



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	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2023	A-	-	Stable	Maintain	Yes
24-Jan-2023	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

LRA has assigned 'Rating Watch' to the instrument on the rating of First Capital Treasuries PLC (FCT). This is in the wake of the announcement by CSE, on Peoples Leasing & Finance PLC's potential shares acquisition in First Capital Holdings PLC (FCH), the holding company of FCT. The execution of the sales purchase agreement has been affirmed with target price of LKR 4,958mn. The transaction remains subject to approval by the Central Bank of Sri Lanka. People's Leasing & Finance PLC will acquire 33% shareholding from Janashakti Holding and will also have presence on the board. LRA is closely following the transaction and will consider all aspects once the transaction is finalized. FCT is a prominent Primary Dealer within the financial service industry. The Company draws stability from its Holding Company, which falls under Janashakthi Group. The credit risk is minimal for the Company as a result of investing 98% of its assets in government securities. However, FCT is exposed to unfavorable market conditions, particularly with respect to significant interest rate risk. The beginning of declining interest rates during 2023 is expected to release the pressure on Company's profitability.

Rating is dependent upon eventual outcome of the potential acquisition by People's Leasing & Finance PLC and impact it will have on FCT business. Certain synergies are expected from this acquisition and their impact will be reviewed accordingly.

Disclosure

Name of Rated Entity	First Capital Treasuries - LKR 750mn Subordinated Unsecured Redeemable Debentures
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Primary Dealer(Jun-23)
Rating Analysts	Rabiya tul Athaviya Naushard rabiya@lra.com.lk +92-42-35869504

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Issuer Profile

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. FCT, established in 1872, was initially incorporated as First Capital Treasuries Ltd under the ownership of Singer Sri Lanka PLC. The Company was incorporated on 19th August 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. In year 2007, the company became a subsidiary of “Dunamis Capital PLC”, under Janashakthi Holdings.

Ownership The majority of the company is (89.44%) owned by First Capital Limited (FCL). The second major shareholder Employees Trust Fund Board owns 4.66% of the shares. There are 18 individual shareholders who account for 3.58% of the ownership. FCT draws stability from the ownership of First Capital Holdings PLC which has had a major stake in the Company for over a decade and is, in turn, owned by Janashakthi Holding Ltd. First Capital Limited, which is the major shareholder of FCT, and which is ultimately owned by FCH. FCH as the investment holding company is involved in financial services, asset management, debt restructuring, and brokering services.

Governance The board of FCT consists of 8 directors, 7 of them are non-executive and 1 executive director. Mr. Dinesh Schaffter acts as the Managing Director for First Capital Holdings as well as for its subsidiaries. He has a background in finance, and substantial experience of over 25 years, during which he has executed a range of transactions including M&A, restructuring, and business valuations. The board comprises 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. 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 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/Director. The highest level of Authority lies with the Board of Directors. 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.

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. The total assets of the stand-alone PDs decreased by 9.75% since CY20, to LKR 78.7bn in CY21, while the overall PD sector reported a loss of LKR 0.4bn in CY21. Out of the treasury bills and treasury bond auctions during 2021, PDs accounted for 56.3% and 27.5% respectively. Majority of the government securities issued were treasury bonds, which was 71.8%, as at Nov CY21. Foreign investments in treasury bills dropped to 0.1% in Oct CY20 (LKR 1.7bn) from 16% in Oct CY19 (LKR16.6bn). Similarly, the foreign holding of treasury bond portfolio dropped to LKR 8.6bn in Oct CY20, from LKR 95.9bn in Oct CY19. The lower rates maintained during this period led to foreign parties withdrawing their funds from the market. The interest rates were reduced during the Covid-19 pandemic. The interest rates started to increase from Aug CY21 and currently, the SDFR is maintained at 14.5%, while the SLFR is maintained at 15.5%.

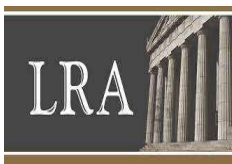
Financial Risk The credit risk is minimal for the Company since 97% of its assets are invested in government securities. Minor credit risk arises from their investment in securities purchased under resale agreements. However, due to the presence of collateral, in the form of government securities with 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 97% of the total assets during FY22 (FY21: 97%). The interest rates have been gradually increasing since Aug 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. FCT’s total equity amounted to LKR 3.8bn, which is well above the CBSL stipulated Capital Adequacy 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.

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.



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LKR mln

First Capital Treasuries PLC

Sep-22

Mar-22

Mar-21

Mar-20

—

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	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.
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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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

(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



Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (LKR mn)
Listed, Rated, Subordinated, Unsecured, Redeemable Debenture	750mn	5 Years	No Securities	NA	NA	Hatton National Bank PLC	LKR 762mn

Name of Issuer	First Capital Treasuries PLC
Issue Date	January 30, 2020
Maturity	5 Years
Coupon Basis	Type A : 5 Year, Fixed rate of 12.75% p.a. payable semi-annually (AER 13.16%)
Repayment	Bullet repayment at maturity with semi-annual coupon payment
Option	NA

First Capital Treasuries PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupons Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				Feb-21	LKR		
Type A					Fixed			
30-Jan-20	750,000,000	-	30-Jan-20	12.75%	12.75%	750,000,000		
30-Jul-20		-	30-Jul-20	12.75%	12.75%			
30-Jan-21		-	30-Jan-21	12.75%	12.75%			
30-Jul-21		-	30-Jul-21	12.75%	12.75%			
30-Jan-22		-	30-Jan-22	12.75%	12.75%			
30-Jul-22		-	30-Jul-22	12.75%	12.75%			
30-Jan-23		-	30-Jan-23	12.75%	12.75%			
30-Jul-23		-	30-Jul-23	12.75%	12.75%			
30-Jan-24		-	30-Jan-24	12.75%	12.75%			
30-Jul-24		750,000,000	30-Jul-24	12.75%	12.75%			
30-Jan-25			30-Jan-25	12.75%	12.75%			