Lanka Rating Agency

Rating Report

SDF-Tier II Listed Rated Unsecured Subordinated Redeemable High Yield Sustainable Bonds

Report Contents

Rating History				
Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
12-Jun-2025	BB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sarvodaya Development Finance PLC ("SDF" or "the Company") is a relatively small player in the LFC sector. However, it maintains a strong foothold in rural communities, supported by its extensive grassroots-level connectivity. SDF is planning to issue a Sustainable Bond of up to LKR 2 billion, with a proposed tenor of 5 years. The said Bond is intended to finance eligible projects that are expected to generate measurable social and environmental benefits, in line with the principles outlined under the ICMA Sustainability Bond Guidelines and Sri Lanka Green Finance Taxonomy (May 2022). The use of proceeds is expected to cover a broad range of categories, including renewable energy, MSME financing, clean transportation, women's empowerment, rural economic development, and agriculture-based livelihoods. SDF plans to allocate approximately 75% of the proceeds to socially focused financing and 25% to climate-related initiatives. The proposed allocation is consistent with the Company's emphasis on inclusive and sustainable growth, particularly within underserved communities, and broadly aligns with its existing exposure.

The proposed Sustainable Bond has been rated one notch below SDF's issuer rating, reflecting its subordinated and unsecured nature. The instrument ranks pari passu with other subordinated obligations of the Company and is contractually senior to claims of both ordinary and preference shareholders in the event of liquidation. Deloitte Associates Sri Lanka has been engaged as the Independent External Verifier for the proposed Sustainable Bond.

SDF's net interest income grew by ~48.3% YoY in FY25, driven by higher asset yields and lower funding costs. SDF reported a net profit of LKR~473.8mn in FY25 (FY24: LKR~249.6mn). As of FY25, the CAR stood at ~20.6%, supported by a net capital base of LKR~3.7bn, reflecting a comfortable capital position. The proposed bond issuance will further increase the CAR to ~31.7%, providing room for growth.

The rating is dependent upon the Company's ability to preserve its unique accessibility to the rural segment in the island. Sustaining its growth momentum while improving margins will be key for the Company. The rating will rely on the successful execution of the Company's strategy to grow its asset base while preserving the asset quality. Meanwhile, from a bondholder's perspective, the prudent management of Sustainable Bond proceeds and the implementation of a comprehensive governance framework are critical.

Disclosure	
Name of Rated Entity	SDF-Tier II Listed Rated Unsecured Subordinated Redeemable High Yield Sustainable Bonds
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 Sarvodaya Development Finance PLC (“SDF” or “the Company”) is a public limited liability company, incorporated in 2010, under the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011. SDF was listed on the Colombo Stock Exchange ("CSE") in December 2021. The Company was incorporated as Deshodaya Development Finance Company Limited in 2010 and assumed its current name in 2015. The principal business activities include acceptance of deposits, granting micro finance loans, SME loans, leasing, housing loans, business loans, pawning and other credit facilities, digital financial services and other value-added services. The Company has 56 branches, of which more than 82% are situated outside the Western Province. SDF is connected to 5,400 societies (through Sarvodaya Movement) with more than 800,000 members.

Ownership The largest share of the company is owned by Sarvodaya Economic Enterprises Development Services (GTE) Ltd ("SEEDS"), with an ownership of ~36.1%, while the Sarvodaya Movement collectively owns ~55% of the Company. Janashakthi Capital Limited, Senthilverl Holdings (Pvt) Ltd and Gentosha Media Consulting Inc. owns ~10.8%, ~12.1% and ~9% respectively. SEEDS was established in 1986 as the economic arm of the Sarvodaya Movement. The ownership of SEEDS has not gone through a major change, since it has been able to maintain its shareholding, post listing in CSE. SEEDS is engaged in economic development of rural communities through providing training in business development skills and financial services. The Sarvodaya Movement has multiple companies and independent units which operates under it. The Company does not have a written financial guarantee from the parent entity or other shareholders.

Governance The Board of Directors comprises of seven non-executive Directors, of which four are independent and three are non-independent. The Board members have diverse expertise in banking, sales, marketing, IT, and consulting. They are well qualified in their respective domains along with decades of experience. The Chairman, Mr. Channa De Silva has held senior management positions in many reputed firms, including financial institutions and banks. The Company has formed six board sub-committees, namely, i) Board Integrated Risk Management Committee (“BIRMC”), ii) Board Audit Committee (“BAC”), iii) Board Nomination and Governance Committee (“BNGC”), iv) Related Party Transaction Review Committee (“RPTRC”), v) Board Credit Committee (“BCC”), vi) Board Human Resources and Remuneration Committee ('BHRRC'). The external auditors of the Company, Deloitte, issued an unqualified audit opinion pertaining to annual financial statements for FY25.

Management The Company has 15 separate divisions to carry out its operations. The Compliance Department and the Risk Departments report to the BIRMC, while the Internal Audit Department reports to the BAC. The management team is headed by the Chief Executive Officer ("CEO"), Mr. Nilantha Jayanetti. The CEO has extensive knowledge in business management and strategic leadership and has experience in the banking and financial sectors. SDF has formed eight management committees, namely, i) Assets and Liability Management Committee (“ALCO”), ii) Management Credit Committee (“MCC”), iii) IT Steering Committee (“ITSC”), iv) Management Committee (“MC”), v) Product Development Committee (“PDC”), vi) Sustainability Committee ("SC"), vii) Information Security Committee ("ISC"), viii) Management Operational Risk Management Committee ("MORMC"). The main ERP system of the Company is the eFinancials system, provided by Scienter Technologies (Pte) Ltd. The Company is also connected to the Lanka Pay CEFT network, Shared ATM Switch (“SAS”) and Common ATM Switch (“CAS”). The BAC has the responsibility to ensure the integrity of the financial reporting and the effectiveness of the internal control systems. Risk reports are submitted to the BIRMC for each type of risk identified with a rectification plan. Heads of Departments have the responsibility to identify and focus on potential risks in their respective areas of operations.

Business Risk There are 33 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 ~64% to LKR~51.5bn in FY24 compared to FY23 which was LKR~33.2bn (9MFY25: LKR~43.1bn). The deposits of the LFC sector increased by ~8.8% in FY24 to LKR~987bn while it was at LKR~907.2bn in FY23 (9MFY25: LKR~1,056.9bn). However, total borrowings of the sector depicted a decline by ~11.4% in FY24 to LKR~248.5bn from LKR~281.2bn in FY23 (9MFY25: LKR~305.3bn). Total loans and advances of the sector have increased by ~4.7% to LKR~1,214.7bn in FY24 from LKR~1,159.9bn in FY23 (9MFY25: 1,430.2bn). The total asset base of the LFC sector stood at LKR~1,630.3bn and LKR~1,760.7bn as at FY23 and FY24 respectively (9MFY25: LKR~1,930.7bn). The Company remains a small player in the industry, as it accounts for ~1.04% of the assets in the sector as at 9MFY25 and its deposits as a percentage of the total sector deposit stood at ~0.85% in 9MFY25. The Company’s interest income increased by ~31.0% in FY25 to LKR~4.1bn from LKR~3.1bn in FY24. Interest expense of the Company increased by ~7.7% in FY25 to LKR~1.4bn from LKR~1.3bn in FY24 (FY23:LKR~2.5bn). The Profit After Tax (“PAT”) of the Company recorded a significant growth in FY25 of ~89.8% to LKR~473.8mn from LKR~249.6mn in FY24 (FY23: LKR~221.6mn). This improvement points to rise in net interest income as a result of higher asset yields compared to lower funding costs. ROE improved to 12.6%in FY25 from 7.1% in FY24. ROA remained low at ~2.5% for both FY25 and ~1.9% in FY24. The Company intends to strengthen customer reach and accessibility by strategically growing the branch and ATM network to provide better financial access, especially to community-level businesses and economically active groups. SDF plans to expand market opportunities for MSMEs by fostering entrepreneurship among the youth and women associated with rural areas of the island.

Financial Risk The Company has been able to improve its NPLs since FY20. However, it increased drastically in FY23 to ~18.09% and as a result of the dire economic condition of the country, however it remained less than industry averages. NPL recorded at ~7.88% and ~12.6% as at FY25 and FY24. SDF has a granular customer base as the top 20 advances account for only ~2.6% of the total advances as at FY25 (FY24:2.9%). The Company increased its investments by ~25.8% in FY24 which saw a increase of ~13.2% in FY25. It increased its investment in government securities in FY25 by ~17.4% to LKR~906mn compared to LKR~772mn in FY24. Investments in government securities constituted ~78.6% of the total investments as at FY25. The reliance on customer deposits decreased from ~21.0% in FY23 to ~14.8% in FY25. Liquidity is anticipated to improve as tranches from European Development Finance Institutions amounting to USD~3mn have already been realized. Further loans from international loans are in the pipeline that will diversify funding base. The Company’s CAR reduced to ~20.63% as of FY25 compared to ~26.00% as of FY24 (FY23:~34.01%) against a statutory requirement of 12.50%. Tier-1 Capital Ratio of the Company stood at ~20.52% as of FY25 and ~25.84% as of FY24.

Instrument Rating Considerations

About The Instrument SDF intends to issue a 5-year Tier-II Listed, Subordinated, Unsecured, Redeemable, Sustainable Bond (Up to maximum of LKR~2bn face value). Type A and Type B instruments will be paid annually and semi annually.

Relative Seniority/Subordination Of Instrument The claim of the bond holder shall in the event of winding up of the Company rank after all the claims of secured and other unsecured creditors of the Company and any preferential claims under any Statues governing the Company but pari passu to the claims of subordinated creditors of the Company and shall rank in priority to and over the claims and rights of the ordinary and preference shareholders of the Company.

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.

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LKR mln

Sarvodaya Development Finance PLC	Mar-25	Mar-24	Mar-23	Mar-22
#	12M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	17,475	11,455	8,272	8,558
2 Investments	1,153	1,019	810	767
3 Other Earning Assets	1,214	494	604	42
4 Non-Earning Assets	993	810	476	487
5 Non-Performing Finances-net	1,707	1,119	1,509	1,321
Total Assets	22,542	14,898	11,670	11,174
6 Funding	17,648	10,700	7,821	7,199
7 Other Liabilities	950	627	399	670
Total Liabilities	18,598	11,327	8,221	7,870
Equity	3,944	3,571	3,449	3,305
B INCOME STATEMENT				
1 Mark Up Earned	4,064	3,102	2,461	1,822
2 Mark Up Expensed	(1,424)	(1,322)	(1,222)	(562)
3 Non Mark Up Income	299	210	124	96
Total Income	2,938	1,990	1,363	1,357
4 Non-Mark Up Expenses	(1,372)	(1,081)	(867)	(800)
5 Provisions/Write offs/Reversals	(427)	(318)	(51)	(181)
Pre-Tax Profit	1,139	591	446	375
6 Taxes on Financial Services	(310)	(182)	(146)	(107)
Profit Before Income Taxes	830	409	300	269
7 Income Taxes	(356)	(160)	(78)	(53)
Profit After Tax	474	250	222	215
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	46.7%	54.3%	63.6%	59.0%
b ROE	12.6%	7.1%	6.6%	7.9%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	114.7%	124.0%	131.1%	144.9%
b Accumulated Provisions / Non-Performing Advances	38.4%	38.4%	23.8%	29.4%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	13.0%	12.8%	15.9%	8.7%
b Borrowings from Banks and Other Financial Instituties / Funding	28.2%	28.1%	19.3%	32.2%
4 MARKET RISK				
a Investments / Equity	29.2%	28.5%	23.5%	23.2%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	17.5%	24.0%	29.6%	29.6%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	10.5%	4.0%	4.4%	4.2%

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

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at FY25 (LKR)
Tier 2 Listed Rated Unsecured Subordinated Redeemable High Yield Sustainable Bonds	LKR 2 Billion	5 YEARS	None	N/A	N/A	NDB Bank PLC	

Name of Issuer	Sarvodaya Development Finance PLC
Issue Date	
Maturity	
Coupon Basis	Not decided yet
Repayment	Capital repayment - Bullet at maturity
Option	

Sarvodaya Development Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding
	LKR				YYYY-MM-DD	LKR
Type A					**Fixed**	
At maturity	LKR 2.0 Billion	Bullet at Maturity	Annually	To be decided	To be decided	Not applicable at this stage
Type B				**Floating**	**Floating**	