



Lanka Rating Agency

Rating Report

Sarvodaya Development Finance PLC - 2Bn Listed, Rated, Unsecured, Senior, Redeemable, High Yield Social Orange Bond

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
18-Feb-2026	BBB-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Sarvodaya Development Finance PLC ("SDF" or "the Company") is a Licensed Finance Company (LFC) listed on the Colombo Stock Exchange since 2021. It is a small-sized player in the LFC industry with assets comprising ~1.1% of total industry. SDF has strong rural outreach, supported by its long-standing affiliation with the Sarvodaya Movement, although its size remains relatively small. SDF plans to issue a Social Bond, first of its kind (up to a maximum of LKR ~2bn face value including Green Shoe Option of LKR ~1bn). The bond proceeds will be utilized to finance women-led and women-focused enterprises. This reflects a focused social financing strategy and complements SDF's mission of empowering women in the rural areas. However, the concentration on a specific borrowing segment may heighten portfolio sensitivity to localized economic and income volatility. The Company has a robust track record in women-focused financing, with ~48% of its loan customers to be women. Deloitte Associates Sri Lanka will serve as the Independent External Verifier for the said issue which will ensure alignment with ICMA Green Bond Principles Social Bond Principles, Social Orange Bond guidelines and Green Finance Taxonomy.

SDF has sustained its profitability and asset quality indicators during 6MFY26 while focusing on sustainable financing solutions. SDF's Net Interest Income ("NII") increased to LKR ~1.6Bn in 6MFY26 compared to LKR ~1.3Bn in 6MFY25, a YoY growth of ~30%, as the Company increased its lending portfolio. SDF's net profit improved to LKR ~340Mn in 6MFY26 (6MFY25: LKR ~216Mn) but remain modest when compared to peers. The Gross NPL ratio was ~6.0% during 6MFY26, lower than the industry average of ~6.8% despite exposure to rural and micro-borrower segments. The Company's Capital Adequacy Ratio stood at ~16.5% in 6MFY26, above the CBSL statutory requirement of ~12.5% but remain below the industry average, limiting headroom to absorb significant asset quality deterioration or growth in advances.

The rating depends on SDF's continued ability to achieve its strategic objectives while maintaining strong asset quality, sound financial management and profitability, sustainable leveraging and diversified funding base. Meanwhile, effectively managing Orange Bond proceeds and implementing a strong framework will be critical from bond holder's perspective. Compliance with applicable guidelines and regulatory requirements for Orange Bonds is important.

Disclosure

Name of Rated Entity	Sarvodaya Development Finance PLC – 2Bn Listed, Rated, Unsecured, Senior, Redeemable, High Yield Social Orange Bond
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	Nipuni Mihirangi nipuni@lra.com.lk +94 114 500099

Draft



Leasing & Finance Companies

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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, gold loans 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 Sarvodaya Economic Enterprises Development Services (GTE) Ltd holds the largest share of the Company with an ownership of ~36.1%. Janashakthi Capital Limited, Senthilvel Holdings (Pvt) Ltd and Gentosha Media Consulting Inc. owns ~10.8%, ~8.5% and ~9% respectively. The five major shareholders of the Company constitute of institutions with a total of ~64.4%. 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. The Company’s stability is underpinned by SEEDS, an independent entity affiliated with The Lanka Jathika Sarvodaya Shramadana Sangamaya (LJSSS), and the enduring legacy of Dr. A. T. Ariyaratne, the founder of LJSSS (1958) and a recipient of multiple international peace awards, including Sri Lanka’s highest national honor, the Sri Lankabhimanya. 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 operate under it. The Company does not have a written financial guarantee from the parent entity or other shareholders.

Governance The Board of SDF consists of eight members, out of which five are Independent Non-Executive Directors and three Non-Independent Non-Executive Directors. 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 seven board sub committees, namely, i) Board Integrated Risk Management Committee (“BIRMC”), ii) Board Audit Committee (“BAC”), iii) Board Nomination and Governance Committee (“BRC”), iv) Related Party Transaction Review Committee (“RPTRC”), v) Board Credit Committee (“BCC”), vi) Board Human Resources and Remuneration Committee, vii) Board Information Technology Committee. The external auditors of the Company, M/s Deloitte Associates, 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 five 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 Operation Risk Management Committee (“MORMC”). The main ERP system of the Company is the eFinancials system, provided by Scier 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.

Business Risk Sri Lanka’s non-bank financial institution (“NBFI”) sector consisted of 33 licensed LFCs, of which 28 were listed on the CSE. The sector reported a profit after tax (“PAT”) of LKR~41.9 bn (FY25: LKR~69.0 bn) in 2QFY26. During 9MFY26, SDF recorded interest income of ~LKR 4.15 Bn (FY25: ~LKR 4.06 Bn; FY24: ~LKR 3.10 Bn). SDF’s profitability strengthened steadily over FY23–9MFY26, with PAT rising to ~LKR 553.3 Mn in 9MFY26 (FY25: ~473.8 Mn; FY24 ~249.6 Mn; FY23 ~221.7 Mn). Return indicators improved in line with earnings growth, with ROA increasing to ~2.6% in 9MFY26 (FY25: ~2.5%; FY24: ~1.9%) and ROE rising to ~17.9% (FY25: ~12.6%; FY24: ~7.1%), reflecting enhanced shareholder returns. 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.

Financial Risk SDF’s asset quality continued to improve, with the gross NPL ratio declining to 6.04% in 9MFY26 from ~7.9% in FY25 and ~14.1% in FY24, remaining below the industry level of ~8.6% in FY25, indicating relatively stronger credit quality. SDF’s total investment increased steadily to LKR ~1,313 Mn as at 9MFY26, from LKR ~767 Mn in FY22. The growth was driven mainly by government securities, which rose to LKR ~1,067 Mn in 9MFY26 (FY25: LKR ~906 Mn), accounting for ~81% of total investments. The customer deposits grew steadily to ~LKR 10.2 Bn. Liquidity improved during the period, supported by higher liquid assets (~LKR 5.5 Bn) and LKR ~2.0 Bn bond issuance, enhancing funding diversification. As at 9MFY26, SDF’s Total CAR stood at ~14.29% (Tier I: ~21.52%), compared to ~20.63% (Tier I: ~20.52%) in FY25 and ~26.00% in FY24, while remaining comfortably above the ~12.50% regulatory requirement.

Instrument Rating Considerations

About The Instrument SDF issued a Listed Rated Unsecured Senior Redeemable High-Yield Social Orange Bonds- LKR 2Bn-5 years (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 claims of the Debenture Holders shall in the event of winding up of the Company rank after all the claims of secured creditors and any 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 claims and rights of the shareholder/s of the Company.

Credit Enhancement It is an unsecured debt instrument, and the debenture is not underwritten. The capital repayment will be done at the end of the tenor with any interest accruing up to that time.



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Sarvodaya Development Finance PLC
Listed Public Limited

LKR mln

LKR mln

LKR mln

LKR mln

Dec-25

Mar-25

Mar-24

Mar-23

9M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	26,542	18,369	11,455	8,272
2 Investments	1,313	1,153	1,019	810
3 Other Earning Assets	4,282	1,230	494	604
4 Non-Earning Assets	1,073	977	810	476
5 Non-Performing Finances-net	628	813	1,119	1,509
Total Assets	33,838	22,542	14,898	11,670
6 Funding	28,329	17,648	10,700	7,821
7 Other Liabilities	1,199	950	627	399
Total Liabilities	29,528	18,598	11,327	8,221
Equity	4,310	3,944	3,571	3,449

B INCOME STATEMENT

1 Mark Up Earned	4,147	4,064	3,102	2,461
2 Mark Up Expensed	(1,589)	(1,424)	(1,322)	(1,222)
3 Non Mark Up Income	324	288	210	124
Total Income	2,882	2,927	1,990	1,363
4 Non-Mark Up Expenses	(1,346)	(1,372)	(1,081)	(867)
5 Provisions/Write offs/Reversals	(285)	(416)	(318)	(51)
Pre-Tax Profit	1,252	1,139	591	446
6 Taxes on Financial Services	(329)	(310)	(182)	(146)
Profit Before Income Taxes	923	830	409	300
7 Income Taxes	(370)	(356)	(160)	(78)
Profit After Tax	553	474	250	222

C RATIO ANALYSIS

1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	46.7%	46.9%	54.3%	63.6%
b ROE	17.9%	12.6%	7.1%	6.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	99.7%	113.0%	124.0%	131.1%
b Accumulated Provisions / Non-Performing Advances	63.3%	48.3%	38.4%	23.8%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	19.5%	13.0%	12.8%	15.9%
b Borrowings from Banks and Other Financial Institutions / Funding	55.8%	42.9%	28.1%	19.3%
4 MARKET RISK				
a Investments / Equity	30.5%	29.2%	28.5%	23.5%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	12.7%	17.5%	24.0%	29.6%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	12.4%	10.5%	4.0%	4.3%



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

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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 6MFY26 (LKR)
Listed Rated Unsecured Senior Redeemable High-Yield Social Orange Bonds	2.0 Bn	5 Years	None	N/A	N/A	National Development Bank PLC	LKR 4.0Bn

Name of Issuer	Sarvodaya Development Finance PLC
Issue Date	March 31, 2026
Maturity	March 31, 2031
Coupon Basis	Annual and Semi Annual
Repayment	Bullet Repayment
Option	

Sarvodaya Development Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Rate	Coupon	Principal Outstanding
	LKR (Mn)				YYYY-MM-DD	
Type A				Fixed	Fixed	
	1,500,000,000		31-Mar-27	12.00%	180,000,000	1,500,000,000
			31-Mar-28	12.00%	180,000,000	1,500,000,000
			31-Mar-29	12.00%	180,000,000	1,500,000,000
			31-Mar-30	12.00%	180,000,000	1,500,000,000
		1,500,000,000	31-Mar-31	12.00%	180,000,000	-
Type B				Fixed	Fixed	
	500,000,000		30-Sep-26	11.66%	29,150,000	500,000,000
			31-Mar-27	11.66%	29,150,000	500,000,000
			30-Sep-27	11.66%	29,150,000	500,000,000
			31-Mar-28	11.66%	29,150,000	500,000,000
			30-Sep-28	11.66%	29,150,000	500,000,000
			31-Mar-29	11.66%	29,150,000	500,000,000
			30-Sep-29	11.66%	29,150,000	500,000,000
			31-Mar-30	11.66%	29,150,000	500,000,000
			30-Sep-30	11.66%	29,150,000	500,000,000
		500,000,000	31-Mar-31	11.66%	29,150,000	-