Lanka Rating Agency

Rating Report

First Capital Treasuries PLC

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
05-Mar-2025	A+	Stable	Upgrade	-
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, sustained profitability and robust capitalization. FCT continued to retain its position as a Standalone Primary Dealer (Non-bank). The Company enjoyed an exceptional year in terms of profitability in FY24 on the back of substantial trading gains on Government Bonds due to sharp decline in interest rates. The Company's Profit After Tax (PAT) in FY24 stood at LKR~11.1bn, compared to LKR~2.9bn in FY23. The performance trends normalized but remained strong (after the one-off gains in FY24) as FCT posted PAT of LKR~2.5bn in 9MFY25. The Company's direct income was LKR~8.6bn in 9MFY25 while direct expense (interest costs) stood at LKR~4.8bn in 9MFY25 showing a decline of ~17.8% from LKR~5.8bn in 9MFY24. This is due to the rather stable interest rate environment in 9MFY25 leading to lesser trading gains and mark-to-market gains on bond holdings and lower trading volume. The Company remains exposed to highly cyclical nature of Primary Dealer operations, where profitability is closely linked to interest rate movements and can be volatile. The Company strengthened its capital base to create cushion against potential down cycles as it retained majority of its profits. FCT recorded a healthy Capital Adequacy Ratio (CAR) of ~17.95% in 9MFY25. This is well above the statutory requirement of 10%. The credit risk of the Company remains minimum as a result of investing ~98.6% of its assets in the Government Securities. FCT is planning to issue a LKR~3bn listed, subordinate debenture issue. This will enhance the Company’s Tier II capital and increase total CAR to ~24.80%. At present, borrowings of the Company comprise repo transactions backed by Government securities. FCT intends to adjust its portfolio proactively in line with interest rate dynamics in the country.

The rating is dependent on the Company's ability to maintain its strong market position in the Primary Dealer Sector and sustain performance. Any adverse movement in interest rates, leading to sizeable loss and/or equity erosion will have negative 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 Financial Institution Rating(Jul-24)
Related Research	Sector Study | Primary Dealer(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

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). The Company provides investment solutions, participating in primary auction, trading of secondary market government securities and engaging in depth research on the Government securities market.

Ownership

Ownership Structure The majority of the Company's shareholding (~89.4%) vests with First Capital Holdings PLC (FCH) through First Capital Limited (FCL), which is a 100% subsidiary of FCH. The Schaffter brothers, being the ultimate owners through Janashakthi Limited, possess ~68.4% of First Capital Holdings PLC directly. The second major shareholder, the Employees Trust Fund Board, owns ~4.2% of the shares of FCT.

Stability FCT draws stability from the ownership of First Capital Holdings PLC, which has held a major stake in the Company for over a decade and is, in turn, owned by Janashakthi Limited.

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

Financial Strength As the ultimate parent company of FCT, Janashakthi Limited has a strong consolidated asset base of LKR~134.1bn supported by an equity base of LKR~15.3bn as at FY24. FCH has a strong consolidated asset base of LKR~78.7bn supported by an equity base of LKR~7.9bn as at FY24.

Governance

Board Structure The Board of FCT consists of eight directors, seven 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. Ms. Manjula Mathews was appointed as the Chairperson to the Board as a Non-Independent Non-Executive Director w.e.f. Jan 12, 2024. She has experience for over three decades in finance, marketing, and general management and is a Fellow member of the Chartered Institute of Management Accountants UK, with a Master's degree in Business Administration from the University of Cambridge UK.

Board Effectiveness The Board comprises 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. The Audit Committee is headed by Ms. Cilani Wijesinghe w.e.f. 20th August 2024.

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 2024 (FY24).

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 Chief Executive Officer (CEO).

Management Team The management team is headed by Director/CEO Mr. Sachith Perera. FCT has in place a well-qualified team comprising industry experts.

Effectiveness FCT has a Management Committee in place implemented in January 2024 for the Company known as FCT MANCO, which is represented by the Director/CEO and 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 fixed-income securities and caters to outright purchases and sales, repurchase agreements, and reverse repurchase agreements.

Risk Management Framework The internal audit function of the Company is outsourced to Ernst & Young. Internal Audits are conducted every six months in coordination with the Head of Risk and Compliance. Additionally, the ultimate parent company, Janashakthi Limited, implements further internal audit controls. 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 licensed in the country, while three of them are suspended from operations for various reasons. Out of the operational PDs, five are Licensed Commercial Banks while the rest are stand-alone PDs.

Relative Position FCT accounted for ~16.6% of the total T-Bill auction volume and ~16.8% of the T-Bond auction volume of FY23. In comparison to the PD industry, FCT, held ~33.7% of the total asset base which amounted to LKR~91.2bn in 9MFY24.

Revenues The Company enjoyed an exceptional year in terms of profitability in FY24 on the back of substantial trading gains on Government Bonds due to a sharp decline in interest rates. The Company's direct income was recorded at LKR~8.6bn in 9MFY25 while direct expense (interest costs) stood at LKR~4.8bn in 9MFY25 showing a decline of ~17.8% from LKR~5.8bn in 9MFY24. This is due to the rather stable interest rate environment in 9MFY25 leading to lesser trading gains and mark-to-market gains on bond holdings and lower trading volume.

Performance The Company's PAT in FY24 stood at LKR~11.1bn, compared to LKR~2.9bn in FY23. The performance trends normalized in 9MFY25 but remained strong (after the one-off gains in FY24) as FCT posted a PAT of LKR~2.5bn in 9MFY25. The sharp PAT growth in FY24 was primarily driven by trading gains from bond trading amid falling interest rates, a wider investment spread, and lower borrowing costs. This performance reflects the highly cyclical nature of Primary Dealers, where profitability is closely linked to interest rate movements.

Sustainability The Company's commitment to sustainability is deeply embedded in the overarching vision of the FCH Group, i.e., "to enhance the lives of all Sri Lankans through financial solutions." This principle drives the Company to leverage its expertise and core business strengths to promote financial literacy, with a particular focus on capital markets.

Financial Risk

Credit Risk The Company's credit risk remains minimal since ~98.6% 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 remains nominal.

Market Risk FCT's investment portfolio is 100% dedicated to government securities and thus, is exposed to significant interest rate risk. FCT's investments in government securities made up ~98.6% of its total assets during 9MFY25 (FY24: ~94.8%).

Liquidity And Funding The Company's major source of funding is the securities sold under the Re-Purchase (REPO) agreements. These accounted for ~85.2% of the Company's total liabilities, amounting to LKR~48.5bn in FY24 (LKR~43.8bn in FY23).

Capitalization FCT's total equity amounted to LKR~10.1bn, which is well above the CBSL stipulated capital requirement of LKR~2.5bn. The Company's capital adequacy reduced to ~17.95% as at 9MFY25 (FY24: ~22.76%), while the minimum requirement by the CBSL is 10%. FCT intends to raise Subordinated, Unsecured, Redeemable Debenture of LKR~3bn as part of its plan to strengthen its Tier-II capital and enhance its Capital Adequacy Ratio (CAR).

Lanka Rating Agency *LKR mln*

First Capital Treasuries PLC

	Dec-24 9M	Mar-24 12M	Mar-23 12M	Mar-22 12M
A BALANCE SHEET				
1 Total Finance-net	6	5	4	2
2 Investments	73,647	61,276	51,936	27,625
3 Other Earning Assets	-	-	-	-
4 Non-Earning Assets	1,063	3,275	384	790
5 Non-Performing Finances-net	-	-	-	-
Total Assets	74,717	64,556	52,324	28,417
6 Funding	63,179	49,598	44,758	24,168
7 Other Liabilities	1,404	7,279	2,102	375
Total Liabilities	64,582	56,878	46,860	24,543
Equity	10,133	7,679	5,464	3,874
B INCOME STATEMENT				
1 Mark Up Earned	8,571	26,599	9,970	623
2 Mark Up Expensed	(4,606)	(7,611)	(6,289)	(1,044)
3 Non Mark Up Income	449	(582)	1,067	(30)
Total Income	4,414	18,406	4,748	(451)
4 Non-Mark Up Expenses	(811)	(2,368)	(995)	(438)
5 Provisions/Write offs/Reversals	-	-	-	-
Pre-Tax Profit	3,603	16,038	3,753	(889)
6 Taxes	(1,150)	(4,895)	(867)	237
Profit After Tax	2,453	11,143	2,886	(651)
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	18.4%	12.9%	21.0%	-97.1%
b ROE	36.7%	169.6%	61.8%	-15.5%
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	N/A	N/A	N/A	N/A
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	116.6%	123.5%	116.0%	115.7%
b Borrowings from Repurchase Agreement Borrowings / Funding	98.7%	97.9%	98.3%	96.8%
4 MARKET RISK				
a Investments / Equity	726.8%	797.9%	950.5%	713.2%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	13.6%	11.9%	10.4%	13.6%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	42.6%	40.6%	50.7%	-14.4%

Credit Rating

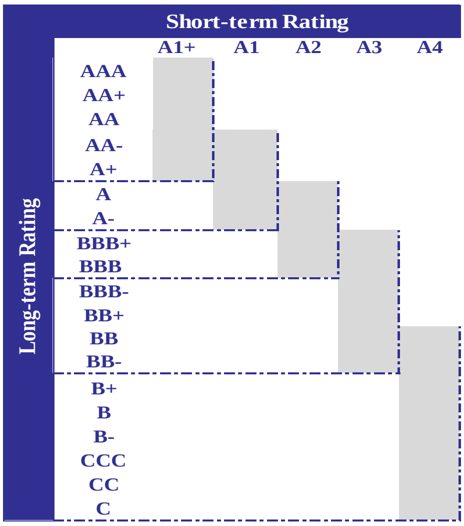
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 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.

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 surveill 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

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