



Lanka Rating Agency

Rating Report

Sejaya Micro Credit Limited

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Rating History table with columns: Dissemination Date, Long Term Rating, Outlook, Action, Rating Watch. Row: 17-Feb-2025, BBB-, Stable, Initial, -

Rating Rationale and Key Rating Drivers

The licensed microfinance sector in Sri Lanka consists of 4 companies registered with the Central Bank of Sri Lanka (CBSL). The total asset base of the Licensed Microfinance Companies (LMFC) stood at LKR~11.70bn as at CY23, an ~18.2% YoY growth. The deposit base of the LMFCs is limited, mainly deposits against loans, and amounted to LKR~0.81bn in CY23. The core capital base of the sector stood at LKR~2.6bn. All LMFCs met the capital adequacy requirement set by CBSL. The regulated microfinance sector is relatively new in Sri Lanka and faces stiff competition from unlicensed players operating in the microfinance sector. Meanwhile, certain regulations like capping of maximum interest and fees on loans will impact the regulated sector's asset yield and sustainability.
Sejaya Micro Credit Limited (Sejaya or the Company) is a key player in the LMFC sector with 29 branches, 400 employees and 81,800 customers. Sejaya is 100% owned by Gojo and Company Incorporation (Gojo), a Japanese-based holding company for inclusive financial service providers. Gojo raises funds from individual and institutional investors and invests in microfinance companies to promote inclusive finance with major focus on women borrowers. Gojo has investments in microfinance companies in India, Cambodia, Myanmar, Sri Lanka, Tajikistan, and Africa. The Consolidated Gross Loan Portfolio of these companies was USD~817mn with paid-in capital of USD~325mn, serving more than ~2.4mn clients in these countries as of March 2024. The rating incorporates Sejaya's strong ownership and demonstrated support from the owner in the form of capital injection and loans. Gojo has strong representation on the board of Sejaya and provides strategic guidance as well. Sejaya accounted for ~38.50% of the total asset base of the sector in CY23, a slight drop from ~40.00% in CY22. The gross loan portfolio of Sejaya remains limited and stood at LKR~3.5bn as at 9MCY24 (CY23: LKR~2.7bn). Sejaya's share in consolidated Gross Loans of Gojo is ~1%, making it one of smallest. Majority of these are group loans to avail advantage of group guarantees and social collateral. The asset quality is considered adequate with 30-day PAR at ~7.5%. The Company has modest earnings with a net profit of LKR~35mn in 9MCY24 (CY23: LKR~113mn). The Company intends to rationalize its cost structure to remain competitive and ensure its sustainability. The funding mix comprises loans against dollar denominated deposits. These dollar denominated loans are mainly from Gojo. Sejaya intends to retire some of these loans and obtain loans at relatively lower rates from an international lender. The Core Capital of the Company was LKR~1007mn as at 9MCY24 (CY23: LKR~972mn) well above the regulatory requirement of LKR~150mn.
The rating is dependent on Sejaya's ability to maintain its position in the LMFC sector and achieve profitable growth. Any deterioration in asset quality, profitability indicators or unfavorable changes in funding leading to higher leveraging or repayment pressure will have negative rating implications. Meanwhile, continued support from Gojo will remain important.

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.

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Profile

Structure Sejaya Micro Credit Limited (“The Company” or “Sejaya”) is a limited liability company, incorporated and domiciled in Sri Lanka under the Companies Act No. 07 of 2007. The registered office of the Company is situated at No. 219, Station Road, Udahamulla, Nugegoda, Sri Lanka.

Background Sejaya was established in 2015 and obtained the Microfinance license under the Microfinance Act, No. 06 of 2016, from the Central Bank of Sri Lanka on 30 March 2020.

Operations The principal activities of the Company comprise providing micro-credit facilities plus professional services to low income and socioeconomically marginalized households in Sri Lanka to uplift their economic status and empower them. The Company’s branch network is across the country in almost every province and district.

Ownership

Ownership Structure Gojo and Company Incorporation (Gojo) owns ~100% shareholding of the Company. Mr. Taejun Shin (One of the founding members of Gojo), owns ~41.21% of the share capital directly and through Satyagraha Incorporation. Gojo has raised funds from individuals and institutional investors through multiple funding rounds for inclusive finance investments in several countries.

Stability The Company draws stability from its parent, Gojo, which is a Tokyo-based holding company of financial service providers operating in Cambodia, Myanmar, Sri Lanka, India, and Tajikistan. These financial service providers operate in the wholesale lending, housing finance, supply chain financing, and microfinance sectors.

Business Acumen Mr. Taejun Shin has experience as an investment professional and worked for private equity and other funds. These include Morgan Stanley, International Finance Corporation (IFC) and Unison before establishing his own fund. He has a master’s degree in financial economics from WASEDA Business School and a LLB from Korea University. Mr. Taejun led the company’s growth as the CEO along with his partners.

Financial Strength Gojo has a consolidated Gross Loan Portfolio of USD~817mn with paid-in capital of USD~325mn, serving more than ~2.4mn clients as of March 2024. Sejaya contributes ~1% in terms of total Gross Loans of Gojo, making it one of the smallest companies. Gojo reported a revenue of USD~137.1mn and an operating profit of USD~12.5mn as of FY23.

Governance

Board Structure The Company has a five-member Board, all of whom are Non-Executive Directors (NEDs). Two of these members are also independent NEDs. Three directors, including the Chairman, represents Gojo on the board of Sejaya. The Chairman Mr. Takao Takahashi is a Non-Independent and Non-Executive Director

Members’ Profile The board members have expertise in various fields, including banking, management consultancy, business advisory, and SME finance. Mr. Takao Takahashi graduated from Georgetown University, USA, with a Master of Science in Foreign Service and completed his Bachelor of Laws from Kyoto University, Japan.

Board Effectiveness There are three subcommittees, the Risk Committee, the Audit Committee, and the Social Performance Committee. Both the Audit and Risk Committees are headed by an Independent Non-Executive Director. The board provides strategic guidance to the management and shares experience of other countries.

Transparency Ernst & Young (EY), the external auditor of the Company, issued an unqualified audit opinion pertaining to the annual financial statements for CY23.

Management

Organizational Structure The Company has an organizational structure with five departments (Retail Operations, Finance, IT, HR & Admin, and Internal Audit) with four of the department heads reporting to the CEO through the other C-Level officers. The Head of Internal Audit reports directly to the Audit Committee.

Management Team The management team is headed by Mr. Rizanth Francis, the CEO. He has over 17 years of experience in microfinance, including 8 years in C-Suite positions and 2 years as a CEO. He holds both a bachelor’s and a master’s degree in business administration.

Effectiveness The Company has one Management Committee: The Asset and Liability Committee (ALCO). The actual results of the Company are compared to the risk appetite limits/risk thresholds defined in the risk management policy and any significant differences are discussed in the ALCO.

MIS The Company uses a core banking software solution (Finflux) and is also rolling out a cloud-based ERP solution (Entuition). Sejaya acquired a software from M2P Solutions (Pvt.) Limited, which is provided to loan officers for the purposes of center creation, loan collection/recovery, and KYC uploading.

Risk Management Framework The function of risk management is under the purview of the CFO. Risk thresholds are set and the risk environment is assessed against these thresholds. Any variances are brought to the attention of the Risk Committee.

Technology Infrastructure The Company also has an IT Asset Management System through which property and fixed assets are managed. The Company has an Amazon Workspace (AWS) data tub and a local data tub at Lanka.com with an online Data Recovery System with AWS Singapore in case something goes wrong with the AWS data tub.

Business Risk

Industry Dynamics At present, there are 4 LMFCs and ~49 microfinance NGOs registered with the Central Bank of Sri Lanka. The total asset base of the LMFC sector stood at LKR~11.7bn as of CY23 (CY22: LKR~9.9bn), representing ~18.2% growth.

Relative Position Sejaya is a key player in the LMFC sector with 29 branches, 400 employees and 81,800 customers, accounting for ~38.50% of the total asset base of the sector in CY23. Meanwhile, Sejaya’s has ~27.8% share in the total loans and advances of LMFC sector.

Revenue The gross interest income of the Company stood at LKR ~795mn in 9MCY24 (CY23: LKR~943mn). The net interest income was LKR~46mn (CY23: LKR~601mn, Net interest margin remained stable (~63.6%) in 6MCY24. The Company maintains a healthy spread as witnessed for other microfinance companies.

Profitability The profit after tax of the Company increased to LKR~113mn in CY23 compared to a loss of LKR~30mn in CY22 mainly due to rise in net interest income by ~39% to LKR~601mn in CY23 (CY22: LKR~431mn). Other income supplemented the profitability with ~93% increase on YoY basis. Profit after tax rationalized to LKR ~ 35mn in 9MCY24 due to increase in operating expenses.

Sustainability Sejaya plans on extending its outreach by setting up 8 new branches. However, main focus will be on digital expansion instead of brick-and-mortar branches. The Company intends to rationalize costs to ensure competitiveness and long-term sustainability.

Financial Risk

Credit Risk Majority of Sejaya’s advances are group loans (~96%). The Company’s PAR30 ratio reduced to ~6.30% in 9MCY24 from ~12.01% in CY22. The NPLs further reduced to ~7.44% in 6MCY24 due to strict monitoring of and focus on recovery. The Company take actions like re-scheduling, re-structuring, extending the loan repayment period and make sure that installment amount is very reasonable for them to repay.

Market Risk The investment portfolio comprises fixed deposits only. Fixed deposits have increased to LKR~2.4bn in 9MCY24 (CY23: LKR~1.9bn). The Company uses these deposits as collateral for local borrowings. Interest income is likely to come down with reduction in interest rates.

Funding The funding mix comprises loans against dollar denominated deposits (6MCY24: LKR~1.6bn). These dollar denominated loans are mainly from Gojo (9MCY24: LKR~2.4bn). Sejaya intends to retire some of these loans and obtain relatively lower rate loans from an international lender. Any unfavorable funding mix will be creating repayment pressure for the Company.

Cashflows & Coverages The Company rolled over loans of LKR~4.0bn in CY23 (mainly dollar denominated loans from Gojo). Interest coverage ratio (EBITDA/Interest Expense) was 1.56x. Majority of the loans are currently covered by dollar denominated deposits.

Capital Adequacy The Core Capital of the Company was LKR~1007mn as at 9MCY24 (CY23: LKR~972mn) well above the regulatory requirement of LKR~150mn.



LKR Mln

#	Sep-24	Dec-23	Dec-22	Dec-21
Public Company	9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	3,276	2,549	2,131	1,830
2 Investments	-	-	-	-
3 Other Earning Assets	2,400	1,869	1,954	967
4 Non-Earning Assets	279	182	185	220
5 Non-Performing Finances-net	(107)	(75)	(225)	(146)
Total Assets	5,847	4,525	4,044	2,872
6 Deposits	-	-	-	-
7 Borrowings	4,568	3,372	3,058	1,889
8 Other Liabilities (Non-Interest Bearing)	272	181	127	97
Total Liabilities	4,840	3,552	3,185	1,987
Equity	1,007	972	860	885

B INCOME STATEMENT

1 Mark Up Earned	795	943	675	399
2 Mark Up Expensed	(326)	(342)	(245)	(83)
3 Non Mark Up Income	260	174	90	82
Total Income	729	775	520	398
4 Non-Mark Up Expenses	(533)	(540)	(431)	(319)
5 Provisions/Write offs/Reversals	(23)	(29)	(75)	(65)
Pre-Tax Profit	172	206	14	14
6 Taxes	(138)	(93)	(44)	(26)
Profit After Tax	35	113	(30)	(12)

C RATIO ANALYSIS

1 Performance

Portfolio Yield	44.6%	39.4%	31.4%	24.0%
Minimum Lending Rate	37.6%	37.3%	37.9%	25.5%
Operational Self Sufficiency (OSS)	119.5%	122.6%	101.8%	103.0%
Return on Equity	4.7%	12.3%	-3.5%	-1.3%
Cost per Borrower Ratio	N/A	N/A	N/A	N/A

2 Capital Adequacy

Net NPL/Equity	-10.7%	-7.7%	-26.2%	-16.5%
Equity / Total Assets (D+E+F)	17.2%	21.5%	21.3%	30.8%
Tier I Capital / Risk Weighted Assets	N/A	N/A	N/A	N/A
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	4.8%	13.1%	-3.4%	-1.3%

3 Credit Risk

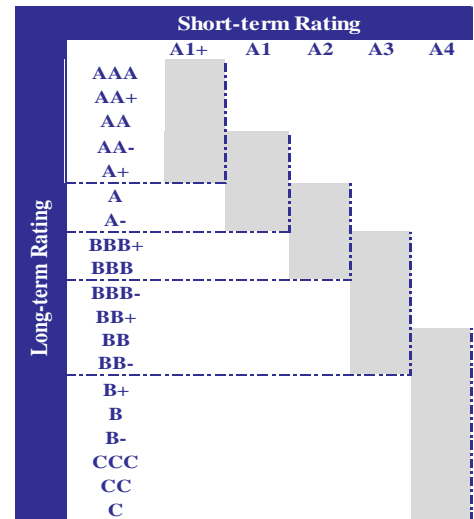
Top 20 Advances / Advances	0.0%	0.6%	0.0%	0.0%
PAR 30 Ratio	6.3%	7.5%	0.0%	0.0%
Write Off Ratio	0.0%	0.3%	0.2%	0.5%
True Infection Ratio	6.3%	7.7%	0.2%	0.5%
Risk Coverage Ratio (PAR 30)	149.2%	136.3%	231.9%	231.9%

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

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