Lanka Rating Agency

Rating Report

Assetline Finance Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
17-Apr-2025	A	Positive	Upgrade	-
02-Nov-2023	A-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sri Lanka's economy made significant recovery in 2024 as the GDP grew by ~5.5% in 2QFY25 after experiencing a challenging two-year period. Inflation continues to decline (-2.1% YoY in November 2024) with stable currency and interest rates in single digits. These improved macroeconomic conditions have translated into relatively lower credit risk and better lending opportunities for Licensed Finance Companies (LFCs). As a result, LFCs are witnessing improved asset quality (Gross NPL ratio 6MFY25: ~12.8%; 6MFY24: ~20.3%) and profitability.

Assetline Finance Limited ("AFL" or the "Company") specializes in offering leasing products with focus on 2-wheelers, 3-wheelers, motor cars, and mini trucks. AFL’s loan portfolio grew by ~29.8% to LKR~36.1bn in 9MFY25 (FY24: LKR~27.8bn), while total assets grew to LKR~47.8bn (FY24: LKR~37.4bn). Loan portfolio mainly comprises 2-wheelers (~26.2%), 3-wheelers (~29.5%) and 4-wheelers (~31.9%) as of 9MFY25. AFL's profitability improved to LKR~1.9bn in 9MFY25 (FY24: LKR~1.3bn), as the borrowing cost has reduced to LKR~1.8bn in 9MFY25 (FY24: LKR~3.2bn) following a decrease in interest rates. AFL maintains strong asset quality with Gross Non-Performing Loan (NPL) ratio of approximately ~8% as of 9MFY25, well below the industry average. AFL has robust capitalization and a Capital Adequacy Ratio (CAR) of ~25.1% as of 9MFY25. In FY23, AFL obtained finance business license. The Company's deposit base has increased to LKR~3.7bn, representing about ~13% of the funding mix in 9MFY25. AFL's rating incorporates its association with the David Peiris Group as its sponsor and major shareholder. Demonstrated support of the sponsor and group synergies augment its profile. David Pieris Group, through David Pieris Motor Company, is the exclusive supplier of "Bajaj" in Sri Lanka. The group's strong financial position and presence in the auto industry positively influence AFL's rating. The rating is constrained by AFL’s mid-sized position, with its asset base representing around ~2% of the industry’s total assets as of 6MFY25. Going forward, the Company aims to strengthen its presence in the 2- and 4-wheeler markets while maintaining its exposure to 3-wheelers while maintaining its NPL ratio below the industry average.

The rating is contingent on AFL’s ability to improve its relative position, sustain funding stability, and maintain NPLs below industry levels. Any deterioration in these factors could negatively impact the rating.

Disclosure

Name of Rated Entity	Assetline Finance Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Non-Banking Financial Institution Rating(Jul-24)
Related Research	Sector Study | Leasing & Finance Companies(Feb-25)
Rating Analysts	Imran Iqbal | imran@lra.com.lk | +94 114 500099

Profile

Structure Assetline Finance Limited ("AFL" Or "the Company") is a licensed finance company incorporated in 2003 and registered with the Central Bank of Sri Lanka (CBSL). The Company was initially registered under the Companies Act No. 07 of 2007, re-registered as a leasing and finance company under the Finance and Business Act No. 42 of 2011. In FY23, AFL obtained a license from CBSL to carry business as a Licensed Finance Company (LFC).

Background AFL, once known as Assetline Leasing Company Limited, was the largest specialized leasing company in Sri Lanka. The Company primarily focused on providing leasing and financing solutions to the less affluent population, enabling them to acquire vehicles. Additionally, AFL extended financial support to entrepreneurs, small and medium-sized enterprises (SMEs), and small industries.

Operations AFL offers a comprehensive range of financial services, including leasing options for various vehicles such as 2-wheelers, 3-wheelers, motor cars, and mini truck. The Company provides leasing facilities for both new and used vehicles to cater to diverse customer needs.

Ownership

Ownership Structure The major shareholding vests with DPMC Assetline Holdings (Pvt) Limited owning 99.99% of the shares as of 9MFY25. The ultimate parent of the company is David Pieris Holdings (Pvt) Ltd.

Stability Holding company structure provides stability to the overall shareholding of the Company.

Business Acumen David Pieris Group (DPG) comprises 22 companies in diversified industries, including financial services, property development & trading, logistics, IT & Digital, racing, leisure, and distribution of electronic and electrical items

Financial Strength David Pieris group has strong financial strength and has approved a limit of LKR 14Bn, to fund AFL in the form of an intercompany loan. This highlights the willingness of the sponsor to support the Company in need.

Governance

Board Structure The AFL board consists of approximately ~7 members, including ~1 Non-Independent Non-Executive Director,~1 Senior Independent Non-Executive Director, ~4 Independent Non-Executive Directors (one of whom is the Chairman), and ~1 Executive Director.

Members' Profile The AFL board comprises individuals with extensive knowledge, expertise, and experience across various industries, including agriculture, automobiles, logistics, IT, audit, and finance. Mr. Mr. M N R Fernando serves as the Chairman of the board, appointed as Independent Non-Executive Chairman in March 2025. Mr. M. N. R. Fernando is a Senior Fellow of the Institute of Bankers, Sri Lanka, and holds a Master of Business Administration. He has over four decades of experience in banking.

Board Effectiveness AFL operates with five board sub-committees: the Board Audit Committee (BAC), the Board Human Resource and Remuneration Committee (HRRC), the Board Integrated Risk Management Committee (BIRMC), the Nomination Committee (NC), and the Board Related Party Transactions Review Committee (RPTRC).

Financial Transparency The external audit of AFL is conducted by E&Y Chartered Accountants of Sri Lanka. They have issued an unqualified audit opinion on the financial statements for FY24.

Management

Organizational Structure The company has a well-defined organizational structure, with the CEO holding final authority and reporting directly to the Board of Directors.

Management Team Mr. Ashan Nissanka serves as Director and CEO, having joined the Board of Assetline in February 2021. He is a senior finance professional with broad-based experience in financial services and corporate management.

Effectiveness The Company has formed few management committees namely, Assets and Liability Management Committee, Credit Committee, Procurement Committee, IT Steering Committee, Cross Functional Committee and Assetline Management System Steering Committee.

MIS The Company operates a browser-based ERP system with Oracle 19C, hosted on Dialog's local cloud, with a disaster recovery site on Azure Cloud. A new system is being finalized to manage liability business operations and automate compliance processes. The MIS reporting framework includes real-time dashboards and reports on disbursements, portfolio movements, collections, and NPAs, supporting effective decision-making.

Risk Management Framework AFL's risk management process is steered by the Board Integrated Risk Management Committee (BIRMC), which reports to the Board. The Board defines acceptable risk levels in alignment with the company's strategy and limitations.

Business Risk

Industry Dynamics As of now, there are approximately ~34 Licensed Finance Companies (LFCs) in Sri Lanka, with around ~27 listed on the Colombo Stock Exchange. By 6MFY25, the profit after tax (PAT) of LFCs in Sri Lanka was reported at approximately LKR~26.30bn. In 6MFY25, the Return on Assets (ROA) stood at around ~5.7% (FY24: ~3.8%), and the Return on Equity (ROE) was approximately ~12.3% (FY24: ~12.9%).

Relative Position As of 6MFY25, AFL represents ~3% of equity in the LFC sector. The Company's asset base contributes to around ~2% of the industry's total assets. AFL's net loans and advances account for approximately ~2.4%, while its deposit base stands at ~0.2% in the same period.

Revenues The Company's gross income reached to LKR~8.5 bn in 9MFY25 compared to LKR~7.9bn in the corresponding period last year (FY24: LKR~10.3bn) mainly due to increase in lease and loan portfolio due to the favorable macroeconomic environment.

Performance The profit after tax (PAT) of the Company increased to LKR~1.9bn in 9MFY25 as compared to LKR~747 in 9MFY24 (FY24: LKR~1.3bn). This increase is attributed to a rise in net interest income due to higher asset yield and relatively lower funding costs. ROE improved to ~16.8% in 9MFY25 (FY24: ~10.2%). Meanwhile, ROA was recorded at ~5.8% in 9MFY25 (FY24: ~3.6%).

Sustainability The company is increasing its focus on 2- and 4-wheelers, due to their lower non-performing loan (NPL) rates. The 2-wheeler portfolio is expected to expand, alongside growth in the 4-wheeler segment. With the resumption of three-wheeler imports, the segment's overall portfolio composition is expected to remain largely unchanged

Financial Risk

Credit Risk The Company's gross NPL stood at approximately ~8% in 9MFY25 (FY24: ~11%), while the net NPL was around ~4% (FY24: ~7%) well below than the industry average, primarily due to the company's focus on 2- and 4-wheelers, as the 2- and 4-wheelers have lowest NPLs.

Market Risk The Company's investment portfolio includes government treasury bonds, unquoted equity shares, bank deposits, and investment property. As of 9MFY25, investment in treasury bonds stood at approximately LKR~6.6bn (FY24: LKR~6.7bn).

Liquidity And Funding As of 9MFY25, total deposits stood at LKR~3.7bn (FY24: LKR~680mn). Deposits accounted for ~13% of the funding mix in 9MFY25, up from ~3.2% in FY24, reflecting an increased reliance on deposits in the company's overall funding structure. Additionally, AFL's regulatory liquid assets to total assets ratio stood at ~17.2% in 6MFY25, outperforming the industry average of ~12.5%.

Capitalization The Company total capital adequacy ratio stood at ~25.1% in 9MFY25 (FY24: ~32.84%) and the net capital base of LKR~15.7bn as of 9MFY25.

Lanka Rating Agency

Assetline Finance Limited Private Limited

	LKR mln	LKR mln	LKR mln	LKR mln
	Dec-24	Mar-24	Mar-23	Mar-22
	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	36,106	27,826	22,539	29,007
2 Investments	6,687	6,855	5,427	258
3 Other Earning Assets	2,621	61	201	1,929
4 Non-Earning Assets	1,430	1,291	1,970	513
5 Non-Performing Finances-net	979	1,384	3,461	549
Total Assets	47,824	37,416	33,598	32,256
6 Funding	29,427	21,581	21,401	19,198
7 Other Liabilities	2,706	1,940	838	1,684
Total Liabilities	32,133	23,521	22,239	20,882
Equity	15,690	13,896	11,359	11,374
B INCOME STATEMENT				
1 Mark Up Earned	8,220	9,938	7,845	7,110
2 Mark Up Expensed	(1,838)	(3,258)	(4,431)	(1,173)
3 Non Mark Up Income	233	413	147	174
Total Income	6,615	7,092	3,561	6,112
4 Non-Mark Up Expenses	(2,479)	(2,679)	(2,148)	(1,967)
5 Provisions/Write offs/Reversals	(295)	(1,573)	(857)	(337)
Pre-Tax Profit	3,842	2,840	556	3,808
6 Taxes on Financial Services	(849)	(718)	(271)	(647)
Profit Before Income Taxes	2,994	2,122	285	3,161
7 Income Taxes	(1,125)	(834)	620	(1,030)
Profit After Tax	1,869	1,288	905	2,130
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	37.5%	37.8%	60.3%	32.2%
b ROE	16.8%	10.2%	8.0%	16.6%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	133.3%	145.0%	133.7%	167.3%
b Accumulated Provisions / Non-Performing Advances	68.6%	60.0%	42.9%	82.3%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	32.5%	32.9%	26.4%	11.1%
b Borrowings from Banks and Other Financial Institutes / Funding	85.4%	94.7%	86.6%	86.6%
4 MARKET RISK				
a Investments / Equity	42.6%	49.3%	47.8%	2.3%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	32.8%	37.1%	33.8%	35.3%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	17.9%	11.3%	7.4%	-20.1%

Credit Rating

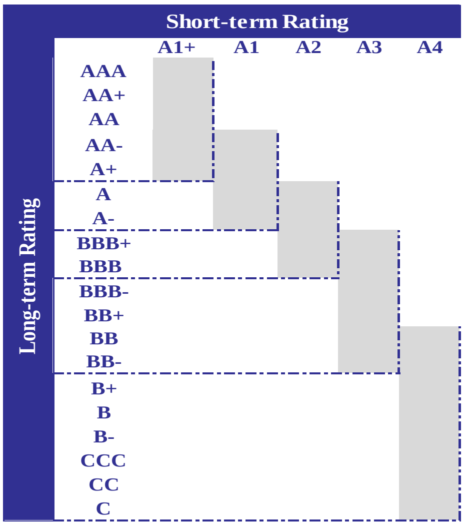
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. https://www.sec.gov.lk/credit-rating-agency/

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii.LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii.In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA´s opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.