



## Fitch Affirms SriLankan Airlines' Government-Guaranteed Bonds at 'C'

Fitch Ratings - Singapore - 15 May 2023: Fitch Ratings has affirmed SriLankan Airlines Limited's (SLA) USD175 million government-guaranteed 7% unsecured bonds due 25 June 2024 at 'C'.

### KEY RATING DRIVERS

**Events of Default Triggered:** SLA did not pay the interest due on 25 December 2022 on its guaranteed unsecured USD175 million bonds, or during the 30-day grace period, triggering an event of default. This is in addition to the events of default triggered via the 12 April 2022 announcement by the government of Sri Lanka of a debt moratorium on several categories of sovereign- and public sector entities' external debt, as well as the ensuing non-payment of interest on the government's external debt.

**Bonds Factor in Recovery Prospects:** SLA's 'C' bonds factor in Fitch's view of average- to-below average recovery prospects following a default, in line with the agency's Corporates Recovery Ratings and Instrument Ratings criteria, and Country-Specific Treatment of Recovery Ratings criteria. Ratings assigned to bonds of issuers who are very close to default show little distinction in their recovery prospects between 'RR4' and 'RR6'. Therefore, Fitch has not assigned a Recovery Rating to the bond.

### DERIVATION SUMMARY

SLA's US dollar bonds are part of the Government of Sri Lanka's debt moratorium. SLA's bond rating is based on Fitch's assessment of average- to below average recovery prospects to investors, using Fitch's Corporates Recovery Ratings and Instrument Ratings Criteria, and Country-Specific Treatment of Recovery Ratings Criteria.

### RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of the sovereign rating

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative rating actions are not possible, as the rating is at the lowest level applicable to corporate debt instruments

For the sovereign rating of Sri Lanka, the following sensitivities were outlined by Fitch in our Rating Action Commentary of 1 December 2022

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- The Long-Term Local-Currency IDR would be further downgraded if the government announces plans to restructure or defaults on its local currency-denominated debt

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Completion of a commercial debt restructuring that Fitch judges to have normalised the relationship with private-sector creditors

- The government puts local-currency debt service on a sustainable path, and avoids a default or debt restructuring

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## ISSUER PROFILE

SLA is Sri Lanka's national carrier and the government of Sri Lanka has full control over the company. SLA operates as a full-service carrier with a network covering Asia, Middle East, Europe and Australia. As of 31 December 2022 the airline's fleet consisted of 24 aircraft.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

SLA's bond is guaranteed by the government of Sri Lanka (Long Term Issuer Default Rating: 'RD' - Restricted Default).

### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
<input type="text"/>	<input type="text"/>	<input type="text"/>
SriLankan Airlines Limited		
senior unsecured	LT C Affirmed	C

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[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

- [Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)
- [Corporate Rating Criteria \(pub. 29 Oct 2022\) \(including rating assumption sensitivity\)](#)
- [Country-Specific Treatment of Recovery Ratings Criteria \(pub. 04 Mar 2023\)](#)

## **ADDITIONAL DISCLOSURES**

- [Dodd-Frank Rating Information Disclosure Form](#)
- [Solicitation Status](#)
- [Endorsement Policy](#)

## **ENDORSEMENT STATUS**

SriLankan Airlines Limited EU Endorsed, UK Endorsed

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