



Lanka Rating Agency

Rating Report

First Capital Holdings - LKR 2Bn Senior 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

LRA takes both Consolidated and Standalone view on the market positioning and performance of the First Capital Holdings PLC (FCH or the Company). The assigned rating incorporates the Company's ability to uphold its relative market position as a Holding Company within the financial service industry. First Capital Treasuries PLC (FCT), the Company's prominent subsidiary in Primary Dealer activities, has been a major contributor towards FCH's improved business profile and profitability. During FY23, FCH has demonstrated improved financial results and witnessed positive outcomes as compared to the previous year FY22. In FY23, the overall market conditions, particularly the declining interest rates, had turned around in favor for the Primary Dealer Sector, and henceforth for FCT, which resulted in higher trading gains on government securities, ultimately fostering the FCT and group's profitability. The rating takes into account the improved margins and profitability of the Company, as well as the augmented on-balance sheet liquidity. However, the performance of other related group companies of FCH was moderate for FY23. The rating takes into account FCH's accumulation of capital over the years with the intention of retaining half of it in order to combat unforeseen challenges in the future and keep the risk cover strong. The rating also takes into account the eased risk profile of the parent company, Janashakthi Limited (JL), wherein the upflow of dividends from FCT have significantly benefitted the profitability of JL, leading to an increase in internal capital generation and a considerable reduction in the debt leverage.

The rating is dependent on the Company's ability to maintain its strong market position in the changing macroeconomic environment. Meanwhile, a sound financial discipline, including continued capital retention and managed related-party exposure, is imperative. Additionally, the financial health of the parent, JL, in terms of further deleveraging of its capital structure and steady generation of profits, is a key driving factor for a positive impact on the rating.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | First Capital Holdings - LKR 2Bn Senior Unsecured Redeemable Debentures |
| Type of Relationship | Solicited |
| Purpose of the Rating | Debt Instrument Rating |
| Applicable Criteria | Methodology Debt Instrument Rating(Jun-22) |
| Related Research | Sector Study Holding Company(Mar-23) |
| Rating Analysts | Gayani Randima Ariyawansa gayani@lra.com.lk +92-42-35869504 |



Issuer Profile

Profile First Capital Holdings PLC (FCH or the Company) is a public limited company incorporated in 1992 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. The Company's registered office and place of business is No. 2, Deal Place, Colombo 03. At present, the principal activity of the Company encompasses investment and management of subsidiaries. FCH's integrated business platform comprises four specialized areas - Capital Markets Advisory, Wealth Management, Fixed Income and Equities. The Company's investment bid constitutes core investments comprising seven subsidiaries i.e., First Capital Limited (FCL) - 100%, First Capital Treasuries PLC (FCT) - 89.36%, First Capital Markets Limited (FCM) - 100%, First Capital Asset Management Limited (FCAM) - 98.71%, First Capital Equities (Private) Limited (FCE) - 100%, First Capital Trustee Services (Private) Limited (FCTS) - 100%, and First Capital Advisory Services (Private) Limited (FCAS) - 100%.

Ownership The ultimate shareholdings rests with Schaffter brothers, which is through the parent company Janashakthi Limited, by owning 76.60% of First Capital Holdings PLC. Remaining shareholding is accounted for by the rest of the minority shareholders. The Company takes comfort in being part of Janashakthi Group and as per their existing business strategy it will not change in the near future. On the other hand, with First Capital Treasuries (FCT), one of the major subsidiaries of FCH, is engaged in Primary Dealing (PD) activities. FCT is well above the CBSL Capital Adequacy requirement of 10% and minimum capital requirement of LKR 2.5Bn. FCH is a part of the Janashakthi Arm and the major shareholder of First Capital Treasuries, which is considered to be one of the leading Non-Bank PD in Sri Lanka. Janashakthi Limited has a presence in the sectors of financial services, non-banking financial institutes, and insurance. The holding company (FCH) has gained recognition and prominence over time. Janashakthi Group, which has a presence in various financial services namely Non-Banking Financial Institutes (NBFI), insurance, and investment banking. Janashakthi has a consolidated asset base of LKR 66.6Bn supported by an equity base of LKR 6.7Bn as of FY23. During FY23, consolidated revenue stood at LKR 14.3Bn.

Governance FCH Board comprises five members including the Managing Director/Chief Executive Officer (CEO). There are four non-executive and an executive director, this includes two independent directors on the Company's board. The BOD, with a well-diversified background and relative expertise of its members, are a key source of oversight and guidance for the management. Boards Chairman, Mr. Nishan Fernando, is an independent non-executive director and holds directorship at BDO Consulting (Pvt) Limited. The Board ensures effective governance through its six sub-committees, namely Audit Committee, Enterprise Risk Management Committee, Related Party Transaction Review Committee, Asset and Liability Committee, Remuneration Committee, and Nomination Committee. KPMG is the external auditor of the company. They have given an unqualified opinion on the financial statements for the year end of March 31, 2023.

Management FCH functions as an investment holding company. It has a simple organizational structure that is divided across basic functional divisions. FCH and each of its subsidiaries has its own business unit heads and supporting functions along with fully equipped teams. FCH has a set of experienced and professional management. Mr. Dilshan Wirasekara joined FCH in November 2013 and presently holds the position of the Company's Managing Director/CEO. Monthly KPI and management meetings are held to discuss performance and strategies within subsidiaries and the group. The Company has set up an internal audit function along with the Board's Audit Committee to help implement the policies and procedures.

Business Risk Having subsidiaries that are offering various financial services bodes well for the Company along with the initiative of the group to diversify its income sources. The Company's investment portfolio consists of seven subsidiaries. All these investments could be defined as horizontal investments focusing on the financial service segment of Sri Lanka. FCH has core investments in both listed and unlisted companies. On a consolidated basis, FCH has an asset base of LKR 74.9Bn supported by an equity base of LKR 15.4Bn for 6MFY24. Under its investment portfolio of FCH, FCT is the most contributing area whereas, asset management, which is catered through First Capital Asset Management Ltd, is considerably the emerging segment. FCH aims for sustainable income flows, in the form of dividends, from its business ventures. On a consolidated basis, the Group's top-line stood at LKR 14Bn for FY23. The Company's consolidated bottom line closed at a net profit of LKR 2.6Bn for FY23.

Financial Risk FCH's interest coverage stood at 8.2x during 6MFY24 (FY23: 1.1x). Owing to the increase in total operating cash flow (TCF), to LKR 3.7Bn in FY23, the coverage has performed fairly. FCH's standalone leverage stood at 42% for 6MFY24, compared to the year end FY23 leverage of 63%. The Company's short-term borrowings stood at LKR 6Bn at 6MFY24 (FY23: LKR 7.2Bn) while the long term borrowings stood at LKR 801Mn in 6MFY24 (FY23:LKR 902Mn). On a consolidated basis, First Capital Holdings has a total asset base of LKR 74.9Bn and a total equity of LKR 15.4Bn for 6MFY24. Further the rating takes into note the consolidated net profit of LKR 9.6Bn for 6MFY24 compared to the net profit reported of LKR 2.6Bn for FY23.

Instrument Rating Considerations

About The Instrument FCH currently has LKR 2Bn, listed, rated, senior, unsecured, redeemable debentures each worth LKR 100/-. The tenure of the debentures will span for a period of 60 months. The Type A Debenture coupons are paid annually at the fixed rate of 10% p.a. (AER - 10%) and Type B Debenture coupons are paid annually at a floating rate of weekly AWPLR + 2.00% p.a. with a ceiling of 12% and a floor of 9%. The Debenture was opened for subscription on 1st February 2021 and allotted on 8th February 2021. The objective of the issue is to invest in Listed Debt (35%), Unlisted Debt (50%) and Listed Equities (15%).

Relative Seniority/Subordination Of Instrument The claims of the Debenture holders shall in the event of winding up of the Company rank above the subordinated debt, ordinary voting and non-voting shareholders and preference shareholders of the Company.

Credit Enhancement The debenture subscription closed at LKR 2bn. The debenture is not underwritten. The first coupon payment started in February 2022 and span for 5 years.



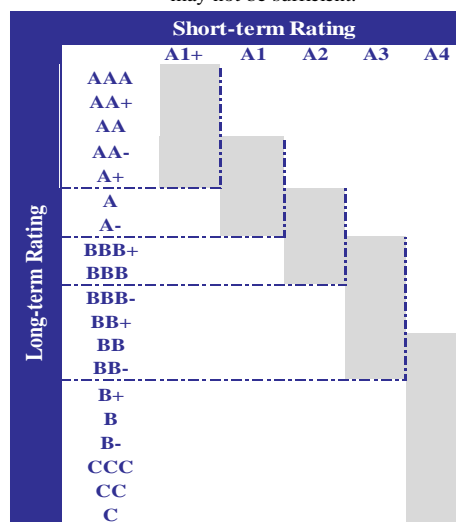
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| 00-Jan-00 Holding Company | Sep-23 6M Management | Mar-23 12M Audited | Mar-22 12M Audited | Mar-21 12M Audited |
|---|----------------------------|--------------------------|--------------------------|--------------------------|
| A BALANCE SHEET | | | | |
| 1 Investments | 2,878 | 2,217 | 4,622 | 1,915 |
| 2 Related Party Investments | 21,208 | 13,348 | 10,875 | 11,787 |
| 3 Non-Current Assets | 38 | 40 | 24 | 23 |
| 4 Current Assets | 166 | 942 | 106 | 121 |
| 5 Total Assets | 24,290 | 16,547 | 15,627 | 13,846 |
| 6 Current Liabilities | 338 | 111 | 45 | 553 |
| 7 Borrowings | 10,158 | 10,340 | 11,529 | 8,723 |
| 8 Related Party Exposure | 8 | 1 | 2 | 0 |
| 9 Non-Current Liabilities | - | - | - | - |
| 10 Net Assets | 13,786 | 6,095 | 4,051 | 4,570 |
| 11 Shareholders' Equity | 13,786 | 6,095 | 4,051 | 4,570 |
| B INCOME STATEMENT | | | | |
| 1 Total Investment Income | 9,995 | 5,659 | 342 | 2,694 |
| a Cost of Investments | (1,061) | (2,968) | (783) | (648) |
| 2 Net Investment Income | 8,934 | 2,691 | (441) | 2,046 |
| a Other Income | 7 | 20 | 22 | 62 |
| b Operating Expenses | (258) | (232) | (96) | (83) |
| 4 Profit or (Loss) before Interest and Tax | 8,684 | 2,479 | (515) | 2,025 |
| a Taxation | (72) | (127) | (17) | (35) |
| 6 Net Income Or (Loss) | 8,612 | 2,352 | (531) | 1,990 |
| C CASH FLOW STATEMENT | | | | |
| a Total Cash Flow | 1,097 | 3,443 | 902 | 785 |
| b Net Cash from Operating Activities before Working Capital Changes | 4 | 527 | 116 | 131 |
| c Changes in Working Capital | (23) | (383) | (799) | (2,065) |
| 1 Net Cash (Used in) or Available From Investing Activities | (17) | (12) | (8) | 1,004 |
| 2 Net increase (decrease) in long term borrowings | (100) | (100) | (50) | 1,900 |
| 3 Net Cash (Used in) or Available From Financing Activities | (1,011) | 900 | (556) | 1,394 |
| 4 Net Cash generated or (Used) during the period | (1,047) | 1,032 | (1,247) | 464 |
| D RATIO ANALYSIS | | | | |
| 1 Performance | | | | |
| a Asset Concentration (Market Value of Largest Investment / Market Value of | 97.2% | 95.8% | 42.7% | 78.9% |
| b Core Investments / Market Value of Equity Investments | 100.0% | 100.0% | 100.0% | 100.0% |
| c Marketable Investments / Total Investments at Market Value | 8.1% | 8.7% | 31.8% | 13.1% |
| 2 Coverages | | | | |
| a TCF / Finance Cost | 1.0 | 1.2 | 1.2 | 1.2 |
| b TCF / Finance Cost + CMLTB | 1.0 | 1.2 | 1.2 | 1.2 |
| c Loan to Value (Funding / Market Value of Equity Investments) | 0.4 | 0.7 | 11.3 | 2.4 |
| 3 Capital Structure (Total Debt/Total Debt+Equity) | | | | |
| a Leveraging [Funding / (Funding + Shareholders' Equity] | 42.4% | 62.9% | 74.0% | 65.6% |
| b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity | 73.7% | 169.6% | 284.6% | 190.9% |

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 | | Short-term Rating | |
|------------------|---|-------------------|---|
| Scale | Definition | Scale | Definition |
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments | A1+ | The highest capacity for timely repayment. |
| AA+ | | A1 | A strong capacity for timely repayment. |
| 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. | A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| AA- | | A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| A+ | | A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |
| 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. | | |



*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 | e) Holding Company Rating |
| b) Corporate Rating | f) Independent Power Producer Rating |
| c) Debt Instrument Rating | g) Microfinance Institution Rating |
| d) Financial 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 | 2,000,000,000.00 | 5 Years | N/A | N/A | | People' s Bank | 2,133,564,156 |

| | |
|----------------|--|
| Name of Issuer | First Capital Holdings PLC |
| Issue Date | February 8, 2021 |
| Maturity | February 7, 2026 |
| Coupon Basis | Annual Coupon |
| Repayment | Coupon will be paid on a annual basis and principal amount will be paid at the maturity date |
| Option | |

| Due Date Principal | Opening Principal | Principal Repayment | Coupone Due Date | Fixed Rate | Coupon | Principal Outstanding | | |
|--------------------|-------------------|---------------------|------------------|------------|------------|-----------------------|--|---------------|
| | | | | | | LKR | | |
| Type A | | | | | Fixed | | | |
| 08-Feb-21 | 1,324,750,000 | - | 07-Feb-22 | 10.00% | 10.00% | | | 1,324,750,000 |
| 08-Feb-22 | 1,324,750,000 | | 07-Feb-23 | 10.00% | 10.00% | | | 1,324,750,000 |
| 08-Feb-23 | 1,324,750,000 | | 07-Feb-24 | 10.00% | 10.00% | | | 1,324,750,000 |
| 08-Feb-24 | 1,324,750,000 | | 07-Feb-25 | 10.00% | 10.00% | | | 1,324,750,000 |
| 08-Feb-25 | 1,324,750,000 | | 07-Feb-26 | 10.00% | 10.00% | | | 1,324,750,000 |
| 08-Feb-26 | 1,324,750,000 | 1,324,750,000 | 07-Feb-27 | 10.00% | 10.00% | | | - |
| | | | | | | | | |
| Type B | | | | Floating | Floating | | | |
| 08-Feb-21 | 675,250,000 | - | 07-Feb-22 | 9.00% | 9.00% | | | 675,250,000 |
| 08-Feb-22 | 675,250,000 | | 07-Feb-23 | 10.86% | 10.86% | | | 675,250,000 |
| 08-Feb-23 | 675,250,000 | | 07-Feb-24 | 12.00% | 12.00% | | | 675,250,000 |
| 08-Feb-24 | 675,250,000 | | 07-Feb-25 | AWPLR + 2% | AWPLR + 2% | | | 675,250,000 |
| 08-Feb-25 | 675,250,000 | | 07-Feb-26 | AWPLR + 2% | AWPLR + 2% | | | 675,250,000 |
| 08-Feb-26 | 675,250,000 | 675,250,000 | 07-Feb-27 | AWPLR + 2% | AWPLR + 2% | | | - |
| | | | | | | | | |