



Lanka Rating Agency

## Rating Report

### First Capital Holdings - LKR 2.5Bn - Commercial Papers

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#### Rating History

Dissemination Date	Short Term Rating	Outlook	Action	Rating Watch
02-May-2024	A1	Positive	Maintain	-
23-Jun-2023	A1	Stable	Maintain	Yes
24-Jan-2023	A1	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. The group's profitability increased to LKR~2.6bn in FY23 (6MFY24: LKR~9.6bn) compared to a net loss of LKR~652mn posted in FY22. 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. On a consolidated basis, the Company reflects a total asset base and equity base of LKR~74.9bn and LKR~15.4bn respectively in 6MFY24. 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

<b>Name of Rated Entity</b>	First Capital Holdings - LKR 2.5Bn - Commercial Papers
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Commercial Paper Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-22)
<b>Related Research</b>	Sector Study   Holding Company(Mar-23)
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## 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 2.5bn Rated Commercial Papers in issue which could span to a maximum of 365 days.

**Relative Seniority/Subordination Of Instrument** NA

**Credit Enhancement** NA



# Lanka Rating Agency

00-Jan-00 Holding Company	Sep-23 6M Management	Mar-23 12M Audited	Mar-22 12M Audited	Mar-21 12M Audited
<b>A BALANCE SHEET</b>				
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>B INCOME STATEMENT</b>				
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
<b>C CASH FLOW STATEMENT</b>				
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
<b>D RATIO ANALYSIS</b>				
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.

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	
CC	<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.
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 can 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

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