



Lanka Rating Agency

## Rating Report

### First Capital Treasuries - LKR 750mn Subordinated Unsecured Redeemable Debentures

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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

<b>Name of Rated Entity</b>	First Capital Treasuries - LKR 750mn Subordinated Unsecured Redeemable Debentures
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-22)
<b>Related Research</b>	Sector Study   Primary Dealer(Jun-23)
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**Profile** 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. 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. The principal activity of the Company is dealing (Primary Dealer) with government securities, appointed by the Central Bank of Sri Lanka (CBSL).

**Ownership** 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. 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. The diversification and overall success of the sponsoring entities is a positive contributor for FCT. 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** The Board of FCT consists of six directors, all are non-executive directors with three independent directors. 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. 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. 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** 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. 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. 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. 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. 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** 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. 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. 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. 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. 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** 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. 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%). 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). 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%.

## Instrument Rating Considerations

**About The Instrument** FCT currently has LKR 750Mn, listed, rated, subordinated, unsecured, redeemable debentures each worth LKR 100/-. The tenure of the debentures will span for a period of 60 months. The debenture was opened for subscription on 27th January 2020 and closed on 30th January 2020. The objective of the issue is to increase the Tier II Capital of the Company and thereby enhance the Capital adequacy position.

**Relative Seniority/Subordination Of Instrument** The claims of the Debenture holders shall in the event of winding up of the Company rank after all the claims of the Secured and other Unsecured Creditors of the Company and any preferential claims under any Statutes governing the Company but in priority to and over the claims and rights of the Shareholders of the Company.

**Credit Enhancement** The debenture subscription closed LKR 750Mn. The debenture is not underwritten. The first payment commenced on 30th January 2020.



## Lanka Rating Agency

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	-	-	-	-	-
<b>Total Assets</b>	<b>60,687</b>	<b>45,480</b>	<b>52,324</b>	<b>28,417</b>	<b>25,724</b>
6 Funding	40,448	33,211	44,758	24,168	20,109
7 Other Liabilities	5,565	4,073	2,102	375	1,097
<b>Total Liabilities</b>	<b>46,012</b>	<b>37,284</b>	<b>46,860</b>	<b>24,543</b>	<b>21,206</b>
<b>Equity</b>	<b>14,674</b>	<b>8,196</b>	<b>5,464</b>	<b>3,874</b>	<b>4,518</b>

### 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)
<b>Total Income</b>	<b>15,606</b>	<b>4,706</b>	<b>4,748</b>	<b>(451)</b>	<b>2,793</b>
4 Non-Mark Up Expenses	(2,300)	(720)	(995)	(439)	(395)
5 Provisions/Write offs/Reversals	-	-	-	-	-
<b>Pre-Tax Profit</b>	<b>13,307</b>	<b>3,986</b>	<b>3,753</b>	<b>(890)</b>	<b>2,397</b>
6 Taxes	(4,097)	(1,254)	(867)	237	(560)
<b>Profit After Tax</b>	<b>9,210</b>	<b>2,732</b>	<b>2,886</b>	<b>(652)</b>	<b>1,837</b>

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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.
AA-	
A+	
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+	
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-	
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	<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-	
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.

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

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 30-09-2023 (LKR mm)
Debenture	750,000,000.00	5 Years	N/A	N/A		Hatton national Bank PLC	763.4

Name of Issuer	First Capital Treasuries PLC
Issue Date	January 30, 2020
Maturity	January 30, 2025
Coupon Basis	Semi Annually
Repayment	Coupon will be paid on a Semi annual basis and principal amount will be paid at the maturity date
Option	

Due Date Principal	Opening Principal	Principal Repayment	Coupons Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR					LKR		
Type A					Fixed			
30-Jan-2020	750,000,000	-	30-Jul-2020	12.75%	12.75%	750,000,000		
30-Jan-2021	750,000,000		30-Jan-2021	12.75%	12.75%	750,000,000		
		-	30-Jul-2021	12.75%	12.75%			750,000,000
30-Jan-2022	750,000,000		30-Jan-2022	12.75%	12.75%			750,000,000
		-	30-Jul-2022	12.75%	12.75%			750,000,000
30-Jan-2023	750,000,000		30-Jan-2023	12.75%	12.75%			750,000,000
		-	30-Jul-2023	12.75%	12.75%			750,000,000
30-Jan-24	750,000,000		30-Jan-2024	12.75%	12.75%			750,000,000
			30-Jul-2024	12.75%	12.75%			750,000,000
30-Jan-25	750,000,000	750,000,000	30-Jan-2025	12.75%	12.75%			-
Type B				Floating	Floating			