Lanka Rating Agency

Rating Report

Alliance Finance Co PLC – Listed, Rated, Unsecured, Senior Social Bonds - 5 years

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
09-May-2025	BBB	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Alliance Finance Company PLC ("AFC" or "the Company") is a Licensed Finance Company (LFC) listed on the Colombo Stock Exchange since 1959. It is a mid-sized player in the LFC industry with assets comprising ~3.9% of total industry. AFC adopted the Triple Bottom Line (TBL) philosophy in 2012 and plans to develop its products in line with these values driven to a sustainable business mandate. AFC plans to issue first Social Bond (Up to maximum of LKR~2bn face value) by a LFC in Sri Lanka with 4-5 year maturity. The proceeds will be exclusively used to stimulate economic growth and generate employment opportunities by promoting Micro, Small, and Medium Enterprises (MSMEs) through value chain financing and to empower marginalized and underserved communities. Deloitte Associates Sri Lanka will serve as the Independent External Verifier for this issuance. The bonds are unsecured and will rank pari passu with other senior unsecured creditors of the Company, ahead of subordinated debt and equity holders in the event of liquidation. The proceeds from the issue are earmarked for new social projects in line with the Company's Social Bond Framework, with ~75% allocated to MSME financing and ~25% to microfinance for underserved communities. The instrument will comply with the Social Bond Principles (SBP 2023) issued by ICMA and includes ongoing impact and allocation reporting, external verification by Deloitte, and listing on the Colombo Stock Exchange to enhance transparency and tradability.

AFC has improved its profitability and asset quality during FY25 while focusing on sustainable financing solutions. AFC's Net Interest Income (NIM) increased to LKR~5.9bn in 9MFY25 compared to LKR~4.0bn in 9MFY24, a growth of ~48.3% y-o-y. Likewise, AFC's net profit stood at LKR~993.5mn in 9MFY25 (9MFY24: LKR~492.6mn). The Gross NPL ratio was ~6.8% during 9MFY25, lower than the industry average of ~11.3%. The Company's Capital Adequacy Ratio stood at ~14.5% in 9MFY25, above the Central Bank of Sri Lanka's (CBSL) statutory requirement of ~12.5% but remains below the industry average.

The rating depends on AFC's continued ability to achieve its strategic objectives while maintaining strong asset quality, sound financial management, sustainable leveraging and diversified funding base. Meanwhile, from a bondholder's perspective, the prudent management of Social Bond proceeds and the implementation of a comprehensive governance framework are critical.

Disclosure

Name of Rated Entity	Alliance Finance Co PLC – Listed, Rated, Unsecured, Senior Social Bonds - 5 years
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Aug-24)
Related Research	Sector Study | Leasing & Finance Companies(Feb-25)
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Issuer Profile

Profile Alliance Finance Company PLC ("AFC" or "the Company") was incorporated as a public company in 1956 under the provisions of the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. It was listed on the Colombo Stock Exchange (CSE) in 1959. AFC is the oldest Finance Company in Sri Lanka, with 68 years in the industry. It formally adopted the Triple Bottom Line ("TBL") philosophy in 2012. The principal business activities include acceptance of fixed and savings deposits and granting term loans, gold loans, and other credit facilities, leasing, vehicle trading and hiring services.

Ownership The largest shareholder of the Company is Mr. R K E P De Silva, with an ownership of ~36.87%. He is also the Deputy Chairman (DC) and the Managing Director (MD) of the Company. Mr. R K E P De Silva was appointed to the Board in 1990 and serves as a non-executive director in AFC's associates and subsidiaries. Mr. De Silva is a Fellow of the Institute of Credit Management. He also holds directorships in many companies and is also a member of multiple professional bodies. AFC currently does not have a need for capital infusion. However, the sponsors are willing and able to provide financial support if AFC needs it.

Governance The Board has 9 Directors, out of which 3 are Independent Directors and 3 are Non Independent Non Executive Directors. Mrs. Dharmakirti-Herath leads the Board members since 2020. The Executive Directors have experience in Non-Banking Financial institutions (NBFI), micro financing, investment banking and marketing, both locally and internationally. The Non-Executive Directors possess a wealth of experience in sectors such as healthcare, financial services, brand building, strategic planning and law. The Company has formed ~5 board sub-committees, namely, Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Related Party Transactions Review Committee (RPTRC), Human Resources and Remuneration Committee (HRRC), and Nomination and Governance Committee (NGC). The external auditors of the company, Deloitte, issued an unqualified audit opinion pertaining to the annual financial statements for FY24.

Management The head of the organization remains on the Board, 4 divisions in the Company report directly to Mr. De Silva, while other departments report to Mr. De Silva through the relevant Executive Directors. The management team is headed by Mr. R K E P De Silva. The Managing Director is supported by a team of Executive Directors, Chief Experience officers (CXOs), Assistant General Managers, and a team of managers for different functions and areas. The Company has a large corporate and middle management. They have acquired decades of experience in their respective careers. AFC has formed 7 management committees to run the operations smoothly in the Company. The Company is planning to move into a new core banking system which features direct connectivity to Lanka pay platform for seamless integrations to payment systems of Sri Lanka. The on-premises datacenters were migrated to local cloud Datacenters hosted by Dialog Axiata as well which resulted in improved performance and the DR process. The internal audit department follows a comprehensive audit plan where all branches are audited at least once a year, while the gold loan divisions are audited twice a year. The risk management division focuses mainly on credit risk, market risk, and liquidity risk.

Business Risk There are 34 Licensed Finance Companies ("LFC") in Sri Lanka, out of which, 27 are listed on the CSE. The sector profitability of the LFC sector improved by ~23.5% to LKR~43.1bn in 9MFY25 compared to 9MFY24 which was LKR~34.9bn (FY24: LKR~51.5bn). The deposits of the LFC sector increased by ~13.0% in 9MFY25 to LKR~1056.4bn while it was at LKR~935.1bn in 9MFY24 (FY24: LKR~987bn). However, total borrowings of the sector increased by ~15.3% in 9MFY25 to LKR~305.4bn from LKR~264.8bn in 9MFY24 (FY24: LKR~248.5bn). Total loans and advances of the sector have increased by ~22.8% to LKR~1,430.2bn in 9MFY25 from LKR~1,164.8bn in 9MFY24 (FY24: 1,214.7bn). The total asset base of the LFC sector stood at LKR~1,930.7bn and LKR~1,695.5bn as at 9MFY25 and 9MFY24 respectively (FY24: LKR~1,760.7bn). AFC is considered as a medium sized Licensed Finance Company and accounts for ~3.9% of the assets and ~3.1% of the deposits in the sector, as at 9MFY25. AFC's net loans and advances accounts for ~4.0% of the loans and advances in the sector in 9MFY25. AFC earned a net interest income of LKR ~5.9bn (FY24: LKR ~5.9bn), in 9MFY25, which is a ~48.3% increase since the same quarter of previous financial year. Interest income improved by ~11.2% to LKR~10.8bn (FY24: LKR~13.2bn) in 9MFY25 compared to 9MFY24. Interest expense decreased by ~15.1% to LKR~4.8bn (FY24: LKR~7.3bn) in 9MFY25 compared to 9MFY24. The growth in interest income was as a result of in the improvement in interest income from loans and advances. The core spread was improved to ~12.3% in 9MFY25 and ~11.0% in FY24 however it was at ~9.6% in FY23. The Company's PAT increased by ~102% to LKR~993.5mn in 9MFY25 from LKR~492.6mn in 9MFY24. This increase is due to growth in interest income and net fee and commission income. The significant growth was due to the favorable external environment and the successful implementation of strategic initiatives. ROE and ROA as at 9MFY25 stood at ~15.5% and ~1.9%. AFC is deeply committed to sustainability, reflected in its diverse product portfolio, which includes climate financing initiatives like Cinnamon Cultivators Development and Rooftop Solar Loans. The Company is transitioning towards electric vehicles to enhance its mobility solutions.

Financial Risk The Company has maintained a gross and net NPL of ~6.79% (FY24: ~9.38%) and ~2.93% (FY24: ~5.48%) respectively in 9MFY25. It has maintained gross and net NPL below industry levels over the periods. These improvements reflect the Company's proactive recovery efforts and prompt credit management strategies. The Company increased its investments by ~16.2% to LKR~3.5bn in FY24 as compared to LKR~3.1bn in FY23 by increasing the investments in Government securities. The investments stood at LKR~5.2bn in 9MFY25 and Government securities constituted ~81.2% of the total investments. The Company remains largely reliant on deposits, which accounted for ~52.5% of its funding as of 9MFY25, compared to around ~58.3% in FY24. Its total borrowings comprise both local and foreign sources, including securitized borrowings, various credit facilities, and bank overdrafts. Local borrowings made up ~82% of the total, while foreign borrowings contributed ~18%. The concentration of the top 20 depositors rose to ~20.5% of total deposits in 9MFY25 (FY24: ~19.1%), highlighting moderate concentration risk. As of 9MFY25, the Company's Capital Adequacy Ratio (CAR) is ~14.5%, slightly above the Central Bank of Sri Lanka's (CBSL) statutory requirement of ~12.5%. it is well below than the industry average of ~21.2%.

Instrument Rating Considerations

About The Instrument AFC intends to issue a 4 to 5-year Listed, Senior, Redeemable Social Bonds (Up to maximum of LKR~2bn face value). The interest rate will be determined based on Sri Lankan Government Security (5-year Bond) Rate Plus Premium, paid annually.

Relative Seniority/Subordination Of Instrument The rights of the Social Bond Holders with respect to payment of the Principal Sum and accrued interest due thereon upon a winding-up of the Company will rank after all the claims of secured creditors and preferential claims under any Statutes governing the Company but equal and pari passu with all other unsecured creditors of the Company, but in priority to and over the rights of any subordinated debt holders, preference and ordinary shareholders.

Credit Enhancement It is an unsecured debt instrument. The capital repayment will be done as a bullet payment at the end of the tenor with any interest accruing up to that time.

Lanka Rating Agency

Alliance Finance Company PLC

#	Dec-24	Mar-24	Mar-23	Mar-22
	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	55,614	43,471	35,400	40,472
2 Investments	6,395	4,142	3,564	1,913
3 Other Earning Assets	6,971	5,024	5,572	1,201
4 Non-Earning Assets	5,115	4,905	4,109	4,724
5 Non-Performing Finances-net	1,755	2,633	3,603	(171)
Total Assets	75,850	60,175	52,248	48,140
6 Funding	63,410	48,698	43,047	38,107
7 Other Liabilities	3,487	3,348	2,243	3,352
Total Liabilities	66,897	52,046	45,290	41,459
Equity	8,953	8,129	6,958	6,681
B INCOME STATEMENT				
1 Mark Up Earned	10,762	13,185	11,947	7,852
2 Mark Up Expensed	(4,815)	(7,298)	(7,411)	(2,651)
3 Non Mark Up Income	717	712	422	518
Total Income	6,664	6,599	4,957	5,719
4 Non-Mark Up Expenses	(3,692)	(3,944)	(3,385)	(2,776)
5 Provisions/Write offs	(530)	(336)	(275)	(103)
6 Reversals	44	47	73	78
Pre-Tax Profit	2,442	2,366	1,370	2,918
7 Taxes on Financial Services	(651)	(669)	(419)	(555)
Profit Before Income Taxes	1,791	1,698	951	2,364
8 Income Taxes	(841)	(781)	(446)	(901)
Profit After Tax	950	917	505	1,463
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	55.4%	59.8%	68.3%	48.5%
b ROE	15.5%	12.2%	7.4%	23.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	94.1%	98.5%	94.7%	110.2%
b Accumulated Provisions / Non-Performing Advances	56.7%	41.5%	32.6%	111.2%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	19.8%	16.6%	21.0%	7.9%
b Borrowings from Banks and Other Financial Institutes / Funding	47.5%	41.7%	52.4%	59.2%
4 MARKET RISK				
a Investments / Equity	71.4%	50.9%	51.2%	28.6%
b (Equity Investments + Related Party) / Equity	11.3%	7.0%	3.9%	3.8%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	11.8%	13.5%	13.3%	13.9%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	11.7%	9.1%	5.0%	20.5%

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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’.	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.	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.	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) LRA finds it impractical to surveil the opinion due to lack of requisite information.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company