



Lanka Rating Agency

Rating Report

WealthTrust Securities Limited

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
08-Jul-2024	A-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

WealthTrust Securities Limited (“WTSL” or “the Company”) is an authorized standalone Primary Dealer (PD) in Sri Lanka. PDs deal in Government securities (treasury bills and treasury bonds) in both primary and secondary markets. They remain exposed to market risk (interest rate fluctuation). WTSL has an established track record as a PD and a modest share in terms of total assets of standalone PDs. The rating reflects WTSL's robust capitalization, significant increase in profitability and profit retention on the back of substantial drop-in interest rates recently and its well managed risk exposure. The Company also functions in the capacity of a stock dealer (debt)/ stockbroker (debt), licensed by the Securities and Exchange Commission of Sri Lanka. WTSL's management is seasoned and carry strong relevant experience and qualifications. The board size is adequate with a non-independent director as the Chairman. WTSL posted robust profitability on back of sizeable gain on high-yielding treasury bonds subsequent to sharp reduction in interest rates. This was in line with other PDs who enjoyed wind fall gains as well. The Company recorded a healthy Capital Adequacy Ratio (CAR) of ~43.01% in FY24 which is well above the statutory requirement of ~10%. The credit risk of the Company remains minimum as a result of investing ~90% of its assets in the Government Securities. WTSL, like other PDs, is exposed to interest rate fluctuations and rebalances its portfolio between short-term and long-term Government securities to mitigate this to an extent. The Company has appointed E&Y as their external auditors in FY24. Going forward, the Company is expected to sustain its performance, albeit at lower profitability, as interest rates are expected to remain relatively stable.

The rating is dependent on the Company's ability to maintain and further strengthen its market position as a non-bank PD while maintaining its performance trends and capital cushion. Effective rebalancing of portfolio to encounter market dynamics and strengthening governance practices remains important. Any substantial loss due to unfavorable movement in interest rate or otherwise, impacting its risk absorption capacity, would have negative rating implications.

Disclosure

Name of Rated Entity	WealthTrust Securities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Primary Dealer(Jun-23)
Rating Analysts	Savindri Hansamala Kuruppu savindri@lra.com.lk +94 114 500099

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Profile

Structure WealthTrust Securities Limited (“WTSL” or “the Company”) was incorporated on 1st February 2010 as a limited liability company under the Companies Act, No. 07 of 2007. WTSL was appointed as an authorized Primary Dealer (PD) by the Central Bank of Sri Lanka (CBSL) in the year 2011.

Background WTSL was founded Dr. Wickrema Weerasooria, Dr. S. A. B. Ekanayake, Mr. E. M. M. Boyagoda, Mr. Dammika Ranawana and Mr. M R C Cooray. Dr. Ekanayake was the Chairman of the Company from 2011 to 2019.

Operations The principal activity of the WTSL is dealing in government securities. The Company also functions in the capacity of a stock dealer (debt)/ stockbroker (debt), licensed by the Securities and Exchange Commission of Sri Lanka.

Ownership

Ownership Structure The Company's ownership vests with six corporates holding ~69.2% stake. Out of these six, Finco Holdings (Pvt.) Limited (“FHPL”) owns ~28.8% of WTSL shares, which is ~100% owned by Weerasooria family. The remaining shareholding is distributed amongst four corporates (40.4%) and individuals (30.8%).

Stability WTSL draws its stability from majority shareholding vested with Weerasooria family. Other shareholders have longstanding relationships spanning over a decade, but no formal written agreement exists.

Business Acumen Weerasooria family has a diversified business portfolio, and their strategic vision is a positive contributor for WTSL.

Financial Strength The Weerasooria family's broad company portfolio, prudent financial management, and strategic vision support their financial strength. Their ability to adapt to changing market dynamics while maintaining core business values ensures sustained growth and stability.

Governance

Board Structure The Board comprises of five members, four Non-Executive Directors (two Independent & two Non-Independent Directors), and the MD/CEO. The Chairman is a Non-Independent Director who has been a part of the Board since 2010. This is not in line with best practices.

Members' Profile The WTSL board members represent a wide range of expertise. The members have backgrounds in financial management, information technology, investment banking, treasury management, and cross-border transactions.

Board Effectiveness Board size is adequate and comprises of four board committees, namely, i) Nomination & Remuneration Committee (“NRC”) ii) Risk Management Committee (“RMC”) iii) Audit Committee and iv) Related Party Transactions Review Committee (“RPTRC”). Mr. Speldewinde heads the Audit Committee and is part of two other committees.

Financial Transparency For FY23, B R De Silva & Co., the external auditors, offered an unqualified audit opinion. In FY24, the company has appointed E&Y as their external auditors.

Management

Organizational Structure The Company has two main divisions, namely front office and finance & operations, which reports to the MD/CEO. The compliance officer and the Asset & Liability Committee (“ALCO”), reports to the RMC, while the internal audit department reports to the audit committee.

Management Team The senior management comprises of the MD/CEO, Deputy CEO and the General Manager – Finance & Planning/Business Processing, who have been a part of WTSL since its inception. Each individual possesses more than two decades of experience and are qualified in related fields.

Effectiveness The company has an ALCO committee which directly reports to the RMC. The ALCO committee comprises of the MD/CEO, Deputy CEO, General Manager – Finance & Planning/Business Processing, AGM-Head of Trading & Research Development and the Risk Officer. ALCO meetings are held once a month and comprehensive meeting minutes are maintained. WTSL also has an IT Steering Committee.

MIS Monthly MIS reports analyze the financial performance, product compositions, and maturity mismatch of the Company. Policies established by the MIS department include remote access, password, server room, and media handling, with restrictions and a business continuity plan in consultation with CBSL.

Risk Management Framework The Company has formulated a comprehensive risk management policy defining the limits for acceptable risk. Daily control measures are in place to ensure a smooth flow of operations and risk mitigation. In addition, required approvals are obtained while providing justification for the non-conformity if the limitations are ever exceeded

Business Risk

Industry Dynamics At present, there were 6 Licensed Commercial Banks (LCBs) and 7 Primary Dealer companies (PDCs) registered as Primary Dealers (PDs) in the government securities market, out of which 3 were suspended by CBSL. The total assets of the stand-alone PDs increased by ~105.7% since CY22, to LKR~270.8bn in CY23. The equity of PDCs increased by ~142.4% mainly due to the high profitability. The profit after tax increased significantly to LKR~35.8bn from LKR~1.7bn in CY22, and this is mainly attributable to increase in interest income, capital gains and increased revaluation gains. Subsequently the ROA and ROE has improved to ~25.7% and ~139.3% in CY23 compared to ~3% and ~19.9% in CY22.

Relative Position WTSL holds modest share with ~9.8% of the total assets of the standalone PDs, which amounts to LKR~26.5bn (FY23: ~28%) and ~11% of the equity which, is LKR~6.6bn (FY23: ~14.6%). At the end of FY24, WTSL had government securities recognized through FVTPL worth of LKR~23.8bn, which is ~9.1% in comparison to its counterparts.

Revenues During FY24, WTSL earned a net interest income of LKR~3.1bn (FY23: LKR~2.1bn; FY22: LKR~312mn). Trading income was reported at LKR~6.8bn in FY24 (FY23: LKR~611mn; FY22: LKR~ (184mn) and income from re-measurement was reported at LKR~178.4mn in FY24 (FY23: LKR~543mn; FY22: LKR~ (68mn)). Major expenses are related to interest expense on repurchase agreement reported at LKR~2.9bn in FY24 (FY23: LKR~3.1bn; FY22: LKR~326mn).

Performance WTSL has been able to improve its net profit by ~188% to LKR~4.9bn (FY23: LKR~1.7bn, FY22: LKR (~43mn)). It has been caused mainly by net capital and re-measurement gain on government securities, which amounted to LKR~7.1bn (FY23: LKR~1.1bn). The return on equity (“ROE”) and the return on assets (“ROA”) have both increased in FY24 to ~88% and ~15% from ~47% and ~7% in FY23 respectively. The improvement in ROE has been primarily due to the improvement in profits.

Sustainability Albeit CBSL has adapted expansionary monetary policy, as a result interest rates have come down to ~9.0%, which paved the way for better result for the Company in future. In addition, the company's active trading strategies on its portfolio will help improve profitability by capitalizing on interest rate movements.

Financial Risk

Credit Risk The credit risk is minimum for the Company since ~90% (FY23: ~93%) of their assets are invested in government securities as at FY24. A minor credit risk arises from their investment in securities purchased under resale agreements. However, due to the presence of collateral, in the form of government securities with sufficient haircuts, the credit risk is minimum.

Market Risk WTSL's investment portfolio is ~100% dedicated to government securities and thus, is exposed to significant interest rate risk. WTSL investments in government securities make up ~90% of the total assets during FY24 (FY23: ~93%). The interest rates have been declining and further decline could result in the Company continuing to incur profits from capital gains. The rebound increase in policy rates will cause capital losses for the Company and necessary stress analysis should be done to counter the expected losses.

Liquidity And Funding Securities sold under repo being the main funding line of the Company, which stand at LKR~14.7bn and account for ~74% of the total liabilities in FY24 (FY23: ~92%). The Company's assets are liquid in nature, comprising mostly of resale agreements (re-repos) and government securities.

Capitalization The Company's has a robust capital base with capital adequacy standing at ~43.01% as at FY24, while the minimum requirement by the CBSL is ~10%. WTSL's total equity has been maintained at LKR~6.6bn as at FY24 (FY23: LKR~4.4bn), which is well above the CBSL stipulated Capital Adequacy amount of LKR~2.5bn.



Lanka Rating Agency

WealthTrust Securities Limited
Public Limited Company

LKR mln

Mar-24

Mar-23

Mar-22

Mar-21

12M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	-	-	-	-
2 Investments	23,898	34,809	10,571	6,473
3 Other Earning Assets	2,472	2,032	1,026	2,324
4 Non-Earning Assets	193	105	101	384
5 Non-Performing Finances-net	-	-	-	-
Total Assets	26,563	36,946	11,698	9,181
6 Funding	16,256	31,264	8,911	5,336
7 Other Liabilities	3,681	1,212	22	1,141
Total Liabilities	19,937	32,476	8,933	6,477
Equity	6,626	4,470	2,765	2,703

B INCOME STATEMENT

1 Mark Up Earned	6,118	5,329	638	989
2 Mark Up Expensed	(3,002)	(3,294)	(340)	(587)
3 Non Mark Up Income	7,031	1,148	(252)	877
Total Income	10,147	3,183	47	1,279
4 Non-Mark Up Expenses	(2,774)	(866)	(95)	(505)
5 Provisions/Write offs/Reversals	-	-	-	-
Pre-Tax Profit	7,373	2,317	(48)	775
6 Taxes	(2,467)	(612)	5	(187)
Profit After Tax	4,907	1,705	(43)	588

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	27.3%	27.2%	201.7%	39.4%
b ROE	88.4%	47.1%	-1.6%	21.7%

2 INVESTMENT AND CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	0.0%	0.0%	0.0%	0.0%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	162.1%	116.9%	130.2%	164.9%
b Borrowings from Repurchase Agreement Borrowings / Funding	91.0%	95.6%	94.3%	99.6%

4 MARKET RISK

a Investments / Equity	360.7%	778.8%	382.3%	239.4%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

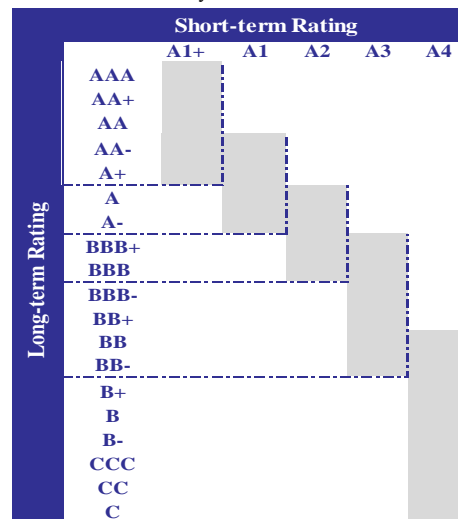
a Equity / Total Assets (D+E+F)	24.9%	12.1%	23.6%	29.4%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	48.2%	61.7%	-8.9%	18.1%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 surveil 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

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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.