business environment. All insurance companies are registered in the Insurance Board of Sri Lanka (IBSL). The insurance industry is a highly competitive market, the hyper competition between the market participants has benefited the customers in terms of reduction in premium's, high quality service, etc. In terms of the companies they could be reducing their margins to maintain customers due to the competitive nature of the industry. This is dependent of the market share of the specific insurance company.

### **Micro Finance**

Micro Finance (MF) is a newly emerged financial product that gained popularity during the last decade; the main objective of MF is to increase the standard of living of the low income-generating segment by improving their borrowing capability. Within this industry Rural Development Banks, Samurdhi Bank Societies, Co-operative Rural Banks are the main players with in the industry. The Licensed Commercial Bank and Licensed specialized banks have exhibited keen interests to enter this niche market. These micro finance companies also provide services such as, loans, savings, insurance, remittances and other advisory services.

During 2010 the Micro Finance sector granted Rs. 58.4Bn loans to 1.3Mn active borrowers. The Micro Finance sector possesses a deposit base of Rs 54.8Bn. With the accelerated economic growth complimented by the Micro Finance sector performance, the islands poverty level has reduced to 8.9% in 2009/10 against the prevailed 15.2% in 2006/07. The Government has acknowledged the growth potentials in the industry and has recognized a funding requirement of Rs. 43.8Bn for the period of 2010-2012 and Rs. 58.4Bn for the period of 2013-16 for the Micro Finance sector in order improve the quality of life of the low income community.

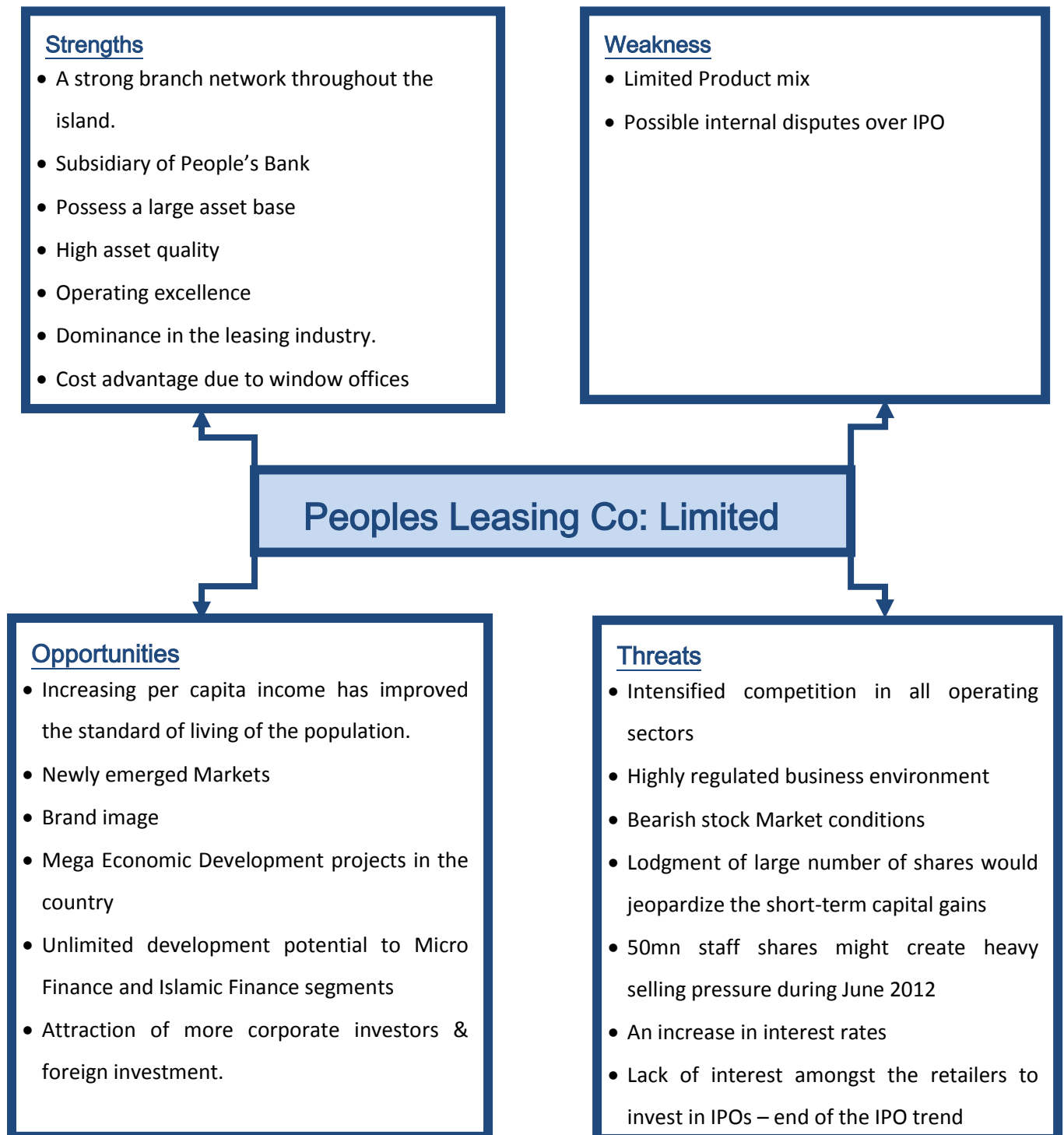
### **Islamic Finance**

The necessity for an Islamic Finance market was gradually became important during last 2 decades. It was recognized with the amendment to the Banking Act No 30 of 1988 in 2005 by which facilitated conventional banks to establish an Islamic Finance section. The popularity of this segment is evident, as currently there are 7 companies providing services under the Islamic finance ethics. The companies are as follows.

***Amana Bank Limited      MCB Bank Limited      Bank of Ceylon      People's Finance PLC***  
***Commercial Bank of Ceylon PLC      Lanka Orix Finance PLC      LB Finance PLC***

These companies use Murabahah, Mudharabah, Diminishing Musharakah, and Ijarah. Islamic Finance segment is at an early growth stage, and an establishment to formally legislate and govern this segment is currently under review. A variety of IF products are demanded by the financial markets. PLC participates in Islamic finance under the business operations of People's Leasing PLC (SMLL).

## SWOT Analysis



## Strengths

- **Extended branch network over the country**

Currently PLC has 37 branches and 121 window offices that are located at PB branches throughout the country. PLC has set up its branches in all the main cities. The picture shows how PLC has accessed to both urban and rural community. More over PLC is planning to increase the no of window offices to 200 in the future in order to assure further proximity mainly to rural folk. PLC is in a position to market its products to People's Bank clients within the People's Bank Premises at a very low advertising cost.

- **Subsidiary of People's Bank**

People's Bank, the 2nd largest commercial bank in Sri Lanka possess 95.33% stake of PLC (Post IPO 72%) and being a subsidiary of People's Bank, PLC is inherited lot of competitive advantages in terms of access to rural folk, Corporate advisory, Management Services, Company Image etc, which are not inherent to the company's competitors. People's Bank, the 2<sup>nd</sup> largest bank in Sri Lanka has set up more than 300 branches within the country and has built strong brand image. Being a subsidiary of Peoples' Bank, PLC is at a position to obtain all the internal businesses related to its product portfolio.

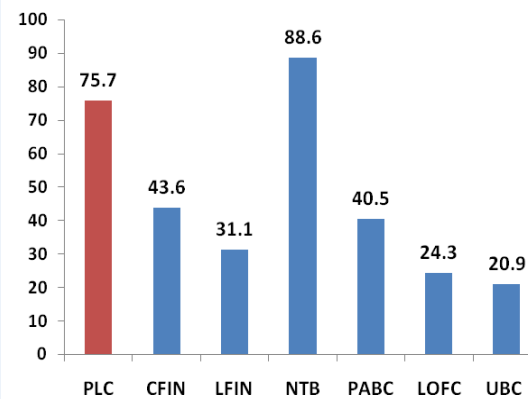
- **Asset base**

As at 30<sup>th</sup> June, PLC reported a LKR 75Bn asset base which is higher than some of leading commercial banks such as PABC and UBC. Further the company has a strong asset base in comparison to well-established registered finance giants like LB Finance and Central Finance. It is also vital to note that PLC possesses the business interest of Leasing & HP, Micro Finance, Islamic Finance and Insurance. All segments of the company are currently at an accelerated growth stages. PLC possesses 36% of the total assets of licensed leasing industry.

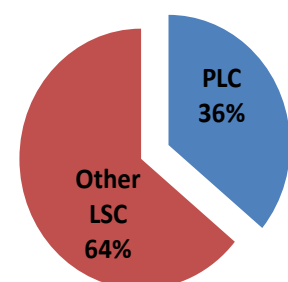
## Presence over the country



### Asset Base as at 30<sup>th</sup> June 2011 (LKR Bn)



### Licensed Leasing Industry- Asset



• **Asset quality**

In 2010/11, PLC reported non-performing loans (NPL) ratio of 1.2% which is below to the industry average of 5.1%. Moreover, PLC's NPL ratio has been maintained below the prevailed industry averages during the past 4 years. PLC expects to maintain this minimum level in the future by enhancing the recovery process.

• **Operating excellency**

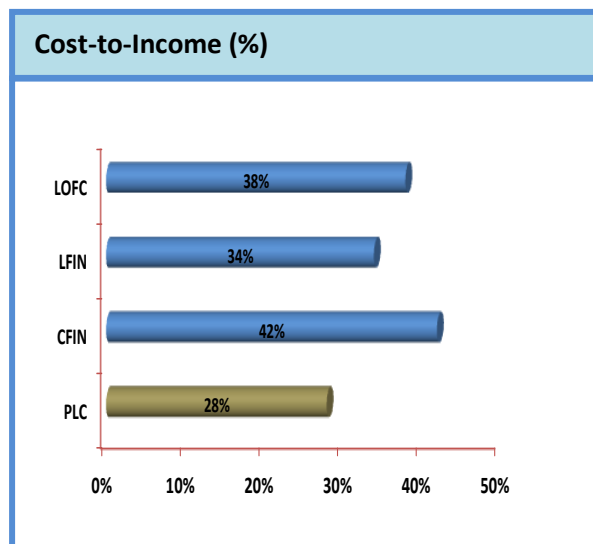
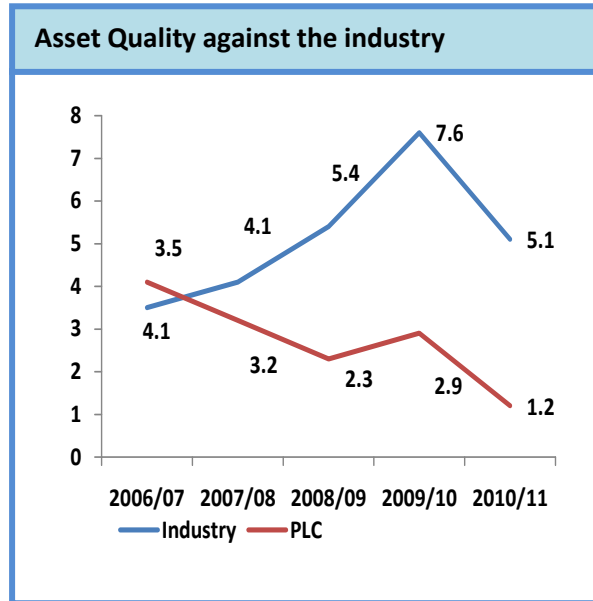
PLC is the market leader in the leasing industry claiming 20% within the industry. PLC recorded 42% CAGR in Operating profit during the past 4 years and 36% CAGR on Net Profit for the same period. PLC recorded 81% operating profit growth and 126% growth in the net profits during 2010/11 against 2009/10. PLC operates with a fully diversified finance product portfolio. At the end of 2010/11, PLC reported LKR 63.9Bn asset base with 39% growth during the past 4 years. The company experienced an increase in the growth rate during 2010/11 with a growth of 100% in comparison to 2009/10.

• **Dominancy in the leasing industry**

PLC accounts for over 20% market share in disbursements with a wide spread business network. Leasing & Hire Purchasing is the core business of PLC and PLC pioneered leasing & Hire purchases for buses in Sri Lanka and continues to be the market leader.

• **Cost leadership through window offices**

121 Window offices provide the competitive advantage to PLC in terms of cost reduction. Average monthly cost for maintaining a branch is LKR 90,000 and for a window office it is only LKR 45,000. Further to this, the initial set-up cost is low. This is a rare strength that other competitors do not possess. The cost saving will be improved further with the expected increases of window offices. The lowest Cost-to-Income ratio is a direct result of maintaining the Window office at lowest operational cost.



## **Opportunities**

- **Increasing per capital income has improved the standard of living of the population**

In 2010, Sri Lanka reported a per capita income of USD 2,399 and is expected to increase to USD 4,000 in 2016. This will facilitate to increase the credit demand within the private sector and will result in an increased demand for leasing and hire purchases. The ratio of private sector credit to the GDP of the economy is low compared to other Asian countries, reflecting a potential growth for credit demand in the future.

- **Newly emerged markets**

With the conclusion of 3 decade war in 2009, the North and Eastern provinces opened up for normal business operations. This resulted in the improvement of the quality of life of the inhabitants of this region by way of Improving employment opportunities and infrastructure developments, this is directly affect to increase the demand for credit in terms of loans, leasing and hire purchases.

- **Brand image**

PLC is a subsidiary of People's Bank who owns 95.1% of the company. PLC inherited some of the success through People's Bank. The company achieved many milestones and has received many awards for its contribution to the business world.

- **Mega economic development projects in the country**

With the implementation of Mega economic development projects particularly, with the construction projects it would lead to increase in demand for heavy vehicles for these projects. In addition, development on roads will lead to increase in demand for the Buses, Lorries and other dual purpose vehicles.

- **Potential growths on Micro finance and Islamic finance segments**

These 2 sectors are newly emerged niche markets and are at an early growth stage. It is expected that Rs.102Bn will be required to fulfill the finance requirements of micro finance segment during 2010-2016 period under the "Mahinda Chinthana" Vision. PLC will be a beneficiary of this as to its island wide presence. As to the Islamic Finance segment, continuous developments are taking place to introducing more Islamic Finance products. Legal provisions for the Islamic Finance are also being developed in terms of accounting, taxation and governance.

- **Expected fund injection from corporate and foreign investors**

PLC is planning to place 30% of the IPO shares to the selected investors, mainly to foreign investors. If PLC could gain the expected cash inflow, it would be a milestone not only for PLC but for the entire capital market amidst the Stock Market is experiencing a continuous net foreign outflow. Therefore the expected foreign investments would create a positive Perception amongst the foreign investors and this would allow the market to regain its liquidity. Further, PLC would be able to obtain active participation from these groups during a future funding requirement. If PLC is successful at attracting foreign investors, it will manage to maintain the share price and enhance short-term capital gains.

## **Threats**

- **Intensified competition in all the operating sectors**

PLC's main operations are Leasing & Hire Purchases, Micro Finance, and Islamic Finance and insurance. These segments are highly competitive industries. Though PLC is the market leader in terms of leasing and Hire purchase the company face heavy competition from Lanka Orix Finance PLC (LOFC), Commercial Leasing PLC, Central Finance PLC (CFIN), Nations Trust Bank PLC (NTB), etc.

With the establishment of Amana Bank PLC, the first Islamic bank in the island it has become the market leader in the Islamic Banking sector and has abrasively penetrated the market. In addition, MCB Bank Limited, Lanka Orix Finance PLC and Bank of Ceylon too have emerged as leading players in this sector.

General Insurance industry is dominated by 2 major players, Sri Lanka Insurance Corporation and Ceylinco Insurance acquiring more than 50% of the market share. This has created a barrier to entry to many small scale operators such as PLC. Further, leading players such as Union Assurance, NDB Aviva and Janashakthi Insurance operate with a significant market share. So that top five players in the insurance sector collectively possess 78% of the Total GWPs, therefore creating an entry barrier for small scale industry participants in the insurance industry.

In reference to the Micro Finance industry, PLC has to formulate strategies to maintain close access with the rural communities, since other competitors such as Rural Development Banks, Samurdhi Bank, Co-operative Rural Banks has gained recondition by the low income community. In order to be more competitive with its competitors, it is vital they use Peoples' Bank branch network to penetrate the market.

- **Highly regulated business environment**

The Sri Lankan financial market is a highly regulated, and legislations are amended or new regulations are introduced regularly by the regulatory bodies. The most recent directive was that there should be a minimum liquid asset requirement and the maintenance of a minimum capital adequacy ratio for Specialized Leasing Companies (SLC), based on this directive; SLCs have to maintain a minimum capital adequacy ratio of 10% and a minimum core capital ratio of 5% from 01<sup>st</sup> Jan 2012 onwards. This could lead to a reduction in funds that could be disbursed by PLC. This will further increase the confidence amongst the public in regard to financial institutions.

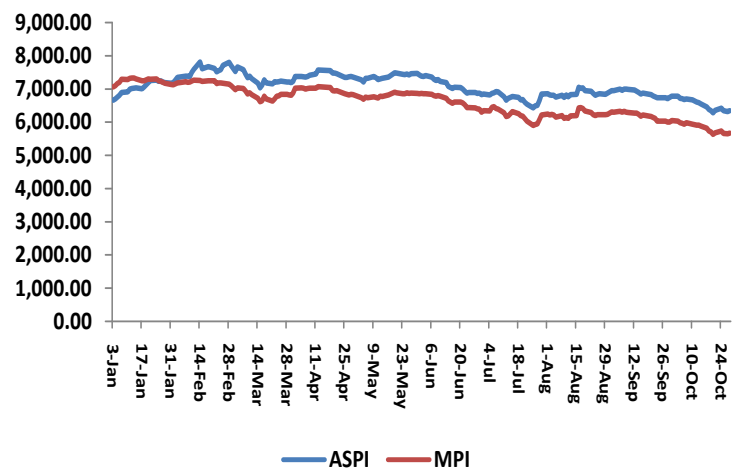
- **Prevailing bearish market conditions**

Market PER has reduced to 16.5X and it is expected to further drop due to the prevailing market conditions. The market has been experiencing selling pressures and has recorded a net foreign outflow of Rs 17Bn until September this year. Short-term capital gains depend on market conditions at the trading commencement day of the share. If the inactive market conditions continue, it is probable that a short term gain would be unlikely. The bearish market conditions from mid February, resulted in the ASPI dropping 1,463 points and MPI dropping 1,587 points to the end of the October resulting in drop in the portfolios values of investors. Further due to inactive market conditions, market turnovers and trading volumes have dropped dramatically.

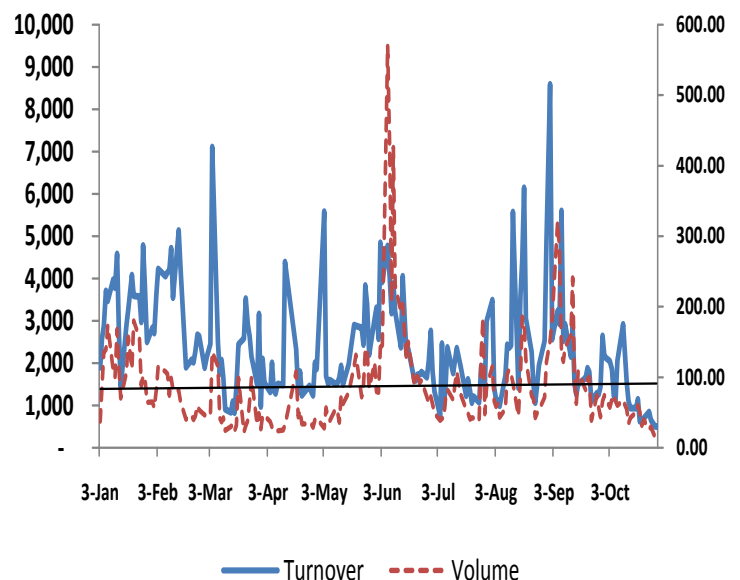
- **Lodgment of large number of shares**

The PLC IPO is the second largest IPO in the Sri Lankan history. The company is to issue 390mn shares to the public, of which 87.5mn shares will be allocated to retailers. This could lead to selling pressure upon commencement of trading and could lead to a drop in the share price.

**ASPI & MPI during the year 2011- Bearish Market**



**Market Turnover (LKR Mn) and Volumes (Mn) on 2011**



- **Employees' shares**

50mn shares have been allocated to the staff by way of capitalizing the reserves. The complimentary shares have been blocked for trading for a period of 1 year until June 2012 upon which are under no obligation to trade on the secondary market. At which point there could be a selling pressure on the share if the employees decide to liquidate their complimentary shares, which will create a medium term threat to the share price.

- **Lack of interest on IPO's**

During early 2011, it is witnessed an IPO trend amongst the retail investors, due to the extraordinary profits made by investors on the maiden trading day of the share. This led the retailers to aggressively buy shares and disposed the allotted shares on the first trading day. During the latter part of the year the IPO trend was fading away due to investors having to bear losses or to hold an investment for a prolonged period. This was due to dull market conditions amalgamated with pricing issues of IPO's which led to unexpected reductions in price levels at the secondary market, upon the commencement of trading. It is to be noted note that some IPO's are yet to meet its issue price at first trading date, which are currently trading below its IPO Issue price.

- **Increase in interest rates**

The economy is exhibiting overheating signs this has resulted in inflationary pressures. This could lead to an increase in interest rates to battle the rising inflation. Further evidence to this due to, Bank deposit rates, Treasury bill rates and Prime lending rates continuously increasing. These increased rates will decrease the demand for the credit in terms of Hire purchase and Leases.

## **Weaknesses**

- **Lack of product mix**

PLC revenue stream depends mainly on 4 business segments Leasing & Hire purchases, Micro Finance, Islamic Finance and Insurance. As a well -established group, the company should have open-ended business opportunities in terms of wealth management, treasury operations, Investment banking etc. which are more lucrative businesses. Diversification will facilitate to mitigate business risk and enhance the corporate image.

- **Existing internal disputes over Share Issue**

The printed media highlight the unresolved issue between senior management and the trade union of the Peoples Bank group regarding the IPO. Though this is at an infant stage, it is the responsibility of the senior management to intervene in due course and resolve the issue in a satisfactory manner.

## Financial Information

	2011/12 1st Quarter	2010/11 (Rs Mn)	2009/10 (Rs Mn)	2008/09 (Rs Mn)	2007/08 (Rs Mn)	2006/07 (Rs Mn)
Interest Income	2,950	8,916	6,776	5,744	3,973	3,294
<i>YoY growth</i>		31.57%	17.96%	44.58%	20.60%	
Interest Expenses	1,428	3,902	3,323	3,208	2,161	1,548
<i>YoY growth</i>		17.44%	3.57%	48.44%	39.64%	
Net Interest Income	1,522	5,014	3,454	2,536	1,812	1,747
<i>YoY growth</i>		45.17%	36.16%	39.99%	3.73%	
Profit from Operations	2,674	4,244	2,333	2,151	1,389	1,041
<i>YoY growth</i>		81.89%	8.45%	54.91%	33.45%	
Profit for the Year*	1,734	2,611	1,152	1,039	803	748
<i>YoY growth</i>		126.65%	10.91%	29.38%	7.35%	
Profit of Equity Holders	1,727	2,605	1,153	1,039	803	748
		126.00%	10.97%	29.38%	7.35%	
Loans, Lease Rentals,HP & Islamic Finance	65,373	55,629	28,509	22,533	19,222	15,913
<i>YoY growth</i>		95.13%	26.52%	17.23%	20.79%	
Total Assets	75,676	63,852	32,890	25,538	20,672	17,046
<i>YoY growth</i>		94.14%	28.79%	23.54%	21.27%	
Total Deposits	6,135	4,647	1,667	-	-	-
<i>YoY growth</i>		178.69%	N/A			
Total Shareholders Funds	10,057	8,383	6,173	5,439	3,617	3,030
		36%	13%	50%	19%	
<b><u>Key Ratios</u></b>						
<i>NII Margin</i>	51.60%	56.23%	50.97%	44.15%	45.60%	53.02%
<i>Dilued EPS*</i>		2.23	0.98	0.89	0.69	0.64
<i>NAVS</i>	8.60	7.16	5.28	4.65	3.09	2.59
<i>ROE</i>		31.07%	18.67%	19.10%	22.19%	24.68%
<i>ROA</i>		6.65%	7.09%	8.42%	6.72%	6.11%
<i>Loans, Lease Rentals,HP to Total Assets</i>	86.4%	87.1%	86.7%	88.2%	93.0%	93.4%

\* This contains a one- off profits of LKR 1.6Bn resulting a reversal of General provision for credit losses.

Therefore recurring profits for the first quarter was LKR 615,391,003 and it derives a diluted EPS of LKR 0.53 for the quarter. This represents an annualized EPS of LKR 2.10 for the year 2011/12.

## **The Five years summery**

**Interest Income** -Reported interest income for 2011/12 stands at LKR 8.9Bn and recorded a CAGR of 28% growth over the past 4 years. Higher growth levels are observed during 2010/11 and 2008/09 financial years. PLC expects to maintain its lending rates for new assets for the next five year period as follows.

Leasing – 13.50% - 13.00%

HP- 16.75% - 16.25%

Loans -16.75% - 16.25%

The rates for the existing portfolios will also be reduced in-line with the above forecasted market rates.

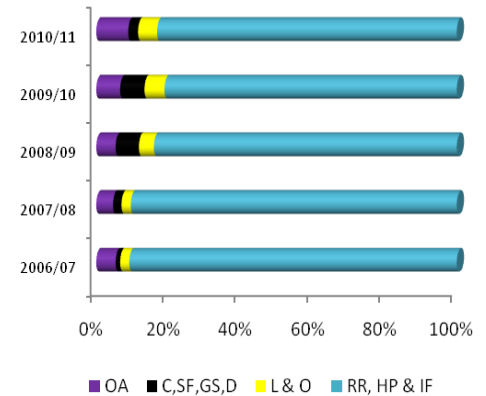
**Net Interest Income (NII)** – During the last 4 years NII has been growing at a CAGR of 30%. The NII margin has improved during the first quarter of 2011/12 to 51%. PLC expects that reduction on the margin due to forecasted reduction in the interest rates within the economy. The overall NII will increase gradually due to increase in volumes.

**Net Profit to Equity Holders** – The past 5 year performance reflects the steady growth of the shareholders wealth. During past 4 years PLC Net profits grew at a CAGR of 37%. The growth saw an exponential growth during 2010/11 which was an exceptional year for the group recording 126% YoY growth. This was a result to an increased in the lending portfolio due to macro-economic growth in the economy.

**Lending Portfolio** – PLC's Lending portfolio consists of Leasing, Hire Purchases and other Loans. In reference to the 2010/11 lending portfolio, 47% has been allocated to Leasing and 49% for Hire Purchases and remainder for other loans. Total lending portfolio reported a growth of CAGR 37% during the past 4 years. Further the company experienced a 95% YoY growth during 2010/11 and further recorded LKR 65.4Bn as at June 2011. It is evident that PLC has been successful in capturing the prevailed market opportunities. The demand for vehicles increased during 2010/11 due to the reduction in import duties during mid-2010, amalgamate with the increase in per capital income created an excess demand for credit within the economy this was further fueled with the addition of Northern and Eastern provinces to the revenue streams of the economy. PLC expects to increase its Lease and HP portfolio to LKR 150Bn in 2013/14 and to LKR 200Bn in 2015/16.

**Asset Base** – Total Asset of PLC increased to LKR 75.7Bn at the closure of the first quarter in 2011/12. The main driver for this accelerated growth was the enlargement of the lending portfolio and PLC expects the total asset base to exceed to LKR 200Bn in 2014/15 with an increased lending portfolio. Over the last 4 years, Asset base improved with a CAGR of 39% and in 2010/11 it was doubled to LKR 64Bn at a YoY basis.

LKR Mn	2006/07	2007/08	2008/09	2009/10	2010/11
Other Assets (OA)	920	966	1,373	2,046	4,960
Cash, Short Term Funds, Government Securities and Deposits(C,SF,GS & D)	212	484	1,652	2,085	1,529
Loans and Other Advances (L&O)	432	536	1,063	1,711	2,943
Rentals on lease, HP and IF (RR,HP,IF)	15,481	18,686	21,470	25,006	46,442
<b>Total Assets</b>	<b>17,045</b>	<b>20,672</b>	<b>25,558</b>	<b>30,848</b>	<b>55,874</b>



In reference to the above table total asset of PLC have increased to LKR 55.8Bn as at 2010/11. When analyzing the asset mix of PLC, it has allocated above 80% of assets to the Leases and Hire Purchases, which are the main business operations of the company. In last year 83% of assets were allocated to the main business and 9% to the other Assets, 2.7% in more liquid assets and 5% on other loans as at end of financial year 2010/11. The graph clearly highlights the allocated percentage to the leases and hire purchases are being gradually reduced and an increase in the allocations to other lucrative business opportunities.

### Funding Sources

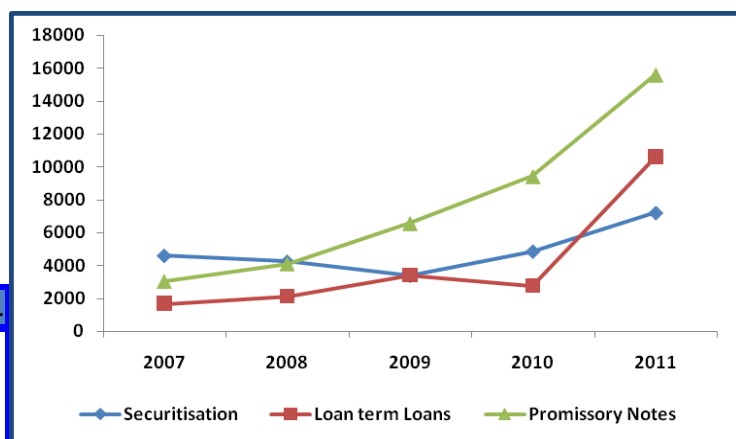
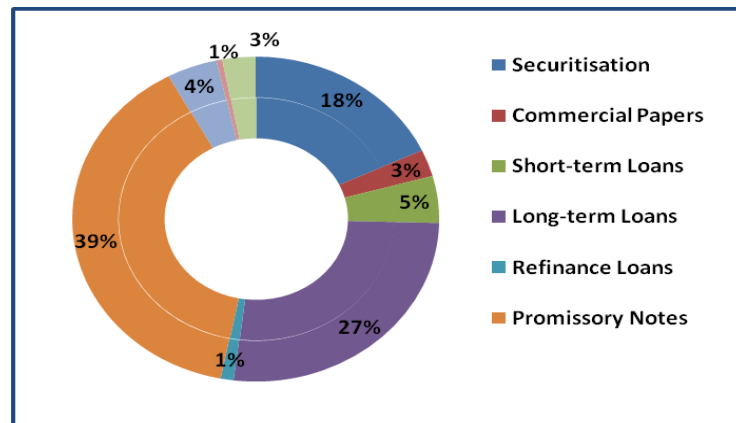
PLC utilizes equity and debt to finance its asset base. PLC claims reputation on using Securitization, a borrowing source to finance its asset base.

At the closure of previous financial year, Total borrowings were LKR 39.9Bn and 84% for that derived from Promissory Notes (LKR 15.6Bn), Long Term Loans (LKR 10.6Bn) and Securitization (LKR 7.2Bn).

When analysing the borrowings list of peers in the industry, the main funding source is the long-term borrowings in addition to the deposits and equity. PLC also tend to obtain funds through long term loans in 2010/11 and Long-term loans increased by close to 4 times against 2009/10.

March 31 (LKR Mn)	2007	2008	2009	2010	2011
Securitisation	4,612	4,253	3,404	4,869	7,211
Loan term Loans	1,666	2,114	3,403	2,744	10,602
Promissory Notes	3,043	4,106	6,565	9,416	15,591

### Borrowings Breakdown as at March 31, 2011



Growth on major borrowings sources

## Competitor Analysis

Figure (LKR 000)	PLC 2010/11	LOFC 2010/11	LFIN 2010/11	NTB 2010	CFIN 2010/11	MBSL 2010
Interest Income	8,915,558	3,113,150	5,138,718	10,090,176	6,269,481	2,265,891
Interest Expenses	3,901,929	1,760,124	2,418,480	5,525,069	2,355,263	1,092,162
Net Interest Income	5,013,630	1,353,026	2,720,239	4,565,107	3,914,218	1,173,729
Other income	1,070,614	1,504,257	353,647	2,125,025	1,824,890	724,162
Operating Profits	4,243,745	1,626,151	1,902,860	2,028,568	3,007,145	692,038
Net Profits	2,604,768	1,246,093	1,020,368	1,084,225	1,827,034	492,345
Total Assets	63,851,565	24,290,950	28,097,320	83,247,872	41,163,095	14,438,523
Loans & Advances and Leases	55,628,700	20,764,152	18,208,261	42,592,096	28,659,973	9,895,650
Total Deposits	4,647,160	17,393,187	19,619,681	48,314,555	18,757,201	5,676,955
Total Liabilities	55,369,113	20,776,564	25,483,602	76,443,441	29,718,089	11,237,268
Total share holders fund	8,382,686	3,514,386	2,613,718	6,804,431	10,897,593	2,908,361
Minority Interest	99,766	0	0	0	547,413	292,894
<b>Key Performance Measures</b>						
Total no of shares	1,170,000,120	2,000,000,000	69,257,142	230,607,283	104,883,333	135,000,000
Dilued EPS	2.23	0.62	14.73	4.70	17.42	3.65
NAVS	7.16	1.76	37.74	29.51	103.90	21.54
Net Interest Margin	56.23%	43.46%	52.94%	45.24%	62.43%	51.80%
Operating Profit to Interest Income	47.60%	52.23%	37.03%	20.10%	47.96%	30.54%
Operating Profit to Total Assets	6.65%	6.69%	6.77%	2.44%	7.31%	4.79%
Net profits to interest income	29.22%	40.03%	19.86%	10.75%	29.14%	21.73%
ROE	31.07%	35.46%	39.04%	15.93%	16.77%	16.93%
ROA	6.65%	6.69%	6.77%	2.44%	7.31%	4.79%
Loans to deposits(X)	11.97	1.19	0.93	0.88	1.53	1.74

LOFC – Lanka Orix Finance PLC LFIN- LB Finance PLC NTB-Nations' Trust Bank CFIN- Central Finance PLC MBSL- Merchant Bank of SL

Competitors have been selected based on similar revenue streams as to PLC. All competitors have the expertise in the Leasing and Hire purchasing industry and further these companies have allocated a higher portion of assets to Leasing and Hire purchases. Therefore these competitors can be considered as direct competitors to PLC. Figures are based on the latest audited annual reports.

The above table highlights the superiority of PLC in terms of value creation toward the shareholders. PLC's total net profit for the equity investors were higher than all its competitors including the well-established commercial bank NTB and CFIN, the market leader amongst the registered finance companies. The current performance of the company is to continue for the remainder of the financial year. This is due to PLC recording LKR 615Mn recurrent net profit for the first quarter of 2011/12 to maintain its dominancy over the competitors. The competitors have recorded 1<sup>st</sup> quarter results as follows NTB LKR 494Mn and LFIN Rs 351Mn. The direct competitor to PLC is CFIN who has recorded LKR 618Mn net profit for the first quarter of 2011/12. CFIN has widened its margin between Deposit rates and Lending rates and recorded increased NII ratio.

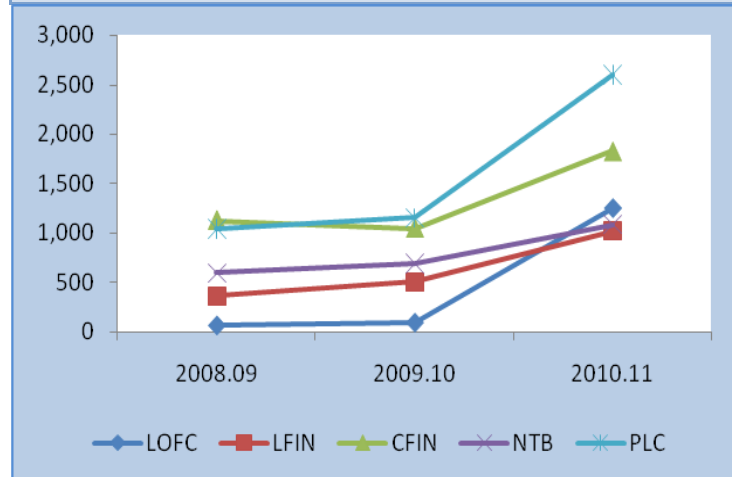
The business strategy of PLC provides an advantage for PLC to be more competitive within the industry further, PLC owns the largest lending portfolio oppose to all its peers. PLC is expected to grow its lending portfolio exponentially during the current financial year.

When analyzing the operating efficiency, LOFC, CFIN and PLC are quite similar. The figures have highlighted that LOFC has marginally outperformed CFIN and PLC by claiming the highest profits to interest income ratios in terms of Operating profit and net profits; and CFIN possess the best asset utilization strategy, claiming 7.3% of return on assets (ROA). Overall LFIN was the best value maximization to shareholder providing 39% return on equity (ROE) but, PLC and LOFC closely followed.

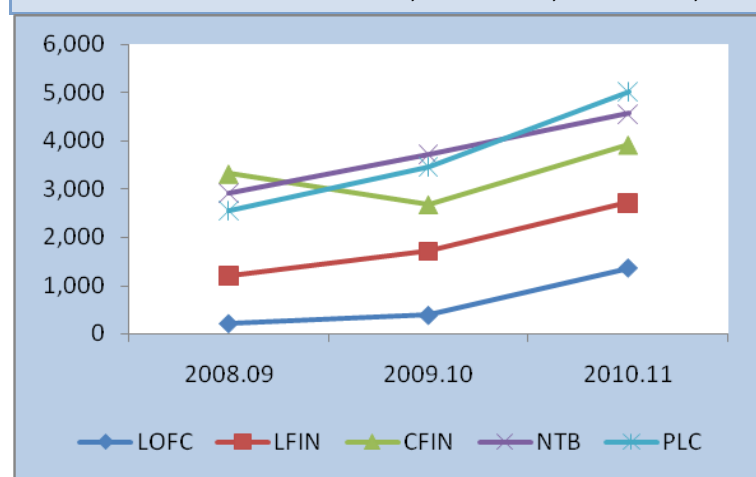
NTB is an established financial institution in the commercial banking and leasing industry and possess the largest asset base of LKR 88.6Bn as at 30<sup>th</sup> June 2011. PLC is ranked next to NTB, having LKR 75Bn asset base during the coinciding period. This has resulted in PLC outperforming all its peers in the industry. This analysis was based on the latest audited report and all companies' exhibit growth opportunities in terms of capitalizing the forthcoming market opportunities. In reference to the **SWOT analysis** it is cleared that PLC possess the required strength to capture future opportunities to emerge as a dominant player in the industry.

**Performance of the peers over last 3 years**

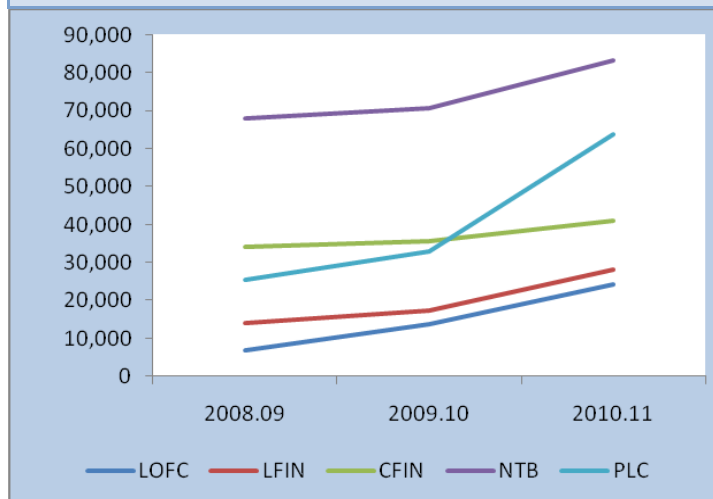
Net Profit	2008.09	2009.10	2010.11
LOFC	66	94	1,246
LFIN	360	500	1,020
CFIN	1,127	1,046	1,827
NTB	593	686	1,084
PLC	1,039	1,153	2,605



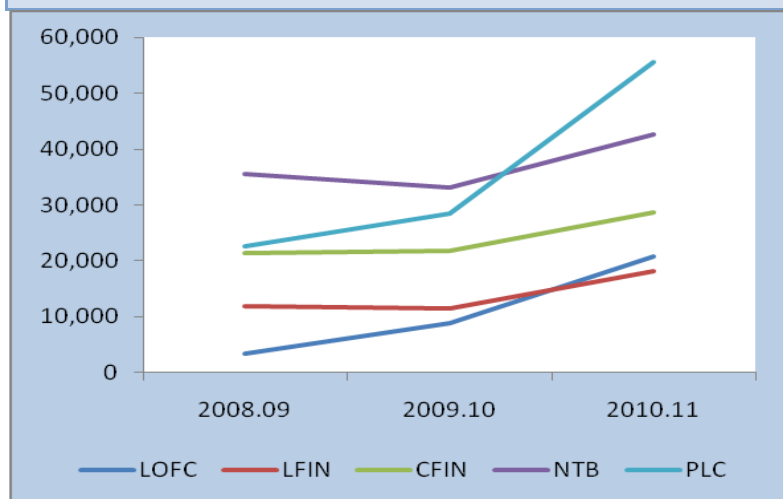
Net Interest Income	2008.09	2009.10	2010.11
LOFC	216	370	1,353
LFIN	1,193	1,703	2,720
CFIN	3,308	2,665	3,914
NTB	2,909	3,720	4,565
PLC	2,536	3,454	5,014



Total Assets	2008.09	2009.10	2010.11
LOFC	6,804	13,706	24,291
LFIN	14,009	17,200	28,097
CFIN	34,047	35,477	41,163
NTB	67,864	70,504	83,248
PLC	25,538	32,890	63,852



Loan, Advance, Lease	2008.09	2009.10	2010.11
LOFC	3,390	8,856	20,764
LFIN	11,841	11,498	18,208
CFIN	21,354	21,733	28,660
NTB	35,515	33,158	42,592
PLC	22,533	28,509	55,629



## Valuation

Company Name	Market Price	Total Earnings	No of Shares	Diluted EPS	Annualised EPS	Trailing PER
LOFC*	9.60	1,246,093	2,000,000,000	0.62	0.62	15.41
LFIN (1st Quarter 2011.12)	144.30	351,024	69,257,142	5.07	20.27	7.12
CFIN (1st Quarter 2011.12)	230.00	618,202	104,883,333	5.89	23.58	9.76
NTB (6 Months 2011)	59.80	736,252	230,607,283	3.19	6.39	9.37
MBSL (9 Months 2011)	35.00	300,948	135,000,000	2.23	2.97	11.78
PLC (1st Quarter 2011.12)	18.00	615,391	1,170,000,120	0.53	2.10	8.56

Multiple based valuations are based on the annualized EPS of the latest available financial statements.

### Earnings based Valuation.

The table exhibits the trailing PERs of given companies against the Banking, Finance & Insurance sector PER of 13.6X. It is to be noted that the overall Banking, Finance and Insurance sector has been heavily discounted despite the exceptional growth and performances of the sector.

It can be expected that all counters within the Banking, Finance & Insurance sector possess the potential to price appreciations in the future. Against the current Sector PER, PLC and LFIN are trading at a considerable discount. PLC has fixed the issue price of LKR 18/- at trailing PER of 8.57X against the sector PER of 13.6X, a 37% discount to the sector and at a significant discount to its peers.

### Forecasted Earnings

Year ending March 31	2012E	2013E	2014E	2015E
Recurrent profit attributable to Equity Holders (LKR Mn)	2,939	3,784	4,631	5,263
No of shares (Mn)	1,560	1,560	1,560	1,560
Forecasted EPS (LKR)	1.88	2.43	2.97	3.37
Forecasted PER (X)	9.55	7.42	6.06	5.34

PLC has forecasted the above recurrent profit levels within the next 4 years and post IPO total number of shares have been included to obtain a diluted EPS for the forthcoming years.

The IPO price of LKR 18/- is fixed at one year forward PER of 9.55X based on the profits for FY2012E while setting at two year forward PER of 7.4X based on the profits for FY2013E. Therefore, the price has fixed at a significant discount to the sector PER of 13.6X, and Market PER of 16.5X. In conclusion PLC possesses excellent growth potentials in the future coupled with the discounted IPO price which are favorable conditions to wealthy investments. *Asha Phillip Securities recommends to **subscribe to PLC -IPO on a long-term basis.***

## Research

Thakshila Hulangamuwa  
Vice President – Business Development  
[thakshi@ashaphillip.net](mailto:thakshi@ashaphillip.net)  
0094 113070494

Pasindu Perera  
Manager - Research  
[pasindu@ashaphillip.net](mailto:pasindu@ashaphillip.net)  
0094 112429109

Lasantha Senanayake  
Research Analyst  
[lasantha@ashaphillip.net](mailto:lasantha@ashaphillip.net)

Ranuka De Silva  
Research Analyst  
[ranuka@ashaphillip.net](mailto:ranuka@ashaphillip.net)

Kumuthini Sivathas  
Tr. Research Analyst  
[kumuthini@ashaphillip.net](mailto:kumuthini@ashaphillip.net)

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