



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
24-Jan-2023	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

LRA has taken both consolidated and standalone view of the First Capital Holdings PLC (FCH) . The assigned ratings incorporate 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 business profile and profitability. Meanwhile, the Company has expanded into multiple financial services avenues including, Capital Markets Advisory, Wealth Management, Fixed Income, and Equities. In FY22, market conditions became unfavorable for FCT, which resulted in lower group profitability due to rising interest rates. The economic situation in the country has pushed businesses to reconsider their strategies with greater focus on short term and this also reflects in FCH performance for the period 6MFY23. During the ongoing year FY23, FCH has shown improvement and witnessed positive outcomes as compared to the previous year (FY22). The ratings take into account the improved margins and profitability of the Company, as well as on-balance sheet liquidity. However, debt profile of the Company has remained some mismatch. At the company level, funding profile of FCH largely comprises of commercial papers and debentures. There exists asset liability mismatch (in negative terms), which exposes FCH to re-financing risks. The group's access to funding facilities from banks and other financial institutions, provides comfort from a liquidity viewpoint. With a view to sustainable diversified revenue streams, management is building upon various revenue segments in terms of both activity based and fee based incomes. The rating takes into account liquidity mechanism to be undertaken by the Company to ensure timely payments of maturing Commercial Papers under this program.

Ratings are dependent on the management's initiative to strengthen the investment decision-making process and performance monitoring mechanism of the underlying portfolio. This would facilitate First Capital Holdings' assimilation into an effective holding company. As a holding company, portfolio diversification and a balanced investment remain imperative. It is crucial for the Company to maintain adequate yet agreed capital and liquidity buffers to meet the short-term CP's repayment and an overall healthy leverage profile, going forward.

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(Oct-22)
Rating Analysts	Rabiya tul Athaviya Naushard rabiya@lra.com.lk +94 114 500099

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 are 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 six(6) subsidiaries i.e., i) First Capital Limited (FCL) - 100%, ii) First Capital Treasuries PLC (FCT) - 89.4%, iii) First Capital Markets Limited (FCM) -100%, iv) First Capital Asset Management Limited (FCAM) - 98.7%, v) First Capital Equities (Private) Limited (FCE) - 100% and vi) First Capital Trustee Services (Private) Limited (FCTS) - 100%.

Ownership The ultimate shareholdings rests with Schaffter brothers, which is through a Company named 'Janashakthi Limited', by owning 83.02% of First Capital Holdings PLC. Remaining shareholding is accounted for by the rest of the minority shareholders. y Major shareholding being held with Janashakthi Limited, the Company draws stability from its parent company. The Company takes comfort in being part of the 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 2bn. First Capital Holdings (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 sectors of Financial Services, Non-Banking Financial Institutions, and Insurance. The Holding Company (FCH) has gained recognition and prominence over time. Janashakthi Group, has a presence in various financial services namely Non-Banking Financial Institutions, Insurance, and Investment Banking. Janashakthi has a strong consolidated asset base of LKR 101.5bn supported by an equity base of LKR 12.3bn as of FY22. During FY22, consolidated revenue stood at LKR 10.4bn.

Governance FCH Board comprises 07 members including the Managing Director/CEO. There exist 06 non-executive and an executive director, this includes 04 independent non-executive directors on the Company's Board. The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. Boards Chairman, Mr. Nishan Fernando, is an independent non-executive director and holds a directorship at BDO Consulting (Pvt) Limited. The Board meets frequently in order to discharge its duties effectively. Four Virtual board meetings were held during the year and performance review meetings on monthly basis. The Board ensures effective governance through its sub-committees, namely Audit Committee, Enterprise Risk Management Committee (ERMC), Related Party Transaction Review Committee and Investment, 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, 2022.

Management FCH functions as an investment holding company. It has a simple organizational structure that is divided across basic functional divisions. First Capital Holdings and each of its subsidiaries have its own Business Unit Heads 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 Company's Managing Director/CEO. Mr. Mangala Jayashantha joined the Company 16 years ago and is the CFO currently. Monthly KPI and management meetings are held to discuss performance and strategies within subsidiaries and the group. The company has outsourced the internal audit function along with the Board's Audit Committee to help implement the policies and procedures. Enterprise Risk Management Committee (ERMC), Enterprise Risk Management Committee (ERMC) is responsible for establishing and maintaining comprehensive Enterprise-wide Risk Management System for identifying, assessing, and managing risk to assist the Group's Corporate Management Team in managing risk with reasonable assurance.

Business Risk Having subsidiaries that offers 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 six 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 41.5bn supported by an equity base of LKR 4.5bn for FY22. Under its investment portfolio of FCH, FCT is the most contributing area whereas Asset Management, which is catered to 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 2.2bn for FY22. The Company's consolidated bottom line closed at a net loss of LKR 652mn for FY22.

Financial Risk FCH's interest coverage stood at 0.3x during 6MFY23 (FY22: 0.1x). Owing to the increase in total operating cash flow (TCF), to LKR 1.2bn in FY23, the coverage has performed fairly. FCH's leverage stood at 76% for 6MFY23, compared to the year-end FY22 leverage of 74%. The Long-term and Short-term borrowings for 6MFY23, stood at LKR 3.1bn and 10.5bn, respectively. The net worth of the company for 6MFY23 stood at 4.3bn. FCH currently has listed, rated, senior, unsecured, redeemable debentures worth LKR 2bn and Rated Commercial papers amounting to LKR 2.5bn, keeping the debt structure at a higher end. On a consolidated basis, First Capital Holdings has a total asset base of LKR 61.6bn and a total equity of LKR 4.8bn for 6MFY23. Further, the rating takes into note the consolidated net profit of LKR 823mn for 6MFY23 compared to the net loss reported of LKR 652mn for FY22.

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



Lanka Rating Agency

First Capital Holdings PLC Holding Company	Sep-22	Mar-22	Mar-21	Mar-20
	6M	12M	12M	12M
	Unaudited	Audited	Audited	Audited
A BALANCE SHEET				
1 Investments	14,242	12,005	9,645	6,768
2 Related Party Investments	3,837	3,491	4,058	3,301
3 Non-Current Assets	23	24	23	31
4 Current Assets	65	106	121	124
5 Total Assets	18,167	15,627	13,846	10,225
6 Current Liabilities	50	45	553	58
7 Borrowings	13,737	11,529	8,723	6,423
8 Related Party Exposure	2	2	0	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,378	4,051	4,570	3,744
11 Shareholders' Equity	4,378	4,051	4,570	3,744
B INCOME STATEMENT				
1 Total Investment Income	2,026	342	2,694	2,096
a Cost of Investments	(1,250)	(786)	(654)	(1,001)
2 Net Investment Income	777	(444)	2,040	1,095
a Other Income	36	22	62	12
b Operating Expenses	(86)	(93)	(77)	(86)
4 Profit or (Loss) before Interest and Tax	727	(515)	2,025	1,022
a Taxation	(21)	(17)	(35)	(16)
6 Net Income Or (Loss)	706	(531)	1,990	1,006
C CASH FLOW STATEMENT				
a Total Cash Flow	499	902	785	1,047
b Net Cash from Operating Activities before Working Capital Changes	499	116	131	46
c Changes in Working Capital	(1,178)	(799)	(2,065)	479
1 Net Cash (Used in) or Available From Investing Activities	(680)	(683)	(1,934)	525
2 Net increase (decrease) in long term borrowings	(6)	(8)	1,004	406
3 Net Cash (Used in) or Available From Financing Activities	1,000	(556)	1,394	(505)
4 Net Cash generated or (Used) during the period	314	(1,247)	464	426
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	78.9%	85.0%	78.9%	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	23.9%	24.3%	13.1%	0.2%
2 Coverages				
a TCF / Finance Cost	0.4	1.2	1.2	1.1
b TCF / Finance Cost + CMLTB	0.3	0.5	0.4	0.5
c Loan to Value (Funding / Market Value of Equity Investments)	3.8	2.3	2.4	1.8
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	75.8%	74.0%	65.6%	63.2%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	313.8%	284.6%	190.9%	171.6%
E NOTES				
1	Ratios for 1HFY23 are annualized.			
2	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 mln)
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Listed, Rated, Senior, Unsecured, Redeemable Debenture	2bln	5 Years	No Securities	NA	NA	People's Bank	LKR 61.646
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Name of Issuer	First Capital Holdings PLC
Issue Date	February 1, 2021
Maturity	5 Years
Coupon Basis	Type A : 5 Year, Fixed rate of 10.00% p.a. payable annually (AER 10.00%) Type B : 5 Year, Floating Rate of Weekly AWPLR + 2.00% p.a. payable annually (The Floating option will have a Ceiling of 12.00% and a Floor of 9.00%)
Repayment	Bullet repayment at maturity
Option	NA

First Capital Holdings PLC

First Capital Holdings PLC							
Due Date Principal*	Opening Principal	Principal Repayment*	Coupons Due Date	Fixed Rate	Coupon	Principal Outstanding	
	LKR				Feb-21	LKR	
Type A					Fixed		
8-Feb-21	1,400,358,000	-	8-Feb-21	10.00%	10.000%		1,400,358,000
7-Feb-22		-	7-Feb-22	10.00%	10.000%		
7-Feb-23		-	7-Feb-23	10.00%	10.000%		
7-Feb-24		-	7-Feb-24	10.00%	10.000%		
7-Feb-25		-	7-Feb-25	10.00%	10.000%		
7-Feb-26		1,400,358,000	7-Feb-26	10.00%	10.000%		
Type B					Floating		
8-Feb-21	675,250,000		8-Feb-21	Weekly AWPLR + 2%	Weekly AWPLR + 2%		675,250,000
7-Feb-22			7-Feb-22	Weekly AWPLR + 2%	Weekly AWPLR + 2%		
7-Feb-23			7-Feb-23	Weekly AWPLR + 2%	Weekly AWPLR + 2%		
7-Feb-24			7-Feb-24	Weekly AWPLR + 2%	Weekly AWPLR + 2%		
7-Feb-25			7-Feb-25	Weekly AWPLR + 2%	Weekly AWPLR + 2%		
7-Feb-26		675,250,000	7-Feb-26	Weekly AWPLR + 2%	Weekly AWPLR + 2%		