



Lanka Rating Agency

Rating Report

Fixed Income Investment II (Pvt) Ltd - Trust 3 T Bond- Securitization - LKR 1,200Mn

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
15-Jul-2024	A	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Fixed Income Investment II (Pvt) Ltd – Trust 03 is a Special Purpose Vehicle ("SPV") incorporated to securitize Treasury Bonds up to LKR~1,140,164,184 Face Value. The tenor of the Treasury Bond is 5 years. The rating reflects the robust securitization structure that ensures regular interest and principal repayments to the investors. The credit risk is considered minimal as the securitization is for the Government of Sri Lanka's long-term fixed rate Treasury Bonds (less than 10 years maturity). The Treasury Bond securitization is resilient to the recent domestic debt optimization in Sri Lanka. Interest rate fluctuations, if any, are likely to impact the value of the bond, giving rise to the market risk. This risk, along with early repayment, will be undertaken by the investors as clearly mentioned in the offering document. Under the current scenario of declining interest rates, the bonds hold a strong demand resulting in a low market risk. The entire transaction will be routed through a trustee to ensure timely and secured payments. Furthermore, LRA also takes into account the ability of the Treasury Bond securitization promoter (Capital Alliance Holdings Limited, that is Rated "A-" by LRA). The promoter's experience in managing funds and Capital Markets is expected to facilitate its smooth execution. There is a built-in curing period (3 days), in case a payment is missed. The investors will receive fixed returns only if they hold their positions until maturity and not in the case of early redemption. Every 184 days, the investors will have the option to roll over or pre-terminate the bond at market value. The average return on the trust certificates offered by the Treasury Bond securitization stands at of ~11.29% (net of fees) which will be provided only if the instrument is held to maturity. All settlements would be made through the Fixed Income Investment II (Pvt) Ltd – Trust 03 account maintained with the Trustee (People's Bank). All settlements would be made under the direct supervision of the Trustee. Until all the agreed payments are made to the trust receipt owners, any excess amount will not be withdrawn. The Trustee will ensure timely payments and other legal aspects of the transaction.

The rating of the SPV depends on the timely payments of the interest and principal amount of the Treasury Bond securitization. Going forward, the probability of occurrence of a triggering event that may lead to a risk of non-payment of interest and/or principal to the investors, will be closely surveilled.

Disclosure

Name of Rated Entity	Fixed Income Investment II (Pvt) Ltd - Trust 3 T Bond- Securitization - LKR 1,200Mn
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-22)
Related Research	Sector Study Capital Markets(May-24)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099



Lanka Rating Agency

Issuer Profile

Profile Fixed Income Investment II (Pvt) Ltd – Trust 03 (FII II – Trust 03) is the legal entity that will be borrowing funds from the investors by way of trust receipts which are collateralized with treasury bonds. This arrangement is considered as a true securitization.

Ownership FII II – Trust 03, a Special Purpose Vehicle (SPV), is a 100% owned subsidiary of Capital Alliance Holdings Limited (CALH).

Governance Mr. Tharindra Kulasinghe has been appointed as the Director by CALH. KPMG will be the External Auditor for the securitization while Nithya Partners will be the legal advisors. People's Bank will be the trustee/custodian to the issue.

Management The management of the SPV will be steered by CALH.

Business Risk During FY24, interest rates in Sri Lanka have decreased substantially to single digits after peaking in FY22 and FY23. This is favorable for Government securities with high coupon rates as their market price appreciates. This is applicable to securitized T-bonds as they have higher coupon rates and interest rates are not expected to increase significantly in the short to medium term. The domestic debt optimization program has been completed and negotiations on restructuring of foreign debt are expected to be finalized within this year. This will provide more clarity on the overall restructuring process and fiscal space that the Government will get to move forward in a sustainable way.

Financial Risk The Company bears minimal credit risk as the securitization is for the Government of Sri Lanka's long-term fixed rate Treasury Bonds, that is around less than 10 years maturity. The interest rate fluctuation can impact the value of the bond and give rise to market risk. The interest rate and market risk will remain with the trust certificate investors in case of early redemption. The tranche's simple annualized return is approximately ~11.29% which can be obtained only if the certificates are held to maturity. The existence of a curing period provides support to the structure.

Instrument Rating Considerations

About The Instrument Fixed Income Investment II (Pvt) Ltd – Trust 03 will buy Treasury Bonds and securitize them. The SPV will issue trust receipts to investors against these securitized bonds. The total size of the securitization is LKR~1.140bn with an average gross return of ~11.29% on the trust certificates, net of fees, if held to maturity.

Relative Seniority/Subordination Of Instrument The instrument is a secured senior debt.

Credit Enhancement There will be no further credit enhancements since it is already secured via Treasury Bonds.

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (LKR mn)
T-bond Securitization	LKR 1,140,164,184.00	until 15-07-2029 (Maturity of the T-bond)	Treasury bonds (15-07-2029)	LKR 1,140,164,184.00	Government of Sri Lanka issued treasury bonds will be the underlying asset to this transaction	People's Bank	LKR 1,501,987,306.6

Name of Issuer	Fixed Income Investment II (Pvt) Ltd- Trust 03
Issue Date	July 17, 2024
Maturity	July 15, 2029
Coupon Basis	The papers are in maturity of less than 184 days. At the end of each paper, the investor has the ability to decide whether to sell the T-bonds and get the repayment (at which it will be sold in the market at market rates and the selling value will be paid to the investors net of any due fees), or the investor has the ability to rollover to the next paper.
Repayment	Either after the maturity of each paper (if the investor opts to sell the asset), or at 15/07/2029 (Maturity of the T-bonds)
Option	

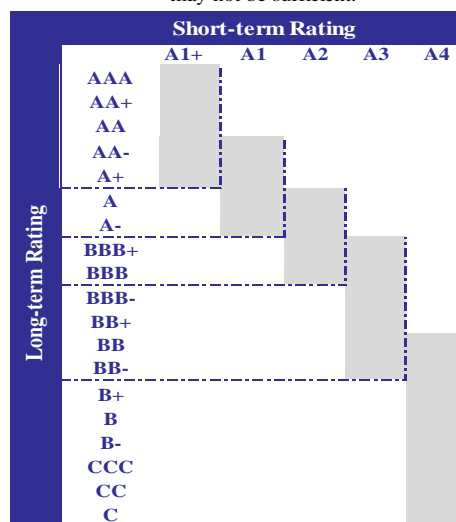
Fixed Income Investment II (Pvt) Ltd- Trust 03		
FV: 1,140,164,184.00	Maturity: 15-Jul-29	

Due Date Principal	Opening Principal (LKR)	Coupon Due Date	Gross Rate	LKR					
				Interest earned	Cash inflow from coupons	Costs to be paid out of securitization	Interest earned (to be paid to investors)	Net cashflow	Capital Outstanding at the end of maturity
17-Jul-24	1,501,987,306.64		11.2026%						
15-Jan-25	1,473,369,185.62	15-Jan-25	11.3953%	83,900,425	114,016,418	1,497,872	83,900,425	28,618,121.02	1,473,369,186
15-Jul-25	1,444,071,526.75	15-Jul-25	11.2063%	83,257,500	114,016,418	1,461,259	83,257,500	29,297,658.87	1,444,071,527
15-Jan-26	1,413,089,845.38	15-Jan-26	11.3953%	81,578,796	114,016,418	1,455,941	81,578,796	30,981,681.37	1,413,089,845
15-Jul-26	1,380,326,087.39	15-Jul-26	11.2063%	79,851,185	114,016,418	1,401,475	79,851,185	32,763,757.99	1,380,326,087
15-Jan-27	1,345,678,778.17	15-Jan-27	11.3952%	77,977,438	114,016,418	1,391,671	77,977,438	34,647,309.22	1,345,678,778
15-Jul-27	1,309,038,461.95	15-Jul-27	11.2063%	76,041,484	114,016,418	1,334,618	76,041,484	36,640,316.22	1,309,038,462
15-Jan-28	1,270,292,262.48	15-Jan-28	11.3315%	73,950,421	114,016,418	1,319,798	73,950,421	38,746,199.46	1,270,292,262
15-Jul-28	1,229,317,042.04	15-Jul-28	11.2062%	71,774,386	114,016,418	1,266,812	71,774,386	40,975,220.44	1,229,317,042
15-Jan-29	1,185,986,242.39	15-Jan-29	11.3953%	69,446,198	114,016,418	1,239,421	69,446,198	43,330,799.65	1,185,986,242
15-Jul-29		15-Jul-29		67,018,122	1,254,180,602	1,176,238	67,018,122	1,185,986,242.39	-

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		Short-term Rating	
Scale	Definition	Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+		A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+		A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.
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.		



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

Disclaimer: LRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. LRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of LRA documents may be used, with due care and in the right context, with credit to LRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

(10) LRA's Revenue from the CAL group is more than 5% of its total revenue earned in the preceding year.

Monitoring and review

(11) 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)

(12) 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)

(13) 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

(14) 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

(15) 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.