



Lanka Rating Agency

Rating Report

LCB- Tier II Subordinated Listed Rated Unsecured Redeemable 5 Year High Yield Bond Issue

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
25-Jul-2025	B+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Lanka Credit & Business Finance PLC (“LCBF” or “the Company”) is a relatively marginal participant in Sri Lanka's highly competitive Licensed Finance Company sector. The Company offers a range of financial products, with a primary focus on term loans, leasing, and gold loans. Potential growth prospects have been identified by LCBF as the agriculture and tourism sectors. LCBF aims to expand its rural footprint by expanding its branch network to serve agrarian segments better. The Company also intends to establish its presence in the microfinance sector by offering bulk lending facilities to cooperative societies. LCBF's stability is primarily underpinned by its adequate ownership structure. Its parent entity and main shareholder, Lanka Credit and Business Limited, has been financing the business with capital infusions. LCBF is issuing a LKR ~750Mn Tier II Subordinated, Listed, Rated, Unsecured, Redeemable, 5-Year High Yield Bond, which may be increased up to LKR ~1.5Bn in case of oversubscription. The subordinated nature of the instrument implies that it ranks below secured creditors and statutory preferential claims, while ranking pari passu with the Company's other unsecured obligations. The assigned rating reflects the subordinated nature of the bond as it is assigned one notch below the Company's entity rating. Main objective of the Bond Issue is to expand the Tier II capital and strengthen the total capital base of the Company in keeping up with anticipated growth in lending portfolio. LCBF's net interest income increased by approximately ~45% in FY25, YoY, supported by improved asset yield and reduced cost of funds. The Company recorded a net profit of LKR ~204Mn in FY25 (FY24: LKR ~122Mn). However, the Company's Gross NPLs have been significantly higher than industry average over the past few year. The Gross NPLs during FY25 were ~10.66% whereas the industry average was ~8.3%. LCBF meets the net capital base requirement of LKR 3Bn. Total Capital Adequacy Ratio was ~36.7% in FY25, primarily comprising Tier 1 capital. Post issuance of the Tier II Subordinated Bonds, total CAR of the Company is expected to go up to ~52%, providing ample room for lending portfolio growth.

The rating depends on LCBF's ability to successfully execute its growth plans, sustain profitability and enhance asset quality. Any deterioration in key metrics or non-compliance with regulatory requirements will have negative rating repercussions. Meanwhile, improvement in market share, profitability and asset quality would have positive rating implications.

Disclosure

Name of Rated Entity	LCB- Tier II Subordinated Listed Rated Unsecured Redeemable 5 Year High Yield Bond Issue
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Non-Banking Financial Institution Rating(Jul-24),Methodology Debt Instrument Rating(Aug-24)
Related Research	Sector Study Leasing & Finance Companies(Feb-25)
Rating Analysts	Imran Iqbal imran@lra.com.lk +94 114 500099



Leasing & Finance Companies

Lanka Rating Agency

Issuer Profile

Profile Lanka Credit & Business Finance PLC ("LCBF" or "the Company") was incorporated on 5th September 2016 as a Public Limited Liability Company. Incorporated and domiciled in Sri Lanka under the Companies Act No. 07 of 2007. The company is approved under the Finance Business Act No. 42 of 2011 and is listed in the Colombo Stock Exchange.

Ownership The major shareholding vests with Lanka Credit and Business Limited ("LCBL") owning ~72.1% as at FY25. The second largest shareholder is Nation Lanka Finance Plc followed by Mr. Kapila Indika Weerasinghe. The Nanayakkara family owns ~24% of LCBL (the parent company). The sponsor provide support in the form of equity injection in the business through LCBL. LCBL does not have any operations other than management of investment in LCBF. The shareholders of LCBL are well reputed businessmen with other profitable ventures as well. The financial strength of the Company is derived from its shareholders, who are well-known for their business investments.

Governance The LCBF board consists of nine (9) members out of which three (4) are Non-Executive/Independent Directors and includes the Chairman. The board also has five (4) Non-Executive/Non-Independent Directors and one (1) Executive Director, who is the Chief Executive Officer ("CEO") of the Company.

Management The Company has a well-defined organizational structure with thirteen (13) divisions. The final authority lies with the CEO who reports to the Board of Directors. In addition, the board Integrated risk management committee, board audit committee, and the company secretary report directly to the board. The management team is steered by Mr. Kandegoda Gamage, who functions as the CEO/ Executive Director and has the relevant qualifications and experience. The Company has formed seven (7) management committees that assist the Company to effectively carry out its operations.

Business Risk At present, there are ~33 LFCs in Sri Lanka, of which ~27 is listed on the Colombo Stock Exchange. By the end of March 2025, the profit after tax (PAT) of LFCs in Sri Lanka increased by ~34% to LKR~69.0Bn, compared to LKR~51.5Bn recorded in the corresponding period of the previous year. The deposits of the LFC sector increased by ~14% in FY25 to LKR~1,121Bn while it was at LKR~986.9Bn in FY24. However, total borrowings of the sector depicted a increased by ~44% in FY25 to LKR~357.47Bn from LKR~248.55Bn in FY24. Total loans and advances of the sector have increased by ~29% to LKR~1,556.3Bn in FY25 from LKR~1,205.0Bn in FY24. The total asset base of the LFC sector stood at LKR~2,089.9Bn and LKR~1,760.7Bn as at FY25 and FY24 respectively. The Company represents ~0.63% of the equity in the LFC industry as at FY25. Moreover, the Company asset base contributes to ~0.44% of the industry assets during FY25. The revenue clocked in at LKR ~1.45Bn in FY25 and remained the same when compared to FY24 (LKR~1.4Bn). Net Interest Income for FY25 was LKR ~846Mn which has shown a growth of ~45% from FY24. This improvement can be attributable to expansion of the Company's lending book. The Company's product portfolio is predominantly focused on term loans, leases, gold loans which collectively amount for ~81% of the total lending portfolio in FY25. During FY25 interest income from term loans contributed ~61% followed by interest income from leasing which accounted for ~19% of the total interest income. The upward trend in revenue is expected to continue, supported by the planned opening of new branches, increased penetration into the cooperative sector, and the ongoing expansion of the product portfolio, which is linked to the expected Bond issue. However, impact on revenue from fall in policy rates remains pronounced. LCBF profitability improved by ~68% in FY25 to LKR ~204Mn from LKR ~122Mn in FY24. This growth can be attributable to a decrease in interest expense of ~23% from LKR ~620Mn in FY24 to LKR ~476Mn in FY25 and a reduction in impairment charge during FY25 by ~27% from LKR~122.56Mn in FY24 to LKR~89.5Mn in FY25. The asset base of the Company has improved by ~31% to clock in at LKR ~9.2Bn as at FY25 (FY24: LKR ~ 7.0Bn). The total advances have increased by ~72% from LKR~4,508.7Mn to LKR~7,756.7Mn. The Company's Return on Asset ("ROA") and Return on Equity ("ROE") is recorded at ~2.5% and ~6.8% as at FY25 respectively.

Financial Risk The Company's gross NPL is recorded at ~10.66% in FY25 (FY24: ~20.16%), while the net NPL was recorded at ~5% (FY24: ~12%) which is slightly higher than the industry average due to the nature of the product being offered by the Company. A contraction of ~36% has been witnessed in assets subject to market risk in FY25 and make up ~6.2% of the total assets of the Company. Investment in fixed deposit and commercial papers have a short-term maturity. LCBF's majority funds are from customer deposits and represent ~79% of the total funding in FY25. The deposit base of the Company has risen in FY25 by ~42% to LKR ~4.6Bn (FY24: LKR ~3.2Bn) due to deposit mobilization from cooperative societies. The Company's top 20 depositor come out to be ~44% of the total deposit as at FY25 which is considered to be high. The Total Capital Adequacy Ratio stood at ~36.7% in FY25 and ~42.1% in FY24 primarily comprising of Tier 1 capital. With the Expected issue of Tier II Subordinated Listed Rated Unsecured Redeemable 5-year High Yield Bond the the total capital ratio is expected to increase to ~52%.

Instrument Rating Considerations

About The Instrument Lanka Credit & Business Finance PLC expects to raise a Bond of up to LKR~1.5Bn Tier II Subordinated Listed Rated Unsecured Redeemable 5-year High Yield Bond Issue at a par value of LKR 100/-. The Bond has two types, namely Type A and Type B.

Relative Seniority/Subordination Of Instrument The claims of the bondholders shall in the event of winding up of the Company rank after all the claims of secured creditors and preferential claims under any statutes governing the Company but pari passu to the claims of unsecured creditors of the Company and shall rank in priority to and over claims under any subordinated debt of the Company and the claims and rights of the shareholder/s of the Company

Credit Enhancement It is an unsecured debt instrument, and the debenture is not underwritten. Repayment of the Principal Sum and payment of interest on the bond are not secured by a charge on any assets of the Issuer.



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LANKA CREDIT AND BUSINESS FINANCE PLC

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Mar-25

Mar-24

Mar-23

Mar-22

12M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	7,200	4,435	3,893	3,425
2 Investments	494	1,087	628	20
3 Other Earning Assets	156	167	150	205
4 Non-Earning Assets	794	599	518	358
5 Non-Performing Finances-net	604	726	689	349
Total Assets	9,248	7,013	5,877	4,357
6 Funding	5,903	3,953	3,024	1,625
7 Other Liabilities	222	141	57	50
Total Liabilities	6,125	4,094	3,081	1,676
Equity	3,123	2,919	2,796	2,681

B INCOME STATEMENT

1 Mark Up Earned	1,323	1,202	1,032	504
2 Mark Up Expensed	(476)	(620)	(427)	(105)
3 Non Mark Up Income	133	166	72	37
Total Income	980	749	677	437
4 Non-Mark Up Expenses	(500)	(416)	(325)	(218)
5 Provisions/Write offs/Reversals	(89)	(123)	(91)	62
Pre-Tax Profit	390	210	260	280
6 Taxes on Financial Services	(106)	(72)	(48)	(41)
Profit Before Income Taxes	284	138	213	239
7 Income Taxes	(78)	(26)	(50)	(141)
Profit After Tax	206	111	163	98

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	51.1%	55.6%	48.1%	50.0%
b ROE	6.8%	3.9%	5.9%	3.6%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	136.7%	141.4%	161.8%	245.9%
b Accumulated Provisions / Non-Performing Advances	30.6%	37.1%	31.0%	39.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	12.8%	28.7%	33.2%	61.3%
b Borrowings from Banks and Other Financial Institutions / Funding	18.7%	15.3%	18.7%	36.1%

4 MARKET RISK

a Investments / Equity	15.8%	37.2%	22.5%	0.7%
b (Equity Investments + Related Party) / Equity	0.6%	0.5%	0.5%	0.7%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	33.8%	41.6%	47.6%	61.5%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	7.0%	4.0%	4.3%	3.6%



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) 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) LRA 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.
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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 | 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 Company |

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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)
Listed, Rated, Unsecured, Subordinated, Redeemable High Yield Bond	1,500,000,000	5 Years	Unsecured	Nil	N/A	HNB Custody and Trustee Services	9,091,913,112

Name of Issuer	Lanka Credit & Business Finance PLC
Issue Date	07/07/2025 (Tentative)
Maturity	07/07/2030 (Tentative)
Coupon Basis	Semi-Annual and Quarterly
Repayment	Bullet Repayment at the end of the Tenure
Option	N/A

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				YYYY-MM-DD	LKR		
Type					Fixed			
A	14/07/2025 (tentative allotment)	14/07/2030 (tentative)	14/01/2026	12.60%	14/01/2026			1,500,000,000
			14/07/2026	12.60%	14/07/2026			
			14/01/2027	12.60%	14/01/2027			
			14/07/2027	12.60%	14/07/2027			
			14/01/2028	12.60%	14/01/2028			
			14/07/2028	12.60%	14/07/2028			
			14/01/2029	12.60%	14/01/2029			
			14/07/2029	12.60%	14/07/2029			
			14/01/2030	12.60%	14/01/2030			
			14/07/2030	12.60%	14/07/2030			
B	14/07/2025 (tentative allotment)	14/07/2030 (tentative)	14/10/2025	12.41%	14/10/2025			1,500,000,000
			14/01/2026	12.41%	14/01/2026			
			14/04/2026	12.41%	14/04/2026			
			14/07/2026	12.41%	14/07/2026			
			14/10/2026	12.41%	14/10/2026			
			14/01/2027	12.41%	14/01/2027			
			14/04/2027	12.41%	14/04/2027			
			14/07/2027	12.41%	14/07/2027			
			14/10/2027	12.41%	14/10/2027			
			14/01/2028	12.41%	14/01/2028			
			14/04/2028	12.41%	14/04/2028			
			14/07/2028	12.41%	14/07/2028			
			14/10/2028	12.41%	14/10/2028			
			14/01/2029	12.41%	14/01/2029			
			14/04/2029	12.41%	14/04/2029			
			14/07/2029	12.41%	14/07/2029			
			14/10/2029	12.41%	14/10/2029			
			14/01/2030	12.41%	14/01/2030			
			14/04/2030	12.41%	14/04/2030			
			14/07/2030	12.41%	14/07/2030			
Type				Floating	Floating			