



Lanka Rating Agency

## Rating Report

### First Capital Holdings PLC

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2023	A	-	Stable	Maintain	Yes
24-Jan-2023	A	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

LRA has assigned 'Rating Watch' to the entity rating of First Capital Holdings PLC (FCH). This is in the wake of the announcement by Peoples Leasing & Finance PLC on the potential acquisition of up to a ~33% stake in FCH. The execution of the sales purchase agreement has been affirmed with a target price of LKR 4,958mn. The transaction remains subject to approval by the Central Bank of Sri Lanka. People's Leasing & Finance PLC will acquire 33% shareholding from Janashakti Holding and will also have a presence on the board. LRA is closely following the transaction and will consider all aspects once the transaction is finalized. FCH is a prominent Holding Company within the financial service industry. First Capital Treasuries PLC (FCT), the Company's subsidiary in Primary Dealer activities, has been a major contributor towards FCH's business profile and profitability. Meanwhile, the Company has expanded into multiple financial services avenues including, Capital Markets Advisory, Wealth Management, Fixed Income, and Equities. During FY23, FCH has shown significant improvement and witnessed positive results in the rising interest rate environment. With a view to sustainable diversified revenue streams, management is building upon various revenue segments in terms of both activity-based and fee-based incomes. The rating takes into account the liquidity mechanism to be undertaken by the Company to ensure timely payments of maturing debt obligations.

Rating is dependent upon eventual outcome of the potential acquisition by People's Leasing & Finance PLC and impact it will have on FCH's profile and outreach. Certain synergies are expected from this acquisition and their impact will be reviewed accordingly.

#### Disclosure

<b>Name of Rated Entity</b>	First Capital Holdings PLC
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Jun-22),Methodology   Holding Company Rating(Jun-22)
<b>Related Research</b>	Sector Study   Holding Company(Oct-22)
<b>Rating Analysts</b>	Rabiya tul Athaviya Naushard   rabiya@lra.com.lk   +92-42-35869504

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### Profile

**Background** First Capital Holdings PLC ('FCH' or 'the Company') is a public limited company incorporated in 1992 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. The Company's registered office and place of business is No. 2, Deal Place, Colombo 03.

**Structural Analysis** At present, principal activity of the Company encompass investment and management of subsidiaries. FCH's integrated business platform comprises four specialized areas - Capital Markets Advisory, Wealth Management, Fixed Income and Equities. The Company's investment bid constitute core investments comprising six(6) subsidiaries i.e., i) First Capital Limited (FCL) - 100%, ii) First Capital Treasuries PLC (FCT) - 89.4%, iii) First Capital Markets Limited (FCM) - 100%, iv) First Capital Asset Management Limited (FCAM) - 98.7%, v) First Capital Equities (Private) Limited (FCE) - 100% and vi) First Capital Trustee Services (Private) Limited (FCTS) - 100%.

### Ownership

**Ownership Structure** The ultimate shareholdings rests with Schaffter brothers, which is through a Company named 'Janashakthi Limited', by owning 83.02% of First Capital Holdings PLC. Remaining shareholding is accounted for by the rest of the minority shareholders.

**Stability** Major shareholding being held with Janashakthi Limited, the Company draws stability from its parent company. The Company takes comfort in being part of Janashakthi Group and as per their existing business strategy it will not change in the near future. On the other hand, with First Capital Treasuries (FCT), one of the major subsidiaries of FCH, is engaged in Primary Dealing (PD) activities. FCT is well above the CBSL Capital Adequacy requirement of 10% and minimum capital requirement of LKR 2bn.

**Business Acumen** First Capital Holdings (FCH) is a part of the Janashakthi Arm and the major shareholder of First Capital Treasuries, which is considered to be one of the leading Non-Bank PD in Sri Lanka. Janashakthi Limited has a presence in sectors of Financial Services, Non-Banking Financial Institutes, and Insurance. The Holding Company (FCH) has gained recognition and prominence over time.

**Financial Strength** Janashakthi Group, which has a presence in various financial services namely Non-Banking Financial Institutes, Insurance, and Investment Banking. Janashakthi has a strong consolidated asset base of LKR 101.5bn supported by an equity base of LKR 12.3bn as of FY22. During FY22, consolidated revenue stood at LKR 10.4bn.

### Governance

**Board Structure** FCH Board comprises 07 members including the Managing Director/Chief Executive Officer. There exist 06 non-executive and an executive director, this includes 04 independent non-executive directors on the Company's Board.

**Members' Profile** The BoD, with a well-diversified background and relative expertise of its members, are a key source of oversight and guidance for the management. Boards Chairman, Mr. Nishan Fernando, is an independent non-executive director and holds directorship at BDO Consulting (Pvt) Limited

**Board Effectiveness** The Board meets frequently in order to discharge its duties effectively. Four Virtual board meetings were held during the year and performance review meetings on monthly basis. The Board ensures effective governance through its sub-committees, namely Audit Committee, Enterprise Risk Management Committee (ERMC), Related Party Transaction Review Committee and Investment, Asset and Liability Committee, Remuneration Committee, and Nomination Committee.

**Transparency** KPMG is the external auditor of the company. They have given an unqualified opinion on the financial statements for the year-end of March 31, 2022.

### Management

**Organizational Structure** FCH functions as an investment holding company. It has a simple organizational structure that is divided across basic functional divisions. First Capital Holdings and each of its subsidiaries have its own Business Unit Heads supporting functions along with fully equipped teams.

**Management Team** FCH has a set of experienced and professional management. Mr. Dilshan Wirasekara- joined FCH in November 2013 and presently holds the position of Company's Managing Director/CEO. Mr. Mangala Jayashantha joined the Company 16 years ago and is the CFO currently .

**Management Effectiveness** Monthly KPI and management meetings are held to discuss performance and strategies within subsidiaries and the group.

**Control Environment** The company has outsources the internal audit function along with the Board's Audit Committee to help implement the policies and procedures. Enterprise Risk Management Committee (ERMC), Enterprise Risk Management Committee (ERMC) is responsible for establishing and maintaining comprehensive Enterprise-wide Risk Management System for identifying, assessing and managing risk to assist the Group's Corporate Management Team in managing risk with reasonable assurance.

### Investment Strategy

**Investment Decision-Making** For investment decision-making, the Company has an Investment, Asset, and Liability Committee (IALCO) at the group level. It is headed by Mr. Dilshan Wirasekara, Managing Director/CEO of the group.

**Investment Policy** FCH has a prudent investment policy, which is developed to be in line with the industry best practices, regulatory requirements, and expectations of the Senior Management and Board of Directors. However, there are factors, which the management tends to address.

**Investment Committee Effectiveness** The Group investment team liaisons with the rest of the Group companies and receives updates on their performance. The team then presents them to the BoD on a quarterly basis.

### Business Risk

**Diversification** Having subsidiaries that are offering various financial services bodes well for the Company along with the initiative of the group to diversify its income sources. The Company's investment portfolio consists of six subsidiaries. All these investments could be defined as horizontal investments focusing on the Financial Service segment of Sri Lanka.

**Portfolio Assessment** FCH has core investments in both listed and unlisted companies. On a consolidated basis, FCH has an asset base of LKR 41.5bn supported by an equity base of LKR 4.5bn for FY22. Under its investment portfolio of FCH, FCT is the most contributing area whereas Asset management, which is catered through First Capital Asset Management Ltd, is considerably the emerging segment.

**Income Assessment** FCH aims for sustainable income flows, in the form of dividends, from its business ventures. On a consolidated basis, the group's top-line stood at LKR 2.2bn for FY22. The Company's consolidated bottom line closed at a net loss of LKR 652mn for FY22.

### Financial Risk

**Coverages** FCH's interest coverage stood at 0.3x during 6MFY23 (FY22: 0.1x). Owing to the increase in total operating cash flow (TCF), to LKR 1.2bn in FY23, the coverage has performed fairly.

**Capital Structure** FCH's standalone leverage stood at 76% for 6MFY23, compared to the year-end FY22 leverage of 74%. The Long-term and Short-term borrowings for 6MFY23, stood at LKR 3.1bn and 10.5bn, respectively. The net worth of the company for 6MFY23 stood at 4.3bn. FCH currently has listed, rated, senior, unsecured, redeemable debentures worth LKR 2bn and Rated Commercial papers amounting to LKR 2.5bn, keeping the debt structure at a higher end.

**Consolidated Position** On a consolidated basis, First Capital Holdings has a total asset base of LKR 61.6bn and a total equity of LKR 4.8bn for 6MFY23. Further, the rating takes into note the consolidated net profit of LKR 823mn for 6MFY23 compared to the net loss reported of LKR 652mn for FY22.



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First Capital Holdings PLC Holding Company	Sep-22	Mar-22	Mar-21	Mar-20
	6M	12M	12M	12M
	Unaudited	Audited	Audited	Audited
<b>A BALANCE SHEET</b>				
1 Investments	14,242	12,005	9,645	6,768
2 Related Party Investments	3,837	3,491	4,058	3,301
3 Non-Current Assets	23	24	23	31
4 Current Assets	65	106	121	124
5 Total Assets	18,167	15,627	13,846	10,225
6 Current Liabilities	50	45	553	58
7 Borrowings	13,737	11,529	8,723	6,423
8 Related Party Exposure	2	2	0	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,378	4,051	4,570	3,744
11 Shareholders' Equity	4,378	4,051	4,570	3,744
<b>B INCOME STATEMENT</b>				
1 Total Investment Income	2,026	342	2,694	2,096
a Cost of Investments	(1,250)	(786)	(654)	(1,001)
2 Net Investment Income	777	(444)	2,040	1,095
a Other Income	36	22	62	12
b Operating Expenses	(86)	(93)	(77)	(86)
4 Profit or (Loss) before Interest and Tax	727	(515)	2,025	1,022
a Taxation	(21)	(17)	(35)	(16)
6 Net Income Or (Loss)	706	(531)	1,990	1,006
<b>C CASH FLOW STATEMENT</b>				
a Total Cash Flow	499	902	785	1,047
b Net Cash from Operating Activities before Working Capital Changes	499	116	131	46
c Changes in Working Capital	(1,178)	(799)	(2,065)	479
1 Net Cash (Used in) or Available From Investing Activities	(680)	(683)	(1,934)	525
2 Net increase (decrease) in long term borrowings	(6)	(8)	1,004	406
3 Net Cash (Used in) or Available From Financing Activities	1,000	(556)	1,394	(505)
4 Net Cash generated or (Used) during the period	314	(1,247)	464	426
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	78.9%	85.0%	78.9%	78.9%
b Core Investments / Market Value of Equity Investments	100.0%	100.0%	100.0%	100.0%
c Marketable Investments / Total Investments at Market Value	23.9%	24.3%	13.1%	0.2%
2 Coverages				
a TCF / Finance Cost	0.4	1.2	1.2	1.1
b TCF / Finance Cost + CMLTB	0.3	0.5	0.4	0.5
c Loan to Value (Funding / Market Value of Equity Investments)	3.8	2.3	2.4	1.8
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	75.8%	74.0%	65.6%	63.2%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	313.8%	284.6%	190.9%	171.6%

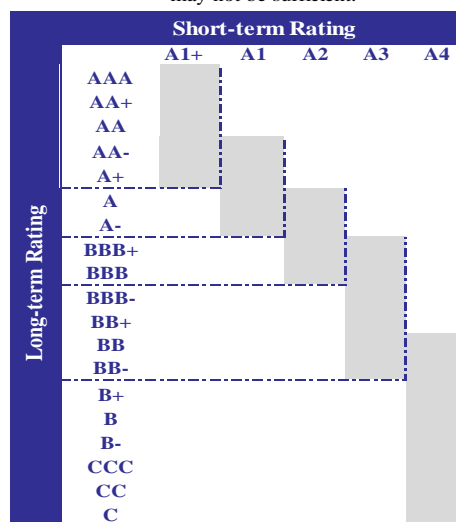
## E NOTES

- Ratios for 1HFY23 are annualized.
- All financial information presented has been rounded to the nearest million.

## 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.

Long-term Rating		Short-term Rating	
Scale	Definition	Scale	Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+		A1	A strong capacity for timely repayment.
AA	<b>Very high credit quality.</b> 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+		A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.
A	<b>High credit quality.</b> 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.		
A-			
BBB+	<b>Good credit quality.</b> 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.		
BBB			
BBB-			
BB+	<b>Moderate risk.</b> 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.		
BB			
BB-			
B+	<b>High credit risk.</b> 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.		
B			
B-			
CCC	<b>Very high credit risk.</b> 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.		
CC			
C			
D	Obligations are currently in default.		



\*The correlation shown is indicative and, in certain cases, may not hold.

<b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.	<b>Rating Watch</b> 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.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	<b>Harmonization</b> 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.

**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 Companies Rating

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**Rating Team Statements**

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. (<https://www.sec.gov.lk/index.php/credit-rating-agency/>)

**2) Conflict of Interest**

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

**Restrictions**

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

**Conduct of Business**

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

**Independence & Conflict of interest**

(7)LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8)LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

**Monitoring and review**

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

**Probability of Default**

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

**Proprietary Information**

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