



Lanka Rating Agency

Rating Report

Commercial Credit and Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
23-Apr-2025	BBB	Stable	Maintain	Yes
26-Feb-2024	BBB	Positive	Maintain	-
07-Feb-2023	BBB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Commercial Credit and Finance PLC (CCFP or "the Company") is a licensed finance company (LFC) in Sri Lanka, specializing in hire purchase, finance leases, and gold loans. CCFP is a medium-sized company in the leasing industry with ~5.5% share in terms of assets and ~6.1% in deposits. The rating reflects the Company's sound profitability, extensive outreach and growing asset base. However, the Company endured alarmingly high non-performing loans (NPLs) recently emanating from moratoriums and relaxations granted to customers during COVID-19 pandemic and economic crisis period. As at 9MFY25, the Company's Gross and Net NPLs rose to approximately ~30.0% and ~19.1%, respectively, surpassing the industry averages of around ~11.3% and ~6.9%. The management has focused exclusively on recovery efforts and other measures to reduce this number. As a result, NPLs are expected to come down to ~18.2% by March 31, 2025. The rating watch signifies criticality of this matter.

The net interest income (NII) of the Company increased to LKR~11.2bn in 9MFY25 from LKR~8.3bn in the same period last year due to lower interest expenses and relatively high yield on assets. The Company was able to sustain its profitability to LKR~2.1bn in 9MFY25 (9MFY24: LKR~2.0bn) despite higher impairment charges of LKR~3.1bn (9MFY24: LKR~1.2bn). The Capital Adequacy Ratio (CAR) of the Company stood at ~15.4% in 9MFY25, well above the regulatory requirement and it is expected to increase to ~20% as the Company intends to issue subordinated loan of LKR~1.5bn to strengthen its Tier II capital. The granular deposit base bodes well for the funding side. Additionally, the Company has sufficient borrowing lines available from financial institutions.

The liquidation of the Company's second-largest shareholder, Group Lease Holdings PTE Limited, as ordered by the Singapore court in March 2024, is not expected to affect CCFP materially. However, any negative repercussions from this would have negative rating impact. Going forward, the management aims to reduce its moratorium portfolio and further bring down its NPLs.

A rating watch has been assigned due to the sizeable increase in the Company's NPLs and its potential impact on the Company's profitability and other performance indicators. The measures taken by the management to reduce NPLs and achieve profitable growth remains critical. Successful reduction in NPLs to industry averages, strong capitalization and profitability would have positive rating implications.

Disclosure

Name of Rated Entity	Commercial Credit and Finance 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 Leasing & Finance Companies(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099

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Profile

Structure Commercial Credit and Finance PLC (“CCFP” or “the Company”) was incorporated as a limited liability company in 1982 under the provisions of the Companies Ordinance No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. CCFP was listed on the Colombo Stock Exchange (CSE) in 2011.

Background During the initial stages of operation, the Company was mainly focused on lending to the agricultural sector with this sector accounting for over ~50% of the lending portfolio. The Company operated in ~16 locations throughout the island including the traditional agricultural regions such as Anuradhapura and Dehiattakandiya.

Operations The principal business activities include acceptance of deposits, granting lease facilities, hire purchase, term loans, personal loans, microloans, pawning, other credit facilities, real estate development, and related services.

Ownership

Ownership Structure The largest shareholding of the Company is with BG Investments (Pvt) Limited, with an ownership of ~50.25%. The ultimate ownership of BG investments lies with Mr. R. S. Egodage & Mrs. G. R. Egodage holding ~50% each. The 2nd largest shareholder is Group Lease Holdings Pte Limited with a shareholding of ~29.99%.

Stability The ownership structure is likely to remain the same in the foreseeable future which provides stability to the Company.

Business Acumen Mr. R. S. Egodage has been involved in the financial services sector for over fifteen years. Mr. R. S. Egodage, who is also the Chief Executive Officer (CEO) and an Executive Director (ED), earned a BSc. Eng. degree from the University of Peradeniya. His business acumen and vision for the Company bodes well for providing strategic direction.

Financial Strength CCFP draws stability from BG Investments Pvt. Ltd., holding the majority of shares.

Governance

Board Structure The Board has ~9 directors, out of which, ~4 are Independent Non-Executive directors and ~3 are Executive directors. The Chairman of the Company, Mr. G. B. Egodage is a Non-Executive Director, appointed to the Board on 17th November 2022.

Members’ Profile The Board members have decades of experience in their respective fields. The Chairman of the Company, Mr. G. B. Egodage is also the Chairman of Asia Pacific Institute of Information Technology (APIIT) Sri Lanka, Executive Member of SAARC (South Asian Association for Regional Cooperation) Chamber of Commerce and Industry, Director of Sri Lanka Coconut Research Institute, Director of Suwasevana Hospital (Pvt) Ltd etc. He has over ~37 years of experience in both local and international business markets.

Board Effectiveness The Company has formed ~5 board sub-committees, namely, i) Board Audit Committee, ii) Board Integrated Risk Management Committee, iii) Board Related Party Transactions Committee, iv) Board Remuneration Committee, and v) Board Nomination Committee.

Financial Transparency The external auditors of the Company, Ernst & Young, issued an unqualified audit opinion pertaining to the annual financial statements for FY24.

Management

Organizational Structure The highest level of authority of the organization remains with the Board of Directors. The Company has a well-defined management hierarchy with clear roles and responsibilities.

Management Team The management team is headed by the Chief Executive Officer (CEO) of the Company, Mr. R. S. Egodage. The CEO is supported by the Executive Director, Chief Operating Officer (COO), Executive Director and Deputy CEO.

Effectiveness CCFP has formed four management committees, namely, i) Assets and Liability Management Committee, ii) Executive Credit Committee, iii) IT Security Committee and iv) IT Steering Committee.

MIS CCFP currently uses an inbuilt ERP system. The functional updates to the ERP are applied based on approved change requests by business teams. The disaster recovery system is managed by the internal team and it is located at Dialog iDC Malabe.

Risk Management Framework The Company has an independent risk management department, Board-approved risk appetite, and risk tolerance levels along with well-defined procedures to support risk management. CCFP needs to further strengthen this function and revisit guidelines to further improve asset quality.

Business Risk

Industry Dynamics There are ~34 Licensed Finance Companies (LFC) in Sri Lanka, out of which, ~27 are listed on the CSE. The profitability of the LFC sector improved by to LKR~43.1bn in 9MFY25 compared to LKR~34.9bn in 9MFY24. Net interest income improved in 9MFY25 by ~22.2% to LKR~145.2bn from LKR~118.8bn in 9MFY24. The deposits of the LFC sector increased by ~13.0% in 9MFY25 to LKR~1,056.4bn while it was at LKR~935.1bn in 9MFY24. Total loans and advances of the sector have increased by ~22.8% to LKR~1,430bn in 9MFY25 from LKR~1,164.8bn in 9MFY24. The total asset base of the LFC sector stood at LKR~1,930.7bn and LKR~1,695.5bn as at 9MFY25 and 9MFY24 respectively.

Relative Position The Company is considered as a mid-size Licensed Finance Companies (“LFC”). CCFP accounts for ~5.5% of the assets and ~6.1% of the deposits as at 9MFY25 in the Licensed Finance Companies sector. CCFP’s net loans and advances account for ~5.0% in 9MFY25 in Licensed Finance Companies sector. The Company is focusing more on asset-backed and micro loans for growth.

Revenues The interest income of the Company stood at LKR~18.4bn in 9MFY25 which is a decline of ~6.0% from LKR~19.6bn in 9MFY24. The interest expense of the Company stood at LKR~7.3bn in 9MFY25 showing a decline of ~35.6% from LKR~11.3bn in 9MFY24. This is due to the lower borrowing costs from the reduction in market interest rates which reduce the cost of funds.

Performance Profit After Tax (“PAT”) recorded at LKR~2.1bn in 9MFY25 which is a ~2.5% increase compared to LKR~2.0bn in 9MFY24. The Return on Equity (“ROE”) and the Return on Assets (“ROA”) recorded at ~11.2% and ~2.6% in 9MFY25 as compared to ~13.4% and ~2.7% respectively in 9MFY24.

Sustainability CCFP has established an Information & Communication Technology (ICT) Department dedicated to implementing cutting-edge IT solutions across various departments. Additionally, they have developed a strong Cybersecurity Strategy to protect our digital assets, safeguard customer data, and uphold the integrity of our organization.

Financial Risk

Credit Risk The Company’s gross non-performing advances to total advances increased over the periods from FY21 to 9MFY25. As at 9MFY25, the Company’s Gross and Net NPLs rose to approximately ~30.0% and ~19.1%, respectively, surpassing the industry averages of around ~11.3% and ~6.9%.

Market Risk The Company’s investment in government securities grew to approximately LKR~8.4bn from FY20 to FY23, driven by a sharp rise in interest rates during FY23. However, it declined to around LKR~6.9bn in FY24 before rising again to LKR~7.3bn in 9MFY25.

Liquidity And Funding The Company is more dependent on deposits as it constitutes ~74.5% (FY24: ~80.1%) of funding in 9MFY25. The Company’s deposit base increased by ~4.9% to LKR~62.1bn in FY24 (9MFY25: LKR~57.5bn) compared to LKR~59.2bn in FY23.

Capitalization The Capital Adequacy Ratio (CAR) of the Company stood at ~15.4% in 9MFY25, well above the regulatory requirement and it is expected to increase to ~20% as the Company intends to issue subordinated loan of LKR~1.5bn to strengthen its Tier II capital.



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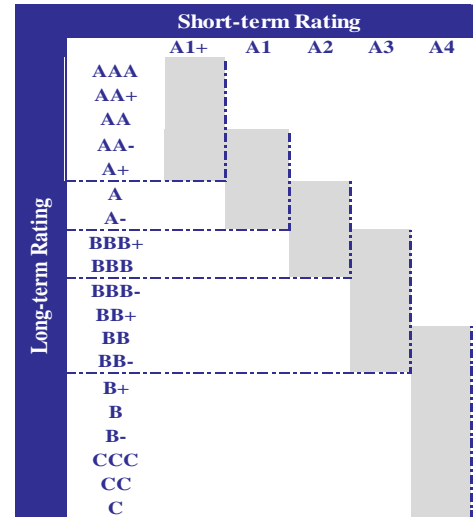
COMMERCIAL CREDIT AND FINANCE PLC	Dec-24	Mar-24	Mar-23	Mar-22
#	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	58,221	80,237	75,286	76,988
2 Investments	10,782	9,918	10,017	6,885
3 Other Earning Assets	9,148	4,190	3,527	2,166
4 Non-Earning Assets	14,165	12,442	12,439	10,586
5 Non-Performing Finances-net	13,777	1,200	885	(2,995)
Total Assets	106,093	107,988	102,154	93,630
6 Funding	75,867	76,024	76,799	68,603
7 Other Liabilities	5,248	7,784	4,996	5,834
Total Liabilities	81,114	83,808	81,795	74,437
Equity	24,979	24,180	20,359	19,193
B INCOME STATEMENT				
1 Mark Up Earned	18,437	27,239	25,055	18,365
2 Mark Up Expensed	(7,265)	(14,431)	(13,948)	(6,416)
3 Non Mark Up Income	1,721	3,024	3,136	2,466
Total Income	12,892	15,832	14,242	14,415
4 Non-Mark Up Expenses	(5,933)	(7,459)	(6,549)	(5,858)
5 Provisions/Write offs/Reversals	(2,423)	83	(2,612)	(764)
Pre-Tax Profit	4,537	8,456	5,081	7,792
6 Taxes on Financial Services	(1,126)	(1,861)	(1,221)	(1,401)
Profit Before Income Taxes	3,411	6,595	3,860	6,391
7 Income Taxes	(1,340)	(2,401)	(1,260)	(1,871)
Profit After Tax	2,071	4,194	2,600	4,520
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	46.0%	47.1%	46.0%	40.6%
b ROE	11.2%	18.8%	13.1%	26.1%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	109.7%	118.1%	110.2%	117.7%
b Accumulated Provisions / Non-Performing Advances	44.8%	87.4%	90.5%	179.5%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	27.4%	17.5%	18.8%	14.4%
b Borrowings from Banks and Other Financial Institutions / Funding	22.4%	16.6%	21.2%	28.0%
4 MARKET RISK				
a Investments / Equity	43.2%	41.0%	49.2%	35.9%
b (Equity Investments + Related Party) / Equity	2.6%	2.5%	1.8%	1.7%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	23.5%	22.4%	19.9%	20.5%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	4.4%	19.0%	10.2%	19.4%

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.

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+	
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-	
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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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

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.