

# *Holding Companies*

Saniya Tauseef | Team Lead Research | [saniya.tauseef@pacra.com](mailto:saniya.tauseef@pacra.com)  
Aqeela Albar | Research Analyst | [aqeela@lra.com.lk](mailto:aqeela@lra.com.lk)

October 2022

LRA





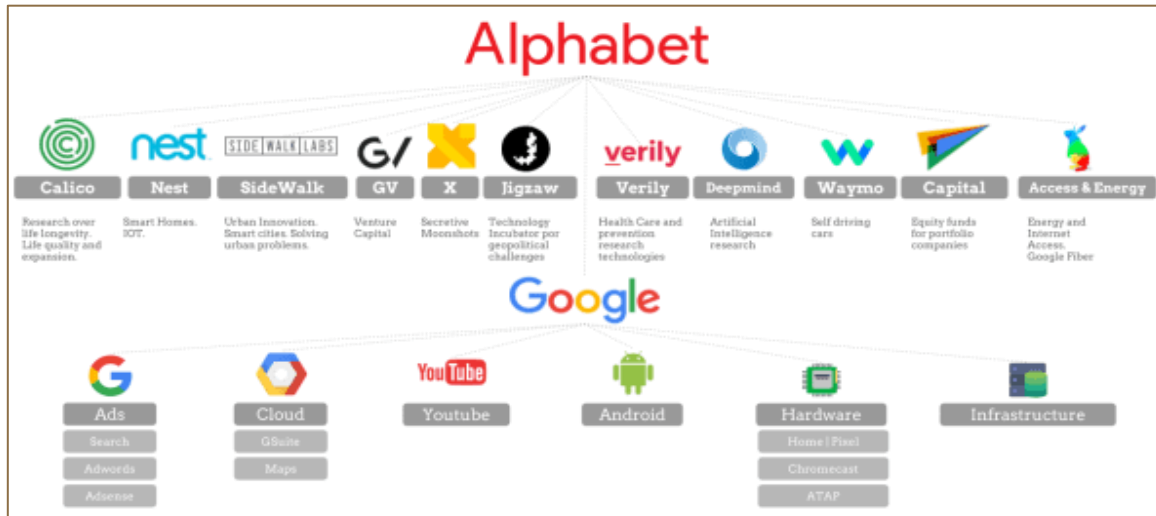
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## Global overview

- A holding company is a type of financial organization that owns a controlling interest in other companies, which are called subsidiaries.
- A holding company enjoys many advantages including protection from losses, tax benefits, centralized control and shared services.
- Globally, holding company structures are well accepted and growing.
- A typical example of a holding company structure is Alphabet, the parent company of Google and many other subsidiaries.
- A holding company is sometimes known as an 'umbrella' or parent company.





## Snapshot of the Sri Lankan Economy

	CY18	CY19	CY20	1HCY21	CY21	1QCY22	2QCY22	
GDP growth rate (YoY)	3.3%	2.3%	-3.6%	8.0%	3.6%	-1.6%	-8.4%	
Exchange rate (USD/LKR)	182.75	181.63	186.41	201.1	200.4	299.0	359.9	21/09/2022 369.9
Inflation (CCPI)	4.3%	4.3%	4.6%	5.2%	(annual average) 5.9%	18.7%	54.6%	Aug-2022 64.3%
SDFR	8.00%	7.00%	4.50%	4.50%	5.00%	6.5%	13.5%	07/07/2022 14.5%
SLFR	9.00%	8.00%	5.50%	5.50%	6.00%	7.5%	14.5%	15.5%
USD bn	CY18	CY19	CY20	1HCY21	CY21	1QCY22	2QCY22	
Current Account balance	(2.80)	(1.80)	(1.10)	(1.0)	(3.36)	(1.33)		
Exports	11.89	11.94	10.05	5.70	12.50	3.25	3.27	Jan-Jul 2022 7.68
Imports	22.23	19.94	16.06	10.02	20.64	5.65	4.38	Jan-Jul 2022 11.32
Trade balance	(10.34)	(8.00)	(6.01)	(4.32)	(8.14)	(2.40)	(1.11)	(3.64)
Workers' remittances	7.0	6.7	7.1	3.3	5.5	0.783	0.827	Jan-Jul 2022 1.89
Foreign exchange reserve	6.92	7.64	5.66	4.06	3.14	1.92	1.85	Jul-2022 1.82



## Introduction

- According to the Companies Act, No. 07 of 2007, a company shall be deemed to be another company's holding company, if and only if that other company is its subsidiary.
- And a company shall be deemed to be a subsidiary of another, if and only if-
  - (a) that other company either-
    - (i) controls the composition of its board of directors;
    - (ii) is in a position to exercise or control the exercise of more than half the maximum number of votes that can be exercised at a meeting of the company;
    - (iii) hold more than half of the issued shares of the company, other than shares that carry no right to participate beyond a specified amount in a distribution of profits or capital;
    - (iv) is entitled to receive more than half of every dividend paid on shares issued by the company, other than shares that carry no right to participate beyond a specified amount in a distribution of profits or capital; or
  - (b) the first-mentioned company is a subsidiary of any company which is that other company's subsidiary.
- Holding companies are only governed by the Companies Act in Sri Lanka. And any other acts or regulations that are relevant to the sector that company or its subsidiaries are operating in.
- Listed holding companies are also regulated by the Securities and Exchange Commission of Sri Lanka.



## Local sector

- The size of holding companies are gauged by their investment size because their main activity is managing the investment portfolio and earning returns on these investments.
- Holding company investments can be tri-fold:
  - Equity – funds invested in a company by purchasing shares of that company. These could be listed or unlisted.
  - Debt – fixed return investments in which the investor lends money with the expectation that the borrower will payback the investment with interest.
  - Other – all other investments that are not classified as debt or equity (e.g. – investment property).
- While there are around 33 listed ultimate holding companies in Sri Lanka, the top-12 companies (based on market capitalization) listed on the Colombo Stock Exchange (CSE) were considered for this study.
- Their total investment size in FY22 was LKR ~717.4bn a 22.1% growth from the LKR ~587.4bn recorded at the end of FY21 (March 2021).
- Investments grew at a CAGR of ~18.7% from LKR ~256.1bn since FY16.
- The total assets of the sector were LKR ~1.32tn a 26.9% increase from the LKR 1.04tn recorded at the end of FY21.
- Total assets grew at a CAGR of ~15.8% from LKR 548.6bn since FY16.

	FY16#	FY17	FY18	FY19	FY20	FY21	FY22	June-22
No. of players	12*							
Total Assets (LKR bn)	548.6	668.4	719.4	915.5	910.6	1,041.0	1,320.6	1251.3
Total Investments (LKR bn)	256.1	343.2	440.3	491.5	550.4	641.4	742.8	827.3
# Financial year – 1 <sup>st</sup> April to the 31 <sup>st</sup> of March of the following year.								
* Top-12 holding companies (based on market capitalization) listed on the Colombo Stock Exchange								

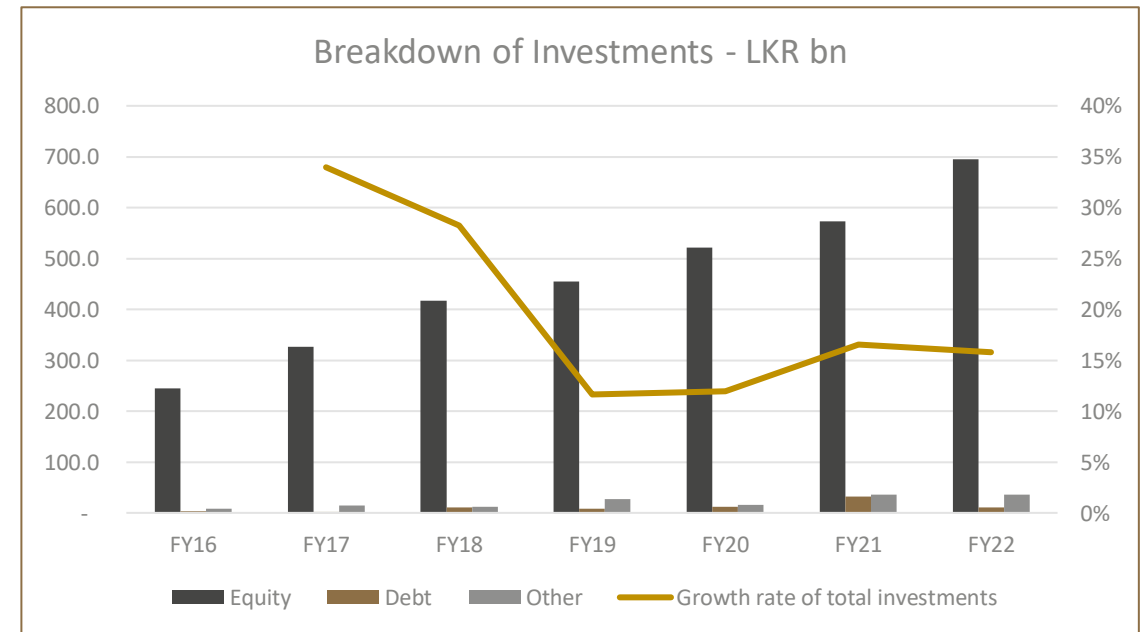




## Total investments

- The value of total investments were LKR ~717.4bn at the end of FY22. This was a growth of ~22.1% since the previous year.
- The largest part of investments has consistently been equity, LKR 669.7bn at the end of FY22 (93.3% of the total investment). The amount invested as equity grew at a CAGR of 25.3% since FY16.
- At LKR 11.2bn, debt investments amounted to only 5.6% of the total investments.
- The amount invested as equity grew at a proportionate 18.3% since FY16.

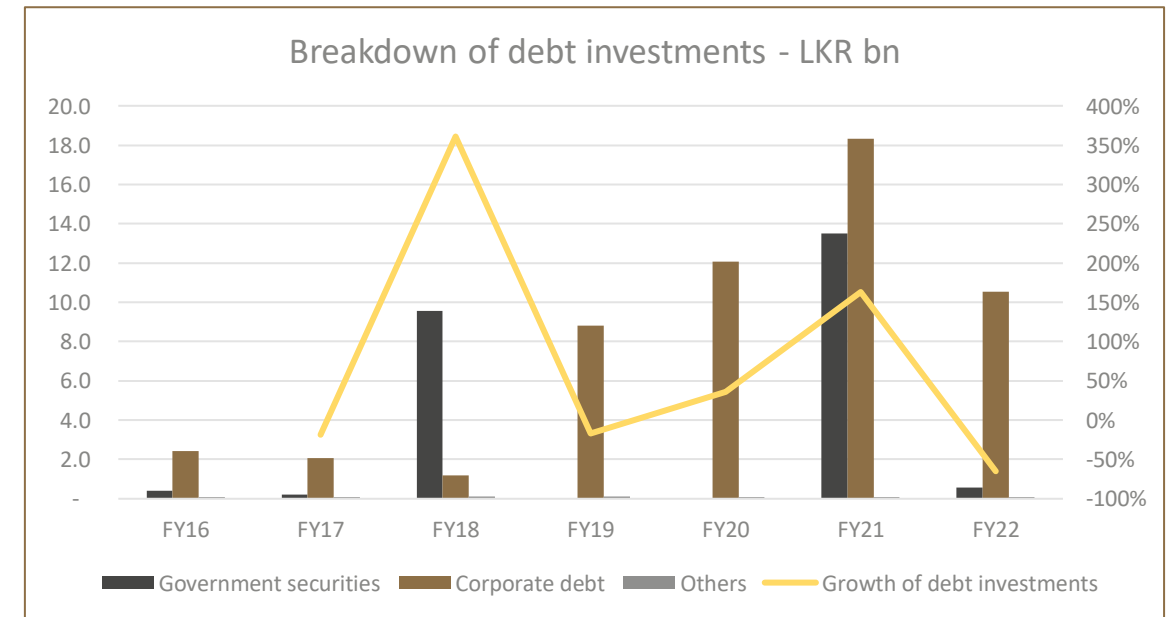
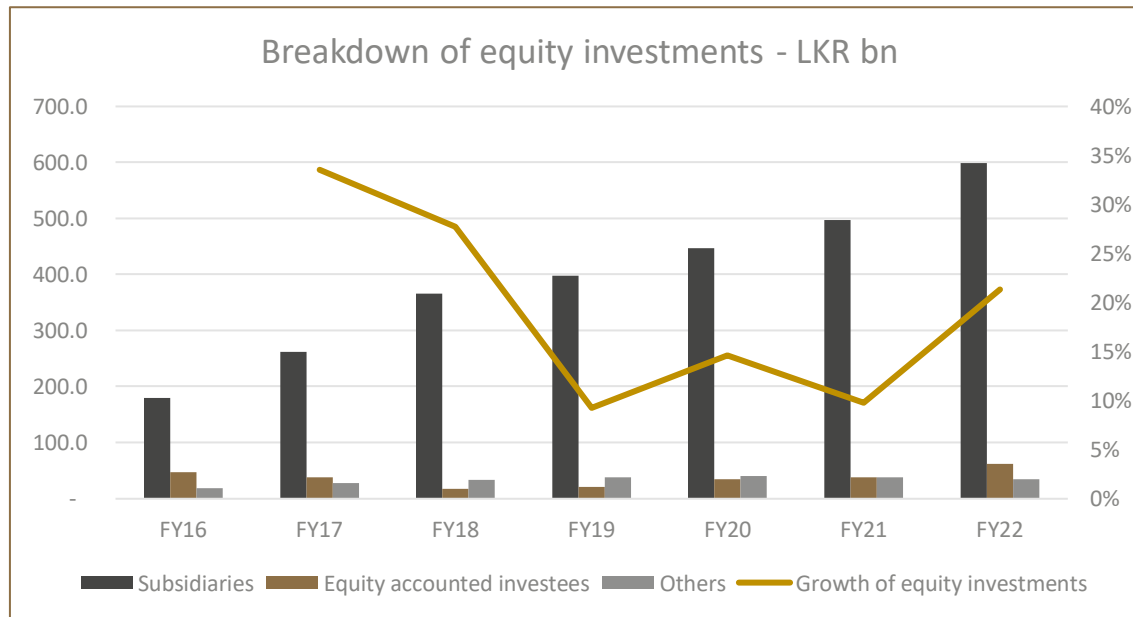
	FY16	FY17	FY18	FY19	FY20	FY21	FY22		Jun-22
Equity (LKR bn)	244.5	326.4	416.9	455.3	521.9	573.0	695.0	93.57%	773.7
Debt (LKR bn)	2.9	2.3	10.8	8.9	12.1	31.9	11.2	1.50%	10.7
Other (LKR bn)	8.7	14.5	12.6	27.2	16.3	36.5	36.6	4.93%	42.8
Total Investments (LKR bn)	256.1	343.2	440.3	491.5	550.4	641.4	742.8		827.3
Growth rate		34.0%	28.3%	11.6%	12.0%	6.7%	26.5%		





## Total investments

- The largest part of equity investments (>80% in the past five years) has constantly been investments in subsidiaries. LKR 573.6bn was invested by FY22, which was a CAGR of ~21.4% since FY16.
- The investments in associates, JVs and others (equity accounted investees) have constantly been at a very limited value.
- Corporate debt takes precedence over government securities and the bulk of it is loans to related parties.





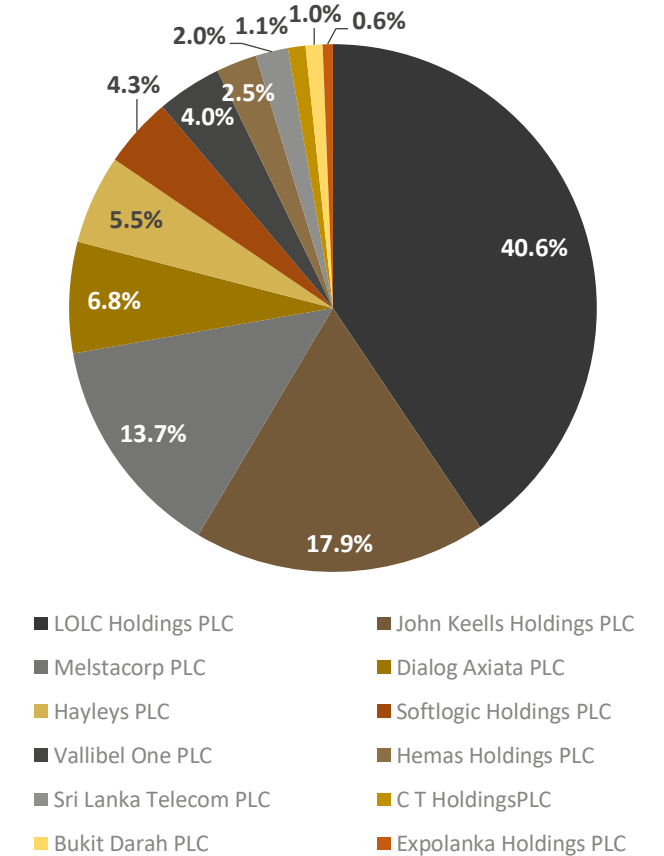


## Total investments – Company wise

Total Investments in LKR bn	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Market share in FY22
LOLC Holdings PLC	51.9	67.2	83.6	97.2	145.2	202.5	301.4	40.6%
John Keells Holdings PLC	45.8	54.7	78.4	87.8	98.5	129.5	133.3	17.9%
Melstacorp PLC	48.1	86.5	84.6	112.1	106.8	105.8	101.9	13.7%
Dialog Axiata PLC	19.5	19.6	48.2	49.2	50.2	51.0	50.6	6.8%
Hayleys PLC	10.5	22.1	36.8	39.4	40.8	40.7	40.6	5.5%
Softlogic Holdings PLC	14.5	17.4	23.1	22.4	22.6	24.6	31.9	4.3%
Vallibel One PLC	27.2	28.8	32.1	28.2	29.8	30.0	29.6	4.0%
Hemas Holdings PLC	6.7	13.7	19.2	18.4	18.4	17.7	18.5	2.5%
Sri Lanka Telecom PLC	14.9	14.8	15.5	17.3	18.9	20.1	14.7	2.0%
C T Holdings PLC	6.3	6.9	7.0	7.0	6.9	7.0	8.0	1.1%
Bukit Darah PLC	7.1	7.1	7.1	7.7	7.7	7.8	7.7	1.0%
Expolanka Holdings PLC	3.8	4.6	4.6	4.6	4.6	4.6	4.6	0.6%
<b>Total</b>	<b>256.1</b>	<b>343.2</b>	<b>440.3</b>	<b>491.5</b>	<b>550.4</b>	<b>641.4</b>	<b>742.8</b>	

- In terms of market share of the investments, LOLC Holdings PLC has the largest market share of 42%.
- The top 3 companies hold almost 75% of the share of total investments.

Company wise investment share – FY22

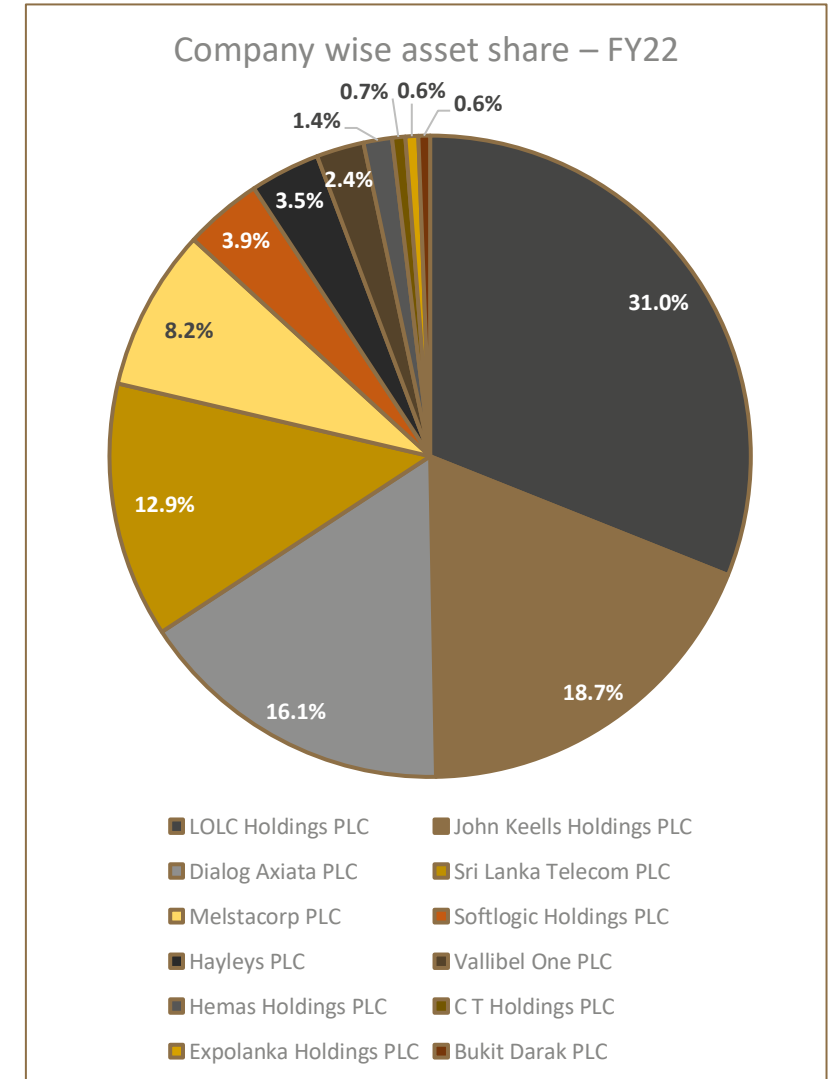




## Total assets – Company wise

Total assets in LKR bn	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Market share in FY22
LOLC Holdings PLC	75.5	102.0	110.7	125.0	191.7	253.0	409.9	31.0%
John Keells Holdings PLC	103.9	115.9	91.5	221.7	128.2	183.5	246.5	18.7%
Dialog Axiata PLC	123.7	133.1	143.9	165.1	170.3	183.5	212.2	16.1%
Sri Lanka Telecom PLC	106.2	123.7	134.1	141.7	155.4	150.3	169.9	12.9%
Melstacorp PLC	49.8	89.6	91.6	112.2	107.6	107.0	107.7	8.2%
Softlogic Holdings PLC	9.0	9.5	35.2	37.7	42.8	48.5	52.1	3.9%
Hayleys PLC	18.4	25.8	39.4	43.2	44.8	44.8	46.5	3.5%
Vallibel One PLC	27.6	29.5	32.4	28.6	30.1	30.9	31.6	2.4%
Hemas Holdings PLC	13.3	18.8	20.0	19.5	19.3	18.3	19.0	1.4%
C T Holdings PLC	8.0	7.8	7.9	7.8	7.7	7.9	8.8	0.7%
Expolanka Holdings PLC	6.1	5.6	5.3	5.1	5.0	5.6	8.6	0.6%
Bukit Darak PLC	7.2	7.2	7.3	7.8	7.7	7.8	7.7	0.6%
Total assets	548.6	668.4	719.4	915.5	910.6	1,041.0	1,320.6	

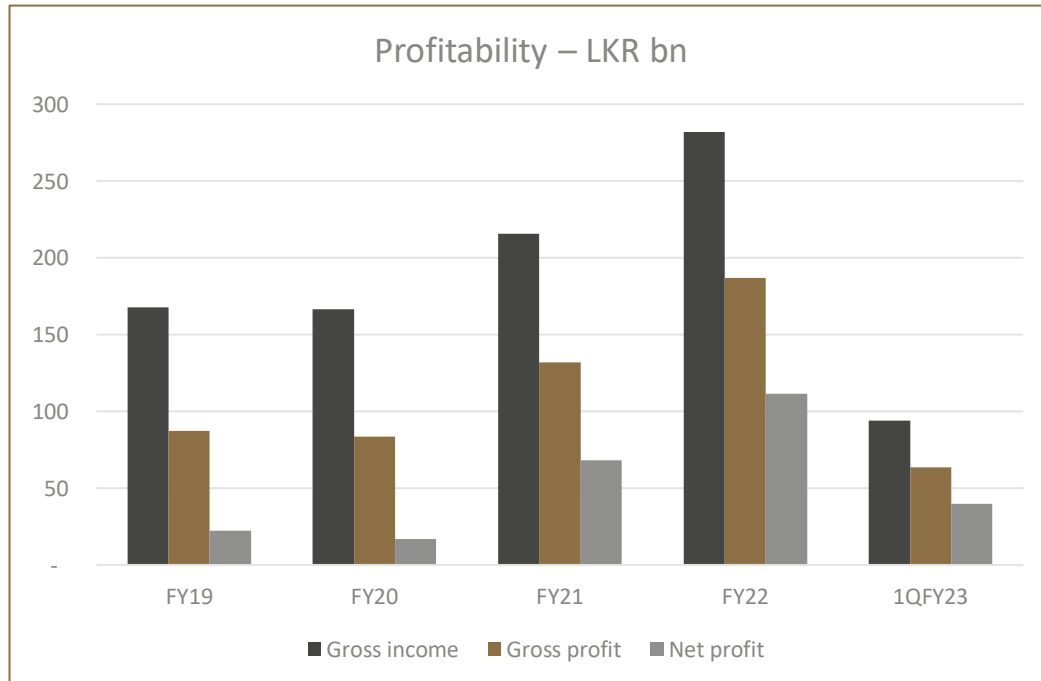
- In terms of market share of the assets too, LOLC Holdings PLC has the largest market share of 31%.
- The top 3 companies hold ~66% of the total share of the assets.





## Profitability

- Total gross income of the holding companies in FY22 was LKR 282bn and net profit was LKR 111bn. Dialog Axiata, LOLC Holdings and Sri Lanka Telecom account for over 84% of the gross income.
- About 31% of gross income was dividend income.
- Over 50% of the net profit was held by one company LOLC Holdings PLC.

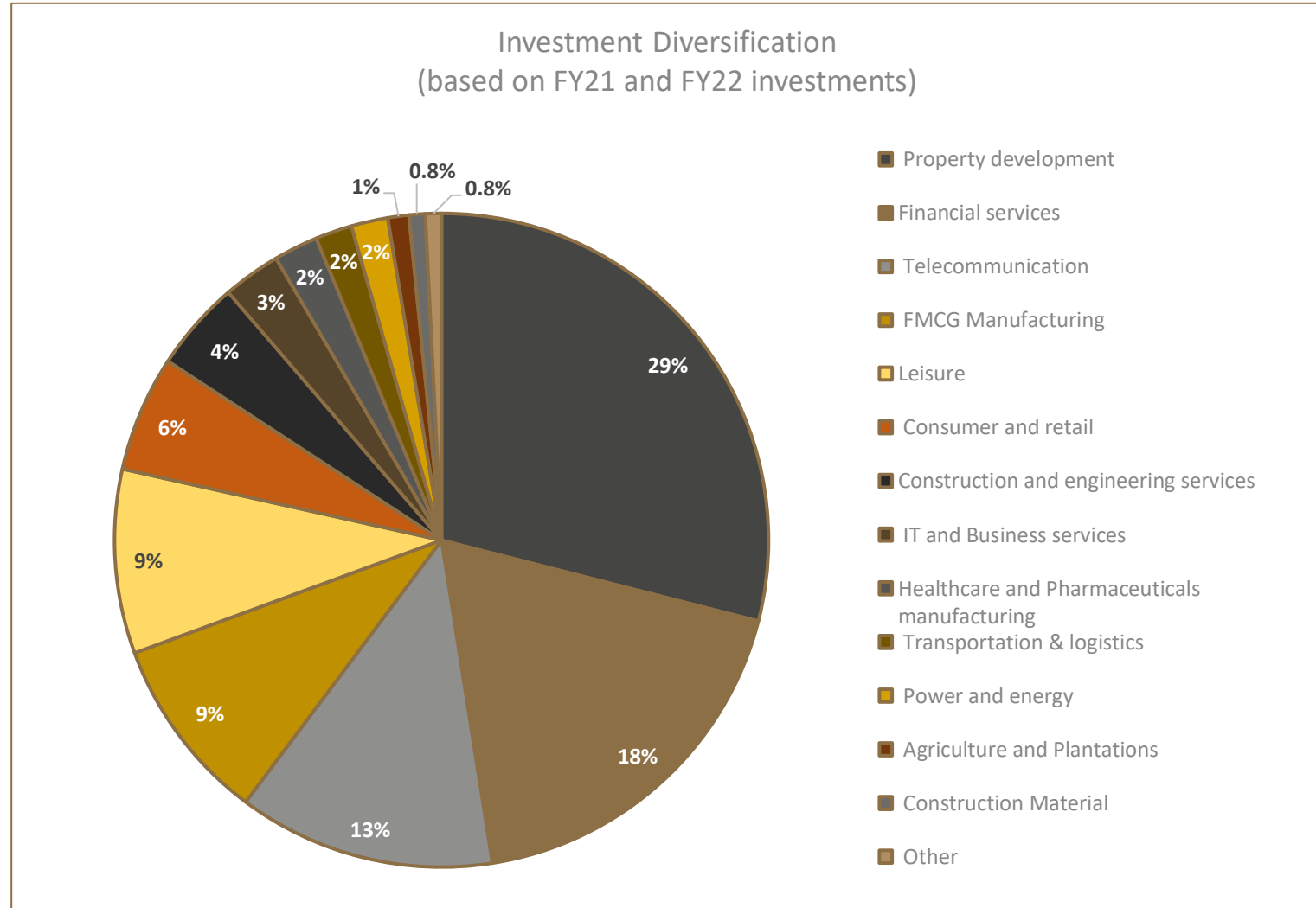


Net profit in LKR mn	FY19	FY20	FY21	FY22	Market share in FY22	1QFY23
LOLC Holdings PLC	(3,194.20)	(9,212.86)	28,040.70	61,162.97	54.9%	17,158.77
John Keells Holdings PLC	12,002.22	8,639.54	10,565.89	24,381.41	21.9%	8,723.91
Sri Lanka Telecom PLC	2,728.00	3,795.00	4,208.00	8,624.00	7.7%	4,223.00
Melstacorp PLC	3,796.15	5,095.78	6,130.83	7,141.22	6.4%	1,264.23
Vallible One PLC	475.81	867.59	2,887.88	5,361.19	4.8%	926.18
Expolanka Holdings PLC	(3.41)	(172.06)	1,439.11	3,736.33	3.4%	16,949.77
Hayleys PLC	53.51	(1,785.18)	1,198.63	3,646.74	3.3%	443.34
Hemas Holdings PLC	13.25	1,409.63	(4.09)	1,855.24	1.7%	1,825.05
C T Holdings PLC	354.87	942.61	740.25	925.34	0.8%	(30.98)
Softlogic Holdings PLC	(668.13)	(1,158.33)	726.15	399.36	0.4%	(913.43)
Bukit Darah PLC	65.92	47.64	49.80	125.69	0.1%	13.29
Dialog Axiata PLC	6,625.86	8,455.29	12,040.84	(5,982.63)	-5.4%	(10,681.93)
	22,249.84	16,924.64	68,023.98	111,376.86	100.0%	39,901.21



## Business risk

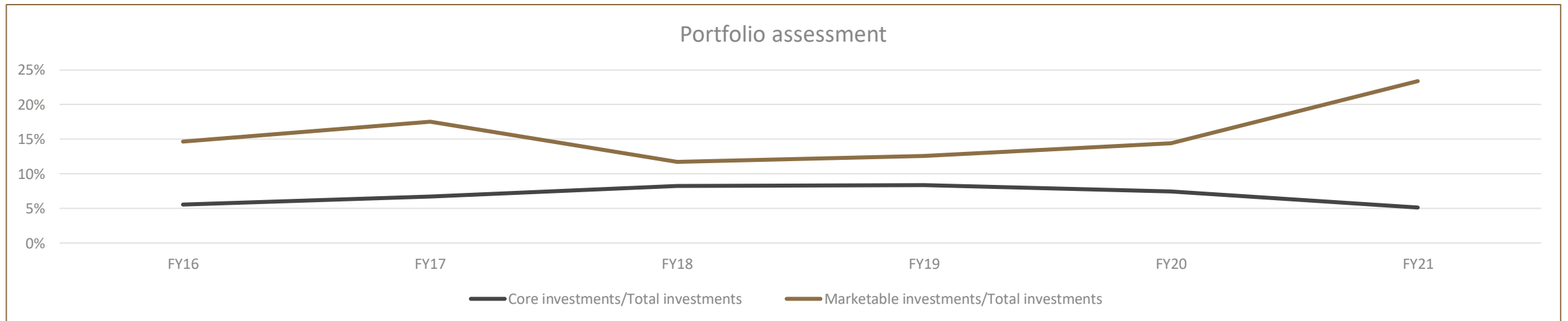
- The business risk of a holding company is linked with the business risk of their investments.
- Therefore the business risk can be assessed it by assessing the extent of diversification and the balance of core and marketable investments of the company's Investment portfolio.
- Considering the portfolios of the holding companies studied, it could be said that the sector is not adequately diversified, with the highest concentration being 29% in the property development sector.
- Financial services (18%), telecommunication services (13%), FMCG manufacturing, and leisure activities (9% each) are the other most common investments.





## Business Risk

- Portfolio assessment includes and analysis of the core and marketable investments of the sector.
- Core investments are the investments that the holding company has 100%/wholly owned stake in (this implies that the holding company is fully exposed to the risks associated with the investments).
- Marketable investments are those that can be converted to cash at a readily available price. Such investments are necessary to provide support to the holding companies liquidity profiles.
- The sectors core investments% has been decreasing since FY18, and is at 5% at the end of FY21. The marketable investments, on the other hand have been rising since FY18, and is at 23% in FY21.





## Financial Risk

- Leverage of the sector was 26.9% in FY22, a decline from the ~29.5% recorded in FY21.
- 55% of sector debt are non-current borrowings.

