



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

Fitch Ratings - Singapore - 09 May 2024: Fitch Ratings has affirmed the rating on SriLankan Airlines Limited's (SLA) USD175 million government guaranteed 7% unsecured bonds due 25 June 2024 at 'C'. The rating on the bonds is driven by the unconditional and irrevocable guarantee of the government of Sri Lanka (Long-Term Foreign-Currency Issuer Default Rating: 'RD').

KEY RATING DRIVERS

Events of Default Triggered: SLA did not pay the interest due on 25 December 2023 on its guaranteed unsecured bonds, or during the 30-day grace period that followed, triggering an event of default. This is in addition to previous missed coupon payments in June 2023 and December 2022, and the events of default triggered via the 12 April 2022 announcement by the Sri Lankan government 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 bonds are rated at 'C', factoring 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. The bonds of issuers that are very close to default show little distinction between 'RR4' and 'RR6' recoveries. 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, based on 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 28 September 2023

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

- The Local-Currency IDRs (Long-Term Local-Currency IDR at CCC-) would be downgraded if further restructuring or a default on local-currency debt becomes probable due to an unsustainable debt burden or inability to raise revenue.

- The Long-Term Foreign-Currency IDR is at the lowest level and cannot be downgraded further.

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

- A sustained decline in the general government debt-to-GDP ratio that is underpinned by strong implementation of a medium-term fiscal consolidation strategy and improved growth performance.

- Completion of the foreign-currency commercial debt restructuring that Fitch judges to have normalised the relationship with private-sector creditors may result in an upgrade

ISSUER PROFILE

SLA is Sri Lanka's national carrier and the government has full control over the company. SLA operates as a full-service carrier with a network covering Asia, Middle East, Europe and Australia. The airline's fleet consists of 21 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

The rating on the bonds is driven by the unconditional and irrevocable guarantee of the government of Sri Lanka.

ESG CONSIDERATIONS

[Not](#) applicable.

RATING ACTIONS

| ENTITY / DEBT ↕ | RATING ↕ | PRIOR ↕ |
|--|----------------------|----------------------|
| <input type="text"/> | <input type="text"/> | <input type="text"/> |
| SriLankan Airlines Limited | | |
| senior unsecured | LT C Affirmed | C |
| USD 175 mln 7% bond/note 25-Jun- 2024 XS2010609662 | LT C Affirmed | C |

PREVIOUS Page of 1 **NEXT**

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on 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

- [Country-Specific Treatment of Recovery Ratings Criteria \(pub. 04 Mar 2023\)](#)
- [Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 14 Oct 2023\) \(including rating assumption sensitivity\)](#)
- [Corporate Rating Criteria \(pub. 04 Nov 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

ENDORSEMENT STATUS

SriLankan Airlines Limited EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the

following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating s

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured f