



Lanka Rating Agency

Rating Report

First Capital Treasuries PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
02-May-2024	A	Positive	Maintain	-
27-Jun-2023	A	Stable	Maintain	Yes
24-Jan-2023	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects First Capital Treasuries PLC's ("FCT" or "the Company") strong position in the Primary Dealer (PD) market, significant increase in profitability and robust capitalization of the Company. The gradual reduction in interest rates during FY23 and FY24 has resulted in substantial improvement in the overall performance of the Primary Dealer sector in the country as most of the players held high yielding treasury bonds. FCT also gained advantage of net trading income being accelerated by 948% to LKR~3.7bn in FY23 (6MFY24: LKR~12.8bn) and recorded a net profit of LKR~2.9bn in FY23 (6MFY24: LKR~9.2bn) compared to a net loss of LKR~652mn in FY22. The Company recorded a healthy Capital Adequacy Ratio (CAR) of ~23.98% in FY23 which is well above the statutory requirement of 10%. FCT maintaining the dominance as a Standalone Primary Dealer unaffiliated to any Licensed Commercial Bank and has accounted for market bid participation rate of 16.6% and 16.8% for Treasury Bills and Treasury Bonds in FY23. The credit risk of the Company remains minimum as a result of investing 97% of its assets in the Government Securities. However, FCT encounters unpredictable market conditions particularly with respect to interest rate volatility, which makes it exposed to market risk under changing interest rates environment. The sustainability of profitability of FCT is dependent on the movement of interest rates as well as the ensuing management's investment strategy in this regard.

The rating is dependent on the Company's ability to maintain its strong market position in the Primary Dealer Sector. Sound financial practices, particularly with regards to limiting debt exposure against the available liquidity are important. Additionally, sustaining a healthy generation of profits to augment internal capital retention and strengthen the financial risk profile are imperative factors for a positive impact on the rating.

Disclosure

Name of Rated Entity	First Capital Treasuries PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Primary Dealer(Jun-23)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +92-42-35869504

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Profile

Structure First Capital Treasuries PLC (FCT or the Company) was incorporated on 19 August 1982 as a public limited liability company under the Companies Act, No. 07 of 2007. The Company is domiciled in Sri Lanka and the registered office of the Company is located at No. 02, Deal Place, Colombo 03, Sri Lanka.

Background The Company was incorporated on 19th August 1982 as a money brokering company and was appointed as a Primary Dealer (PD) in Government Securities by the Central Bank of Sri Lanka (CBSL) in the year 1992.

Operations The principal activity of the Company is dealing (Primary Dealer) with government securities, appointed by the Central Bank of Sri Lanka (CBSL).

Ownership

Ownership Structure The majority of the company is (89.36%) owned by First Capital Holdings PLC (FCH) through First Capital Limited (FCL). The second major shareholder, Employees Trust Fund Board owns 4.56% of the shares. There are 18 shareholders who account for 2.08% of the ownership.

Stability FCT draws stability from the ownership of FCH which has had a major stake in the Company for over a decade and is, in turn, owned by Janashakthi Ltd.

Business Acumen The diversification and overall success of the sponsoring entities is a positive contributor for FCT.

Financial Strength FCL, which is the major shareholder of FCT, and which is ultimately owned by FCH. FCH as the investment holding company is involved in investment activities and management of subsidiaries.

Governance

Board Structure The Board of FCT consists of six directors, all are non-executive directors with three independent directors.

Members' Profile The collective background of the Board of Directors (BoD) provides a balanced mix of skills and experience. Chief Executive Officer (CEO), Mr. Sachith Perera has decades of experience. Mr. Sachith Perera is a well-known banking professional with a track record of over 30 years of experience in local and multinational organizations.

Board Effectiveness The Board comprises of five board committees, namely, i) Audit Committee ii) Related Party Transactions Review Committee iii) Remuneration Committee iv) Investment, Asset and Liability Committee and v) Enterprise Risk Management Committee. Ms. Minette Perera heads the Audit Committee.

Financial Transparency KPMG is the external auditor of the Company. They have given an unqualified opinion on the financial statements for the year-end 31st, March 2023.

Management

Organizational Structure The Company has a centralized organizational structure that flows from FCH and is divided into seven main departments, all of whom report to the CEO. The highest level of authority lies with the Board of Directors.

Management Team The management team is headed by Mr. Sachith Perera, who performs the role of CEO. FCT has in place a well-qualified team comprising industry experts.

Effectiveness There is a Management Committee in place, which is represented by the head of each department in place. Monthly meetings are held to discuss performance and strategies.

MIS FCT uses DealNet system as its software to monitor and report functional activities. The DealNet is a web browser-based software solution that takes care of the entire spectrum of activities of an investment portfolio manager / securities dealer / treasurer from Deal Entry up to accounting. Its products can handle debt and equity, money market products and fixed income securities and caters to outright purchases and sales, repurchase agreements and reverse repurchase agreements.

Risk Management Framework It was observed that effective control systems are in place which are followed and enforced at all levels of the organization, from the senior management to the operational level staff. Daily control measures are in place to ensure a smooth flow of operations and risk mitigation in terms of the management of securities and monitoring of the portfolio.

Business Risk

Industry Dynamics The governing body for PDs in Sri Lanka is the CBSL. There are currently 13 PDs registered in the country, while three of them are suspended for various reasons. Out of the operational PDs, five are licensed commercial banks while the rest are stand-alone PDs.

Relative Position Currently, FCT accounts for 16.6% of the total T-Bill auction volume and 16.8% of the T-Bond auction volume of FY23. With the overall PDs reporting a Profit After Tax (PAT) of LKR 1.7Bn, FCT reported a net loss of LKR 652Mn in FY22.

Revenues The income increased considerably by 1501% to LKR 10.0Bn in FY23 compared to LKR 623Mn in FY22. For FY23, direct expenses recorded at LKR 6.3Bn which is a 498% increase since previous year of FY22 due to the high interest rate regime experienced during FY23. As a result, net trading income accelerated by 948% to LKR 3.7Bn in FY23 whereas it stood at a net trading loss of LKR 432Mn in FY22.

Performance First Capital Treasuries' net profit before taxation recorded at LKR 3.8Bn in FY23 (6MFY24: LKR 13.3Bn) against net loss of LKR 890Mn in FY22. The net profit after tax has increased by 542% in FY23 to LKR 2.9Bn (6MFY24: LKR 9.2Bn) in comparison to FY22 which was a net loss of LKR 652Mn. The enhanced performance was due to an increase in interest income from investments in government securities in FY23. Following the profits in FY23, the ROA improved to 7.1% in FY23 (6MFY24: 32.6%) compared to -2.4% in FY22. The ROE of the company improved to 61.8% in FY23 (6MFY24: 183%) compared to -15.5% in FY22.

Sustainability With the active management of FCT's portfolios within a lower rate environment and enhancing of digitally-led capabilities and plan to reach to better serve clients.

Financial Risk

Credit Risk The credit risk is minimum for the Company since 97% of its assets are invested in government securities. Minor credit risk arises from their investment in securities purchased under resale agreements. However, due to the presence of collateral, in the form of government securities with sufficient haircuts, the credit risk is minimum.

Market Risk FCT's investment portfolio is 100% dedicated to government securities and thus, is exposed to significant interest rate risk. First Capital Treasuries investments in government securities make up 99% of the total assets during FY23 (FY22: 97%).

Liquidity And Funding Re-Purchase agreements being the main funding line of the company they account for 94% of the total liabilities, which amounts for LKR 43.8Bn in FY23 (LKR 23.4Bn in FY22).

Capitalization FCT's total equity amounted to LKR 5.4Bn, which is well above the CBSL stipulated capital adequacy amount of LKR 2Bn. The Company's capital adequacy stands at 23.98% as at FY23 (FY22: 84.87%), while the minimum requirement by the CBSL is 10%.



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First Capital Treasuries PLC

LKR mln

Sep-23

Jun-23

Mar-23

Mar-22

Mar-21

6M

3M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	3	33	4	2	0
2 Investments	60,043	43,049	51,936	27,625	25,246
3 Other Earning Assets	-	-	-	-	-
4 Non-Earning Assets	640	2,398	384	790	479
5 Non-Performing Finances-net	-	-	-	-	-
Total Assets	60,687	45,480	52,324	28,417	25,724
6 Funding	40,448	33,211	44,758	24,168	20,109
7 Other Liabilities	5,565	4,073	2,102	375	1,097
Total Liabilities	46,012	37,284	46,860	24,543	21,206
Equity	14,674	8,196	5,464	3,874	4,518

B INCOME STATEMENT

1 Mark Up Earned	16,331	5,298	9,970	623	4,294
2 Mark Up Expensed	(3,519)	(2,031)	(6,289)	(1,044)	(1,301)
3 Non Mark Up Income	2,795	1,439	1,067	(30)	(201)
Total Income	15,606	4,706	4,748	(451)	2,793
4 Non-Mark Up Expenses	(2,300)	(720)	(995)	(439)	(395)
5 Provisions/Write offs/Reversals	-	-	-	-	-
Pre-Tax Profit	13,307	3,986	3,753	(890)	2,397
6 Taxes	(4,097)	(1,254)	(867)	237	(560)
Profit After Tax	9,210	2,732	2,886	(652)	1,837

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	14.7%	15.3%	21.0%	-97.3%	14.2%
b ROE	182.9%	160.0%	61.8%	-15.5%	44.5%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	0.0%	0.1%	0.0%	0.0%	0.0%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	147.3%	134.8%	116.0%	115.7%	126.3%
b Borrowings from Repurchase Agreement Borrowings / Funding	98.1%	97.6%	98.3%	96.8%	96.1%

4 MARKET RISK

a Investments / Equity	409.2%	525.2%	950.5%	713.2%	558.8%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	24.2%	18.0%	10.4%	13.6%	17.6%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	337.1%	200.0%	50.7%	-14.4%	21.0%

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	
Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Short-term Rating	
Scale	Definition
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.



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

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) PACRA 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.

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
- 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 Companies Rating

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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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/credit-rating-agency/>

Conflict of Interest

- (2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)
- (2) ii. LRA will 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 35 – Rules applicable to Credit Rating Agencies)
- (2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

- (3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)
- (3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)
- (4) The LRA will not appoint any individual as a member of the rating committee who:
- (a) has a business development function of the Credit Rating Agency; or
- (b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

- (5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)
- (6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

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 will 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 35 – Rules applicable to Credit Rating Agencies)
- (9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

- (10) For purposes of transparency the LRA will publish 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 shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

- (a) all internal records to support its credit rating opinions;
- (b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and
- (c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)
- (11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

- (12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency 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 53 – Rules applicable to Credit Rating Agencies)

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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