



Lanka Rating Agency

Rating Report

Softlogic Capital PLC

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
08-May-2024	-	-	Withdraw	-
17-Apr-2023	BBB-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Subsequent to the management's decision to discontinue the Entity Rating of Softlogic Capital PLC, LRA withdraws the Entity Rating of Softlogic Capital PLC with an immediate effect.

Disclosure

Name of Rated Entity	Softlogic Capital PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Mar-24)
Rating Analysts	Imran Iqbal imran@lra.com.lk +92-42-35869504



Profile

Background Softlogic Capital PLC ("the Company") was incorporated as Capital Reach Holdings Limited in April 2005 as an Investment Holding Company. Subsequently, in August 2010, Softlogic Holdings PLC acquired the Company. The company's ordinary shares were listed on the Diri Savi Board of the CSE. Softlogic Capital PLC has four subsidiaries including Softlogic Finance PLC, Softlogic Life Insurance PLC, Softlogic Stockbrokers (Pvt) Ltd and Softlogic Invest.

Structural Analysis At present, the Company's investments constitute core investments in four subsidiaries i.e., i) Softlogic Life Insurance PLC ii) Softlogic Finance PLC iii) Softlogic Stockbrokers (Pvt) Ltd. and iv) Softlogic Invest.

Ownership

Ownership Structure The Company is 77.36% owned by Softlogic Holdings PLC. Mr. Asoka Kariyawasam Pathirage through Softlogic Holdings owns 40.92% of Softlogic Capital PLC directly. 20.75% of the shareholding is owned by Samena Ceylon Holdings Limited.

Stability Ownership of the Company draws stability from Mr. Asoka Pathirage owning 40.92% of Softlogic Capital through Softlogic Holdings. Mr. Asoka has decades of experience in various sectors including retail, healthcare, etc. Mr. Pathirage manages and gives strategic direction to the Group which has a leading market presence in three core verticals, namely Retail, Healthcare Services, and Financial Services, and in three non-core verticals namely, IT, Leisure & Automobiles.

Business Acumen Mr. Ashok Pathirage, recognized as a visionary leader of Sri Lanka's corporate world, is the founding member and Chairman/Managing Director of the Softlogic Group. He manages over 50 companies with a pragmatic vision providing employment to more than 11,000 employees.

Financial Strength Mr. Pathirage's adequate wealth reflects the financial strength of the holding company sponsors. The Group also has diversified business ventures in three core verticals, namely Retail, Healthcare Services, and Financial Services, and in three non-core verticals namely, IT, Leisure & Automobiles.

Governance

Board Structure The board consists of 8 directors, of which six (6) are Non-Executive Directors, including three (3) Independent Directors.

Members' Profile Mr. Ifthikhar Ahamed, who is the Managing Director overlooks the overall financial services holding company of the group, i.e., Softlogic Capital. Mr. Ashok Pathirage is the Chairman of the Board. The Board members have decades of experience in their relevant fields.

Board Effectiveness The Company has formed four (4) Board sub-committees, namely, i) Audit Committee ("AC"), ii) Related Party Transactions Review Committee ("RPTC") iii) Remuneration Committee ("RC") and iv) Nomination Committee ("NC"). The AC is headed by Mr. W.L.P. Wijewardena, who is an independent non-executive director. He is also a Fellow of the Institute of Chartered Accountants of Sri Lanka.

Transparency The external auditors of the Company, Ernest & Young, issued an unqualified audit opinion pertaining to the annual financial statements for FY23. The audited financial statements for the parent entity, i.e., Softlogic Holdings, are still awaited, while a qualified auditor opinion was expressed for its financial statements for FY22.

Management

Organizational Structure The Company has a well-defined organizational structure that is divided into nine main departments, all of whom report to the MD. The nine departments are Legal, Internal Audit, Risk, Information Technology, Human Resources, Marketing, Finance, Robotic Process Automation, AI and Data Science Unit and they provide relevant services to subsidiary companies through a shared services model. The highest level of Authority lies with the Board of Directors.

Management Team The Company's management team is spearheaded by its Managing Director, Mr. Ifthikhar Ahamed. He has over 30 years of experience in a wide range of areas within the financial services industry and has extensive banking experience both in Sri Lanka and overseas, having held senior management positions as Deputy Chief Executive Officer at Nations Trust Bank PLC and Senior Associate Director at Deutsche Bank AG. The Directors and top management of the Company are assisted by a well-qualified team of professionals with an extensive experience in their relevant fields.

Management Effectiveness There are no formal management committees in place, but weekly & monthly KPI and management meetings are held to discuss the performance and strategies within subsidiaries.

Control Environment The Company has set up an internal audit function along with the Board's Audit Committee to help implement the policies and procedures. The Audit Committee comprises three (3) Independent Non-Executive Directors who provide an objective and independent view on the internal controls and processes of the Company.

Investment Strategy

Investment Decision-Making The final authority for Softlogic Capital's investment decisions lies with the Board of Directors. The Company does not have a formal Investment Committee in place. When the need arises to discuss a particular investment opportunity, a sub-committee is appointed by the Board. The findings of the sub-committee are presented to the Board to reach a final decision.

Investment Policy The Company does not have a formal investment policy. Currently, the company holds investments in its three main sectors, which are insurance, non-banking finance institutes, and financial services. Softlogic Capital PLC has a fair growth strategy and is in the process of evaluating opportunities for external growth.

Investment Committee Effectiveness The Company does not have a formal investment committee in place; however, Board-level and management meetings are conducted as and when required for making investment decisions of the Company and to evaluate and discuss the performance of the subsidiaries.

Business Risk

Diversification The Company's investment portfolio consists of four subsidiaries. All these investments could be defined as horizontal investments focusing on the Financial Service segment of Sri Lanka.

Portfolio Assessment Softlogic Capital Group's investment portfolio is spread across different segments of the financial sector including insurance, LFCs, Asset Management & brokerage sector. In terms of income generation and dividend flow, Softlogic Life has remained to be the key contributor over the years. On the other side, Softlogic Finance has witnessed a pressured performance and heightened financial risk in the recent periods, resulting in a drag on the financial risk profile of Softlogic Capital as well. Softlogic Finance posted a net loss of LKR~(639mn) in 9MFY24 (a loss of LKR~(2.9bn)) in FY23, with its accumulated retained earnings amounting to LKR~(9.1bn) in 9MFY24 (LKR~(7.5bn) in FY23).

Income Assessment On a consolidated basis, the Softlogic Capital Group's topline stood at LKR~32.7bn for FY23 and LKR~27.5bn for 9MFY24. The entire income generated was however taken over by mounting finance and administrative expenses, which resulted in a net loss of LKR~373mn for 9MFY24 (a loss of LKR~2.4bn for FY23). The results were not very different on a standalone basis as well. The Company posted a total revenue of LKR~1bn in 9MFY24 (LKR~1.5bn in FY23), which was translated into significant losses at the bottom-line level, i.e., a loss of LKR~1bn for 9MFY24 (loss of LKR~1.1bn in FY23).

Financial Risk

Coverages Due to significant losses at the Group and the Company level, along with mounting burden of debt financing, the debt coverages of the Company and the Group fell near to zero, reflecting a weak debt repayment capacity.

Capital Structure The debt-to-equity ratio of the Company, on a standalone basis, increased considerably to ~87% in 9MFY24 (~77% in FY23). Similarly, the debt-to-equity ratio of the Softlogic Capital group was recorded at a high level of ~71% in 9MFY24 (~74% in FY23).

Consolidated Position The asset base of Softlogic Capital Group declined during 9MFY24. One of the significant reasons for a decrease in the Group's asset base is the write-down of the Group's loss making subsidiary value, i.e., Softlogic Finance. During 9MFY24, the Softlogic Capital Group's asset base was recorded at LKR~71bn (LKR~74bn in FY23), while the equity was recorded at LKR~8.3bn (LKR~7.5bn in FY23).



Lanka Rating Agency

Softlogic Capital PLC	Dec-23	Sep-23	Jun-23	Mar-23	Mar-22
	9M	6M	3M	12M	12M
	Management	Management	Management	Audited	Audited
A BALANCE SHEET					
1 Investments	221	228	184	178	189
2 Related Party Investments	15,571	14,573	14,123	12,968	10,804
3 Non-Current Assets	96	153	154	199	473
4 Current Assets	189	216	313	59	19
5 Total Assets	16,077	15,169	14,775	13,403	11,485
6 Current Liabilities	41	30	35	99	39
7 Borrowings	13,927	12,807	12,027	10,300	7,311
8 Related Party Exposure	88	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	2,021	2,332	2,713	3,004	4,135
11 Shareholders' Equity	2,021	2,332	2,713	3,004	4,135
B INCOME STATEMENT					
1 Total Investment Income	865	602	301	1,349	690
a Cost of Investments	(1,901)	(1,321)	(679)	(2,165)	(597)
2 Net Investment Income	(1,037)	(719)	(378)	(817)	93
a Other Income	165	104	39	140	293
b Operating Expenses	(172)	(104)	(37)	(223)	(175)
4 Profit or (Loss) before Interest and Tax	(1,043)	(720)	(376)	(899)	212
a Taxation	-	-	-	(219)	(5)
6 Net Income Or (Loss)	(1,043)	(720)	(376)	(1,118)	207
C CASH FLOW STATEMENT					
a Total Cash Flow	947	645	316	782	159
b Net Cash from Operating Activities before Working Capital Changes	(933)	(430)	(278)	(661)	(364)
c Changes in Working Capital	(2,686)	(1,804)	(1,421)	(1,299)	(1,512)
1 Net Cash (Used in) or Available From Investing Activities	(3,619)	(2,234)	(1,699)	(1,960)	(1,876)
2 Net increase (decrease) in long term borrowings	(45)	(45)	-	(269)	(1,617)
3 Net Cash (Used in) or Available From Financing Activities	3,688	2,324	1,778	1,995	3,225
4 Net Cash generated or (Used) during the period	24	45	79	(234)	(268)
D RATIO ANALYSIS					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value of	N/A	N/A	N/A	N/A	86.0%
b Core Investments / Market Value of Equity Investments	N/A	N/A	N/A	N/A	100.0%
c Marketable Investments / Total Investments at Market Value	1.9%	2.4%	2.1%	2.8%	0.3%
2 Coverages					
a TCF / Finance Cost	0.5	0.5	0.5	0.4	0.3
b TCF / Finance Cost + CMLTB	0.5	0.5	0.5	0.4	0.3
c Loan to Value (Funding / Market Value of Equity Investments)	N/A	N/A	N/A	N/A	0.2
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	87.4%	84.6%	81.6%	77.4%	63.9%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	693.4%	549.2%	443.3%	342.8%	180.4%

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

Disclaimer: LRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. LRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of LRA documents may be used, with due care and in the right context, with credit to LRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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.