



Lanka Rating Agency

## Rating Report

### PMF Finance PLC

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#### Rating History

| Dissemination Date | Long Term Rating | Outlook | Action  | Rating Watch |
|--------------------|------------------|---------|---------|--------------|
| 15-Jul-2025        | BB-              | Stable  | Upgrade | -            |
| 01-Mar-2023        | B+               | Stable  | Initial | -            |

#### Rating Rationale and Key Rating Drivers

After a period of economic and political turbulence, Sri Lanka's economy demonstrated notable recovery in FY25. The country's GDP growth was ~5.0% in FY25, fueled by strong performance in agriculture and services sector. Economic indicators improved significantly, including currency stabilization, single-digit policy rates, and a sharp decline in inflation (-2.0% YoY in April 2025). This positive shift has lowered both country and systemic risk, benefiting Sri Lankan Licensed Finance Companies (LFCs). The LFC sector experienced asset growth of ~13.7% and a substantial improvement in asset quality with the gross Non-Performing Loan (NPL) ratio falling to ~8.3% in FY25 (FY24: ~14.7%). This was due to increased size of lending portfolio and better repayment capacity of borrowers. CBSL's Master Plan for consolidation of NBFIs Phase-II has been revised and is underway now. PMF Finance PLC ("PMF" or "the Company") is a small player in the competitive LFC sector of Sri Lanka. The principal business activities of the Company are providing Leases, Gold Loans, Term Loans, Margin Trading, Entrepreneur Loans, Mortgage Loan and mobilization of public Deposits. The rating reflects the Company's improved performance as profitability increased along with the asset size and better asset quality. The loan portfolio grew by ~52.8% to LKR ~17.1Bn in FY25, while total assets increased to LKR ~21.6Bn in FY25 (FY24: LKR~16.3Bn). As of FY25, the loan portfolio primarily consists of 3-wheelers (~29.2%), 4-wheelers (~13.0%), 2-wheelers (~4.1%), Gold Loans (~23.0%) and Ikman Draft (~12.4%). PMF's profitability improved to LKR~322.4Mn (FY24: LKR~19.2Mn), supported by an increase in interest income from LKR~3.0Bn to LKR~3.9Bn. This growth was driven by expansion of the loan portfolio, following a decline in interest rates. PMF demonstrated significant improvement in asset quality, with a Gross Non-Performing Loan (NPL) ratio of ~5.9% as of FY25 (FY24: ~18%), well below the industry average. The rating incorporates modest capitalization and high deposit concentration of the Company. The Capital Adequacy Ratio (CAR) of PMF stood at ~15.8% in FY25 (FY24: ~17.9%), well below the industry average, also limiting its growth potential. PMF's primary source of funding remains its deposits base (~79%), supplemented by borrowings from banks or capital markets. The top 20 deposit concentration has increased to ~28% in FY25 (FY24: ~23%), reflecting concentration risk. The Company intends to open new branches in high potential areas to increase its footprint and augment growth plans.

The rating is closely linked to sustainability of its recent performance trends amidst strong competition. Maintaining strong asset quality is critical, especially in new loan portfolio. Meanwhile, improving CAR to industry average and meaningful reduction in the depositor concentration would be viewed positively. On the other hand, any deterioration in the factors mentioned would negatively impact the rating.

#### Disclosure

|                       |                                                                |
|-----------------------|----------------------------------------------------------------|
| Name of Rated Entity  | PMF Finance PLC                                                |
| Type of Relationship  | Solicited                                                      |
| Purpose of the Rating | Entity Rating                                                  |
| Applicable Criteria   | Methodology   Non-Banking Financial Institution Rating(Jul-24) |
| Related Research      | Sector Study   Leasing & Finance Companies(Feb-25)             |
| Rating Analysts       | Imran Iqbal   imran@lra.com.lk   +94 114 500099                |



# Leasing & Finance Companies

## Lanka Rating Agency

### Profile

**Structure** PMF Finance PLC (“PMF” or “the Company”) is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and has been listed on the Colombo Stock Exchange (CSE) since 1994. The Company is domiciled in Sri Lanka and was established under the Companies Act No. 17 of 1982. It was subsequently re-registered under the Companies Act No. 7 of 2007. PMF is currently listed on the Dirisavi Board of the CSE.

**Background** The Company was initially established in 1983 as a joint venture between People’s Bank and Guinness Mahon & Company Ltd., UK. After the cessation of Guinness Mahon & Company Ltd.’s operations in Asia, People’s Bank assumed full ownership of the Company. In 2019, Sterling Capital Investments (Pvt) Ltd (SCI) became the major shareholder by acquiring ~68% of PMF’s shareholding.

**Operations** The principal business activities of the Company are providing Leases, Gold Loans, Term Loans, Margin Trading, Entrepreneur Loans, Mortgage Loans and mobilization of public Deposits.

### Ownership

**Ownership Structure** SCI holds the largest share of the Company with ~81.6% shares. People’s Bank and People’s Leasing & Finance PLC holds ~8.3% and ~6.1% respectively.

**Stability** The ultimate parent Company, Rush Japan Corporation, is incorporated in Japan and is a prominent client of Mizuho Bank. The acquisition of PMF by SCI, together with a capital infusion and its demonstrated long-term commitment provides confidence in the long-term stability in shareholding of the Company.

**Business Acumen** SCI is a leading exporter of Japanese vehicles to Sri Lanka, commanding a historic market share of ~65% - ~70% in reconditioned vehicles and supported by an extensive dealer network across the country. Despite facing import restrictions in Sri Lanka, the Group quickly diversified its operations into New Zealand and Australia, demonstrating strategic foresight, market adaptability, and resilience. This agility in responding to changing market conditions highlights SCI’s sound judgment and strong commercial presence within the automotive export industry.

**Financial Strength** SCI has invested around LKR 6Bn - 7Bn in Sri Lanka and maintains a geographically diversified footprint, including export operations across Asia, Africa, Europe, and New Zealand. SCI’s portfolio has a significant concentration in Sri Lanka, representing ~40% - ~45%, with the total assets ranging from LKR 10Bn - 15Bn.

### Governance

**Board Structure** The Board comprises of 10 Directors out of which 8 Directors are Independent Non-Executive Directors, including the Chairman (Mr. Chandula Palith Abeywickrema).

**Members’ Profile** The Board members bring diverse expertise across Banking, Insurance, Microfinance, Not-for-profit entities, Real estate, and Start-ups. The Chairman of the Company, Mr. Abeywickrema, is a seasoned commercial Banker with over 40 years of experience. He currently serves on the Boards of several organizations, including Continental Insurance Lanka Limited, Lanka Impact and Lanka Financial Services for Underserved Settlements Investing Network, among others.

**Board Effectiveness** The Board has established 7 subcommittees, including the Board Audit Committee (BAC) and Related Party Transactions Review Committee (RPTRC), both chaired by Mr. Ashoka Goonesekere, a finance professional with over 36 years of experience and multiple professional qualifications.

**Financial Transparency** The Company’s external auditors are Ernst & Young Chartered Accountants, who provided an unqualified opinion as of FY25.

### Management

**Organizational Structure** The organization is divided into 11 departments which reports to the Chief Executive Officer (CEO). The governance of the organization remains with the Board of Directors.

**Management Team** The management team is led by CEO Professor Ajith Medis, who was appointed in October 2024, who brings over 10 years of industry experience and more than two decades of academic and consulting exposure across South Asia. He holds multiple academic and professional qualifications, including a Ph.D, and has advised several leading organizations.

**Effectiveness** PMF has formed 5 management committees, namely, i) Assets and Liability Management Committee (“ALCO”), ii) Management Committee (“EC”), iii) Investment Committee (“IC”), iv) Information Security Committee (ISC), v) Executive Integrated Risk Management Committee (“IRMC”).

**MIS** PMF operates on the eFinancials core system and plans to enhance digital services via mobile, internet, and agent banking with LankaPay integration. The three additional IT-related policies the Digital Signature Policy, Common Configuration Policy, and System Acquisition and Maintenance Policy has been implemented by the Company.

**Risk Management Framework** The Company employs a three lines of defence model, with dedicated Risk Officers at each branch managing daily operational risks. Broader risks are centrally monitored, and a consolidated risk dashboard is submitted monthly to the Integrated Risk Management Committee (IRMC). The IRMC, under Board authority, oversees the Company’s overall risk governance and compliance framework.

### Business Risk

**Industry Dynamics** At present, there are 33 LFCs in Sri Lanka, of which 27 are listed on the Colombo Stock Exchange. By the end of March 2025, the profit after tax (PAT) of LFCs in Sri Lanka reported at LKR~69.02 Bn (FY24: LKR~51.5Bn). As of March 2025, the Return on Assets (ROA) stood at ~6.6% (FY24: ~5.5%), while the Return on Equity (ROE) was ~15.1% (FY24: ~12.9%).

**Relative Position** PMF represents ~0.62% of equity in the LFC and Specialised Leasing Companies in FY25. Moreover, the Company’s asset base contributes to ~1.0% of the industry assets in FY25. AFL net loans and advances in FY25 were ~1.1%. The deposit base is 1.29% in FY25.

**Revenues** The Company’s gross interest income reached LKR~4.2Bn in FY25 compared to LKR~3.3Bn in FY24, reflecting a ~27% increase. Interest income from Lease is the largest contributor (~55%) and has been increased from LKR~1,482Mn from FY24 to LKR~2,156Mn in FY25.

**Performance** The PAT of the company increased from LKR~19.26Mn in FY24 to LKR~322.47Mn in FY25. ROE improved to ~11% in FY25 from ~0.7% in FY24. ROA was recorded at ~1.7% in FY25, compared to ~0.1% in FY24. This growth was driven by expansion of the loan portfolio, following a decline in interest rates.

**Sustainability** The company expects growth in Leases, Ikman Draft, Loans against FD, Margin Trading, Gold Loans, Interest on overdue rentals, Investment of ~25% in FY26, ~18% in FY27. As part of its 2025 Business Expansion Plan, PMF intends to open new branches in high potential areas to increase its footprint and augment growth plans.

### Financial Risk

**Credit Risk** PMF has demonstrated notable progress in improving asset quality. PMF recorded a gross and net NPL of ~5.9% and ~5% as at FY25, reduced from ~18% and ~14% in FY24. This is a notable turnaround and reflects the company’s effective recovery strategies, including the recruitment of a dedicated recovery task force and the implementation of structured follow-up mechanisms.

**Market Risk** Investments in real estate stock were LKR~58Mn in FY25 (FY24: LKR~56Mn). Investment in fixed deposits stood at LKR~1,194Mn in FY25, compared to LKR~755Mn in FY24, reflecting a ~58% increase. Investment in commercial papers stood at LKR~700Mn in FY24 and LKR~387Mn in FY25. Investment in securities stood at LKR~1,012Mn in FY25 compared to LKR~1,730 in FY23.

**Liquidity And Funding** PMF’s primary source of funding remains its deposit base (~79%), supplemented by borrowings from banks or capital markets. Total deposits increased from LKR~11.2Bn in FY24 to LKR~14.4Bn in FY25. The top 20 deposit concentration has increased to ~28% in FY25 (FY24: ~23%), reflecting concentration risk.

**Capitalization** The Capital Adequacy Ratio (CAR) of PMF stood at ~15.8% in FY25 (FY24: ~17.9%), well below the industry average, also limiting its growth potential.



## Lanka Rating Agency

PMF Finance PLC

Mar-25

Mar-24

Mar-23

Mar-22

12M

12M

12M

12M

### A BALANCE SHEET

1 Total Finance-net

15,790

9,719

7,284

6,135

2 Investments

1,400

2,430

727

9

3 Other Earning Assets

1,194

756

1,264

617

4 Non-Earning Assets

1,847

1,889

1,157

977

5 Non-Performing Finances-net

1,383

1,523

1,099

542

**Total Assets**

21,615

16,317

11,530

8,280

6 Funding

18,264

13,169

8,703

5,225

7 Other Liabilities

307

425

116

221

**Total Liabilities**

18,570

13,594

8,819

5,446

**Equity**

3,044

2,723

2,710

2,834

### B INCOME STATEMENT

1 Mark Up Earned

3,938

3,093

2,008

794

2 Mark Up Expensed

(1,981)

(1,988)

(1,255)

(300)

3 Non Mark Up Income

337

252

87

175

**Total Income**

2,294

1,357

840

669

4 Non-Mark Up Expenses

(1,521)

(1,103)

(836)

(509)

5 Provisions/Write offs/Reversals

(312)

(226)

(154)

41

**Pre-Tax Profit**

460

28

(151)

201

6 Taxes on Financial Services

(151)

(53)

(33)

(61)

**Profit Before Income Taxes**

310

(25)

(184)

140

7 Income Taxes

13

44

30

52

**Profit After Tax**

322

19

(154)

192

### C RATIO ANALYSIS

#### 1 PERFORMANCE

a Non-Mark Up Expenses / Total Income

66.3%

81.3%

99.6%

76.0%

b ROE

11.2%

0.7%

-5.6%

6.8%

#### 2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding

97.8%

89.4%

102.3%

135.1%

b Accumulated Provisions / Non-Performing Advances

33.1%

25.8%

32.0%

41.5%

#### 3 FUNDING & LIQUIDITY

a Liquid Assets / Funding

16.0%

24.0%

26.8%

20.7%

b Borrowings from Banks and Other Financial Institutions / Funding

20.0%

13.2%

9.8%

35.6%

#### 4 MARKET RISK

a Investments / Equity

46.0%

89.2%

26.8%

0.3%

b (Equity Investments + Related Party) / Equity

33.3%

63.5%

26.8%

0.3%

#### 5 CAPITALIZATION

a Equity / Total Assets (D+E+F)

14.1%

16.7%

23.5%

34.2%

b Capital formation rate (Profit After Tax - Cash Dividend) / Equity

11.8%

0.7%

-5.4%

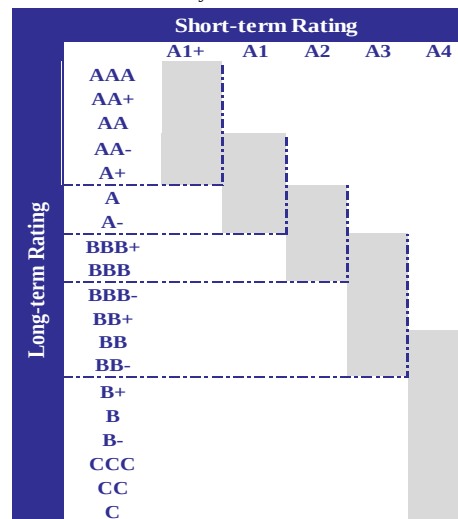
6.8%

## 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

(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

(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.