



Lanka Rating Agency

Rating Report

First Capital Treasuries PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
24-Jan-2023	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the stable growth First Capital Treasuries PLC (FCT or The Company) has experienced in the past. With a LKR 4.6bn capital base as at September 22, the Company has gained an advantage in the high interest environment prevailing in the country. As a result of the low-interest environment in CY21, the Primary Dealer sector in the country reported a loss of LKR 0.4bn, which extended to FCT where the Company incurred a loss of LKR 652mn. As a listed entity in the Colombo Stock Exchange, FCT draws stability and has adhered to the Capital Adequacy Ratio (CAR) requirements imposed by the Central Bank of Sri Lanka (CBSL). FCT maintained a CAR of 84% (FY21: 33%), which is well above the statutory requirement of 10%. In CY21, the Company accounted for 5.9% and 3.6% of the Treasury Bill and Treasury Bond auctions of CY21. The Company draws stability from its Holding Company, First Capital Holdings PLC (FCH), which falls under the Janashakthi Group, being prominent financial services-related entities in Sri Lanka. The credit risk is minimum for the Company as a result of investing 97% of its assets in government securities. However, FCT encounters unfavorable market conditions particularly with respect to significant interest rate risk. If CBSL makes the decision to increase the interest rates in the year 2023, it could face added pressure on its profitability, similar to the previous financial year.

The rating is dependent on the Company's ability to maintain its position in the volatile macroeconomic condition. A significant factor would be its adaptability to sustain and improve its profitability in an increasing interest rate environment.

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(May-22)
Rating Analysts	Rabiya tul Athaviya Naushard rabiya@lra.com.lk +94 114 500099

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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 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 (89.44%) owned by First Capital Holdings PLC (FCH) through First Capital Limited (FCL). The second major shareholder, Employees Trust Fund Board owns 4.66% of the shares as at end of FY22. There are 18 individual shareholders who account for 3.58% of the ownership of top 20 shareholders.

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 investment activities and management of subsidiaries.

Governance

Board Structure The Board of FCT consists of 7 directors, 6 of them are non-executive and an executive director. Mr. Dilshan Wirasekara acts as the Managing Director/CEO for FCH as well as for its subsidiaries.

Members’ Profile The collective background of the Board of Directors (BoD) provides a balanced mix of skills and experience. Director/Chief Executive Officer Mr. Dilshan Wirasekara, has decades of experience and holds directorships at other firms across various industries. Dilshan Wirasekara is a well-known business professional with a track record of over 26 years of experience in local and multinational organizations. Further, he is the Chairman of the Colombo Stock Exchange.

Board Effectiveness The Board comprises of five board committees, namely, i) Audit Committee ii) Related Party Transactions Review Committee (“RPTRC”) iii) Remuneration Committee iv) Investment, Asset and Liability Committee (“IALC”) 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 2022.

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/Managing Director. The highest level of Authority lies with the Board of Directors.

Management Team The management team is headed by Mr. Dilshan Wirasekara, who performs the role of Managing Director/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. Twice-month meetings are held to discuss performances and strategies.

MIS FCT uses both DealNet and SasiaNet 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 5.9% of the total T-Bill auction volume and 3.6% of the T-Bond auction volume of CY21 respectively. With the overall PDs reporting a loss of LKR 0.4bn, FCT reported a trading loss of LKR 905mn and a net loss after tax of LKR 652mn.

Revenues During FY22, FCT incurred a net trading loss of LKR 432mn (net trading profit of FY21: LKR 2.9bn; FY20: LKR 1.6bn respectively) compared to FY21. During 6MFY23, FCT earned a net trading income of LKR 1.2bn, 613.55% higher than the LKR 233mn net trading loss reported in 6MFY21.

Performance FCT’s net profitability has reduced in FY22 in comparison to FY21. This has been mainly due to the fact that the loss on sale of financial investments, assets recognized at fair value through profit and loss amounting to LKR (905mn) for FY22. During 6MFY23, FCT recorded a net profit of LKR 1.1bn with the rising interest rate environment for government securities compared to the borrowing cost.

Sustainability With CBSL tightening its monetary policy and increasing interest rates, it is expected that by early CY23 the interest rates will be stabilized and start to reduce.

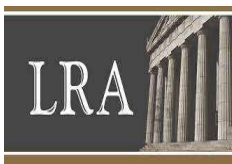
Financial Risk

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. FCT investments in government securities make up 97% of the total assets during FY22 (FY21: 98%). The interest rates have been gradually increasing since August 2021 and further increases resulted in the Company continuing to incur losses for FY22 amounting to LKR (652mn). The Company has mainly concentrated on possible interest rate hikes, in its interest rate risk analysis.

Liquidity And Funding Re-Purchase agreements being the main funding line of the company they account for 95% of the total liabilities, which amounts for LKR 23.3bn in FY22 (LKR 19.3bn in FY21).

Capitalization FCT’s total equity amounted to LKR 3.9bn, which is well above the CBSL stipulated Capital funds amount of LKR 2bn. The Company’s capital adequacy stands at 84% as at FY22 (FY21: 33%), while the minimum requirement by the CBSL is 10%. The core capital has been maintained at LKR 3.8bn as at FY22 (FY21: LKR 4.5bn), while the regulatory requirement was minimum LKR 1bn.



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LKR mln

First Capital Treasuries PLC

Sep-22

Mar-22

Mar-21

Mar-20

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6M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	-	-	-	-
2 Investments	44,888	27,620	25,243	37,006
3 Other Earning Assets	544	5	2	3
4 Non-Earning Assets	399	790	479	374
5 Non-Performing Finances-net	0	2	0	0
Total Assets	45,832	28,417	25,724	37,383
6 Funding	40,867	24,168	20,109	32,964
7 Other Liabilities	358	375	1,097	681
Total Liabilities	41,224	24,543	21,206	33,645
Equity	4,607	3,874	4,518	3,737

B INCOME STATEMENT

1 Mark Up Earned	3,880	623	4,294	3,708
2 Mark Up Expensed	(2,652)	(1,044)	(1,301)	(2,024)
3 Non Mark Up Income	315	(30)	(201)	331
Total Income	1,542	(451)	2,793	2,015
4 Non-Mark Up Expenses	(235)	(439)	(395)	(264)
5 Provisions/Write offs/Reversals	-	-	-	-
Pre-Tax Profit	1,308	(890)	2,397	1,752
6 Taxes	(204)	237	(560)	(544)
Profit After Tax	1,104	(652)	1,837	1,208

C RATIO ANALYSIS

1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	15.2%	-97.3%	14.2%	13.1%
b ROE	52.1%	-15.5%	44.5%	34.7%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	0.0%	0.0%	0.0%	0.0%
b Accumulated Provisions / Non-Performing Advances	0.0%	0.0%	0.0%	0.0%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	113.2%	115.7%	126.3%	112.3%
b Borrowings from Repurchase Agreement Borrowings / Funding	0.0%	0.0%	0.0%	0.0%
4 MARKET RISK				
a Investments / Equity	974.3%	713.0%	558.7%	990.1%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	10.1%	13.6%	17.6%	10.0%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	57.0%	-14.4%	49.2%	37.4%

Notes

Ratios for 1H FY23 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.

Scale	Long-term Rating 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.

Scale	Short-term Rating 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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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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