Lanka Rating Agency

Rating Report

SMB Finance PLC - Bond Issue -1Bn up to 1.5Bn

Report Contents

Rating History				
Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
03-Sep-2025	BB	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

SMB Finance PLC ("SMBF" or "the Company"), established in 1992, is engaged in providing finance leases, mortgage loans, and gold-backed loans, in addition to accepting public deposits. SMBF obtained its license to operate as a licensed finance company in December 2022. Prior to this, the Company operated as a specialized leasing company and underwent various ownership changes. The Company's credit rating reflects its limited scale of operations, modest earnings profile, and elevated non-performing loans (NPLs). Meanwhile, its liquidity position and capitalization remain sound. In 3MFY26, SMBF accounted for ~0.29% of the Licensed Finance Companies (LFC) sector's total assets and ~0.22% of sector profitability, broadly unchanged from the previous year. The lending portfolio consists of both new disbursements and legacy exposures originating from its former affiliation with Seylan Merchant Bank. Asset quality remains a key weakness, with the gross NPL ratio at ~31.99% as of 6MCY25, well above the industry average, although the Company continues to maintain substantial provisioning against these exposures.

The Company's core interest spread remains relatively low (6MCY25:~8.2%; CY24: ~9.3%) due to small lending portfolio and funds deployed in bank deposits. SMBF had very modest profitability of LKR~39.0mn in 6MCY25 (CY24: LKR~151mn), supported mainly by provision reversals stemming from improved NPL recoveries. The Company continues to rely primarily on bank borrowings for funding, with deposits amounting to only LKR~274.8mn, reflecting its limited franchise strength. SMBF has raised LKR~138.0mn through long-term funding instruments such as promissory notes and debentures. The Company's liquidity position remains high, with the liquid assets-to-funding ratio supported by the majority of these funds being placed in banks. SMBF's capital adequacy ratio stood at ~80.86%, reflecting its strong capital base and relatively low risk-weighted asset exposure. SMBF intends to grow its advances portfolio, especially gold loans, and is issuing high yield, unsecured, senior, redeemable bonds in this regard.

The rating is dependent on SMBF's ability to deliver sustainable profitability while strengthening asset quality and executing a viable long-term growth strategy in line with peers. Enhancing spreads and diversifying the funding base are also viewed as critical factors. Any weakening in capitalization or liquidity metrics would exert downward pressure on the rating. The establishment of robust systems and controls will be essential to ensure long-term sustainability.

Disclosure	
Name of Rated Entity	SMB Finance PLC - Bond Issue -1Bn up to 1.5Bn
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)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Issuer Profile

Profile SMB Finance PLC ("SMBF" or "the Company") is a public limited liability company which was established in 1992. It was listed in the Colombo Stock Exchange ("CSE") in 1993. SMBF was re-registered under the Companies Act No. 07 of 2007 and is authorized to carry out finance leasing under the Finance Leasing Act No. 56 of 2000. In December 2022, SMBF received the finance business license under the Finance Business Act 42 of 2011 to accept public deposits. The Company operated as Seylan Merchant Bank PLC up until 2010. Following the Ceylinco Group crisis, Seylan Bank divested its majority shareholding and subsequently the Company was renamed as SMB Leasing PLC to focus on its core products leasing and loans out of non-deposit funds. In December 2022, it became a licensed finance company ("LFC") and was renamed as SMB Finance PLC. SMBF disposed off a subsidiary named SMB Money Brokers (Pvt) Ltd in 2024 and the Company also sold a 48.99% equity interest in an associate company (Kenanga Investment Corporation Ltd) in March 2025. The principal activities of SMBF include granting finance leases, mortgage loans, gold loans and accepting deposits.

Ownership The largest shareholder of SMBF is Mr. H R S Wijeratne. SMBF has both voting and non-voting shares. Around 68% of the shares of SMBF are voting shares, while ~32% are non-voting shares. SMBF had a rights issue in CY21 to strengthen their capital base. The majority shareholding by Mr. Wijeratne gives SMBF stability as compared to the past. The ownership structure is expected to remain stable in the medium to long term. Mr. Wijeratne is a businessman who has large international investments in different industries such as real estate, cargo, energy, and entertainment. He holds directorships in many corporates including Rank Container Terminals Ltd and Rank Entertainment Holding (Pvt) Ltd. Mr. Wijeratne first invested in SMBF in 2011. He obtained majority shareholding of ~64% through the rights issue in 2021. He has not provided any financial guarantees to SMBF.

Governance The BOD consists of seven Directors, six of whom are Non-Executive Directors (NEDs). Out of the six NEDs, three are Independent NEDs. The Chairman, Mr. Ravi Wijeratne, is a Non-Independent NED, while the CEO is also part of the board. Since the Chairman is not an INED, SMBF has appointed Mr. A. T. S. Sosa as a Senior INED as per the Finance Business Act Direction No.05 of 2021. The Chairman is an accountant by profession. He is also the Chairman and MD of Rank Holdings and Rank Group of Companies, with investments in property, logistics, hydropower and wind energy, solid waste management and entertainment. The BOD has seven sub-committees, namely, i) Board Audit Committee ii) Integrated Risk Management Committee iii) Human Resources and Remuneration Committee, iv) Related Party Transaction Review Committee, v) Nomination and Governance Committee, vi) Legal Sub Committee, vii) IT Steering Committee. The BAC is headed by Mr. Sosa who has over 27 years of experience and is an Associate Member of CIMA – UK, Fellow Member of CMA Sri Lanka and a Member of the British Computer Society. KPMG, the external auditor, issued an unqualified audit opinion pertaining to the financial statements as at CY24.

Management The CEO of SMBF looks after eleven divisions. The compliance and risk management divisions report directly to the IRMC, while internal auditors report to the BAC. The management team is headed by the CEO, Mr. Supul Wijesinghe, who has over 24 years of experience. He is well versed in audit, risk management, financial management and business transformations. SMBF has formed four management committees, namely, i) Asset and Liability Committee ("ALCO"), ii) Credit Committee, iii) Information Security Committee ("ISC") and iv) Corporate Management Committee. These committees assist SMBF to run its operations effectively. SMBF has implemented a comprehensive suite of software solutions to enhance operational efficiency, data security, and business continuity and is in the process of migrating from the legacy hardware and core business software to a new cost-effective integrated system, a new cloud-based backup system and more disaster recovery options. SMBF is not exploring digital lending and other such initiatives currently. The internal audit function is outsourced to Deloitte Associates. SMBF has implemented a board approved integrated risk management policy.

Business Risk There are ~33 Licensed Finance Companies (LFC) in Sri Lanka, out of which, ~27 are listed on the CSE. The profitability of the LFC sector improved by ~59.3% to LKR~18.0bn in 3MFY26 compared to 3MFY25 which was LKR~11.3bn. Net interest income improved in 3MFY26 by ~28.3% to LKR~57.0bn from LKR~44.4bn in 3MFY25. The deposits of the LFC sector increased by ~16.3% in 3MFY26 to LKR~1.1tn while it was at LKR~1.0bn in 3MFY25. Total loans and advances of the sector have increased by ~38.0% to LKR~1.7tn in 3MFY26 from LKR~1.3tn in 3MFY25. The total asset base of the LFC sector stood at LKR~2.3tn and LKR~1.8tn as at 3MFY26 and 3MFY25 respectively and it recorded a ~25.8% growth compared to the same period of previous year. SMBF represented ~0.29% of the LFC sector's asset base in 3MFY26 and just ~0.22% share in sector profitability. SMBF's net interest income grew ~7.9% to LKR~201.4mn in 6MCY25 from LKR~186.6mn in 6MCY24. A ~12.4% growth in gross interest income was witnessed with a ~22.8% growth in interest expenses. The Core spread declined to ~8.2% in 6MCY25 from ~9.4% in 6MCY24. The advances yield declined to ~11.6% in 6MCY25 from ~12.3% in 6MCY24 (CY24: ~10.8%). The Profit After Tax (PAT) of SMBF improved to LKR~39.0mn in 6MCY25 in comparison to LKR~36.7mn in 6MCY24 (CY24: LKR~151mn). Personnel expenses rose by ~31.3% to LKR~100.0mn in 6MCY25 from LKR~76.1mn in 6MCY24 (CY24: LKR~157mn). Reversal in provisioning grew significantly to LKR~41.0mn in 6MCY25 from LKR~1.3mn in 6MCY24 (CY24: LKR~114mn) in line with the reduction in NPL rates. However, the NPL rate of SMBF is still significantly above industry NPL rates. SMBF opened four new branches in 2024. Going forward, SMBF will be focusing on high-net-worth individuals and gold loans. Similarly, SMBF intends to focus on high-end vehicle leasing rather than commercial vehicles. It is important to have a sustainable strategy for long-term viability of SMBF in the highly competitive leasing industry. SMBF, with its relatively limited franchise value and presence faces challenges in this regard.

Financial Risk The top 10 advances to total advances ratio remains very high, exposing SMBF to concentration risk. The NPL ratio of SMBF has been considerably high in comparison to the industry average. The gross NPL ratio recorded at 6MCY25 and 3MCY25~31.9% from ~31.78% (CY24: ~33.1%) but still remains above industry NPL levels as mentioned above. This possesses significant risk for SMBF. Effective management of NPLs remains imperative. The management is focusing on this to improve asset quality. SMBF maintains high provisions against the NPLs in their portfolio. SMBF has invested primarily in a portfolio of fixed deposits amounting to LKR~2,776mn as at 6MCY25, an improvement from LKR~2,576mn as at 6MCY24 (CY24: LKR~2,924mn). The deposit portfolio remains very limited at LKR~274.8mn in 6MCY25, although it expanded from the 6MCY24 figure of LKR~55.9mn (CY24: LKR~167mn). Borrowings from banks and financial institutions constitute ~80.1% of funding resulting in higher cost of funding. Diversifying the funding base is imperative. The Capital Adequacy Ratio (CAR) of SMBF amounted to ~80.86% in 6MCY25 (CY24: ~88.0%) as SMBF has strong capitalization in terms of a strong capital base and relatively low risk-weighted asset base.

Instrument Rating Considerations

About The Instrument SMBF intends to issue listed rated unsecured senior redeemable high yield bonds each worth LKR 100/ amounting up to LKR~1.5bn. The objective of the bond issue is to expand advances portfolio of the Company, especially gold loans, in line with the Company's envisaged four-year growth plan for CY25-28.

Relative Seniority/Subordination Of Instrument The claims of the High Yield Bond Holders shall in the event of winding up of the Company rank after all the claims of the depositors and 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 any subordinated debt of the Company and the ordinary and preference shareholder/s 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.

Lanka Rating Agency

SMB Finance PLC Listed Public Limited	Jun-25 6M	Mar-25 3M	Dec-24 12M	Dec-23 12M
A BALANCE SHEET				
1 Total Finance-net	2,000	1,734	1,650	1,424
2 Investments	879	881	828	796
3 Other Earning Assets	2,776	2,775	2,924	2,569
4 Non-Earning Assets	565	595	567	494
5 Non-Performing Finances-net	282	23	133	47
Total Assets	6,501	6,009	6,103	5,330
6 Funding	2,706	2,207	2,293	1,700
7 Other Liabilities	118	141	172	142
Total Liabilities	2,824	2,348	2,465	1,842
Equity	3,677	3,662	3,638	3,487
B INCOME STATEMENT				
1 Mark Up Earned	299	151	513	776
2 Mark Up Expensed	(97)	(47)	(165)	(309)
3 Non Mark Up Income	17	6	101	50
Total Income	218	110	449	517
4 Non-Mark Up Expenses	(189)	(93)	(302)	(212)
5 Provisions/Write offs/Reversals	41	24	114	(89)
Pre-Tax Profit	70	41	261	215
6 Taxes on Financial Services	(28)	(14)	(62)	(54)
Profit Before Income Taxes	43	27	200	162
7 Income Taxes	(4)	(4)	(49)	(42)
Profit After Tax	39	24	151	120
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	86.5%	84.1%	67.1%	41.1%
b ROE	2.1%	2.6%	4.2%	3.5%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	108.7%	110.2%	107.5%	130.7%
b Accumulated Provisions / Non-Performing Advances	70.1%	96.6%	83.7%	94.0%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	109.9%	135.4%	134.7%	163.2%
b Borrowings from Banks and Other Financial Institutes / Funding	82.3%	80.1%	84.0%	88.5%
4 MARKET RISK				
a Investments / Equity	23.9%	24.1%	22.8%	22.8%
b (Equity Investments + Related Party) / Equity	4.1%	4.2%	3.3%	4.6%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	56.6%	60.9%	59.6%	65.4%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	2.1%	2.6%	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)	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 6MCY25 (LKR)
LISTED RATED UNSECURED SENIOR REDEEMABLE HIGH YIELD BOND ISSUE	1500000000	04 YEARS	N/A	N/A	N/A	National Development Bank PLC	6,500,820,212

Name of Issuer	SMB FINANCE PLC
Issue Date	TBD
Maturity	04 YEARS
Coupon Basis	ANNUAL
Repayment	AT MATURITY
Option	N/A

SMB Finance PLC - High Yield Bond Issue

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				YYYY-MM-DD	LKR		
Type A					Fixed			
PROPOSED	1.5 BILLION	1.5 BILLION	TBD	TBD	TBD			