



Lanka Rating Agency

Rating Report

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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Rating Rationale and Key Rating Drivers

The rating incorporates Softlogic Group's longstanding position in its operating segments, namely Healthcare, Retail and Financial Services. Softlogic Capital PLC ("the HoldCo"), a subsidiary of Softlogic Holdings, operates as an Investment HoldCo of the Financial Services segment of the Softlogic Group. The HoldCo operates independently from Softlogic Holdings in terms of its governance, operations and financial management. Investments of the HoldCo comprise four (4) subsidiaries, each of which operates in the Insurance, NBFIs, Asset Management and Stockbrokerage Sectors. The HoldCo's quoted subsidiaries, i.e., Softlogic Life Insurance and Softlogic Finance, possess majority of its investment stake, while the Investments in Capital Market - Softlogic Invest and Softlogic Stockbroker, are relatively smaller in size. The assigned rating reflects the cumulative impact of the financial performance of the HoldCo's subsidiaries in addition to its standalone performance. Softlogic Life Insurance, the star performer of the Group and the second largest Life Insurance Company in Sri Lanka in terms of Gross Premium Written, demonstrates robust financial strength with GPW of LKR~23bln as at End-Dec'22 and a bottomline of LKR~2.7bln in 9MFY23. Meanwhile, Softlogic Finance, represents a weakened financial outlook primarily owed to subdued credit quality and liquidity crises exacerbated by tough economic conditions. Consequently, the performance of the HoldCo is adversely impacted since profits from its Equity Investments have narrowed, finance costs have shot up and external debt to contain the deterioration have gone exorbitantly high. The debt-to-equity ratio of the HoldCo has climbed to an alarming level of ~77% as at End-Dec'22. Management's recourse to reduce the rising financial risk is imperative. The HoldCo is eyeing to divest its major equity stakes in certain investments as the remedial strategy to generate cash inflows and reduce leveraging. The investments under consideration include Softlogic Finance and Softlogic Life Insurance, the two major contributors of dividend income for the HoldCo. Cash flows generated from the divestment would provide the much needed support to the HoldCo to unload its mounting debt burden and ease-up its liquidity position. Given strong relationship with financial institutions, refinancing of the current debt profile is expected. With a highly leveraged capital structure and weak coverages, the current financial risk of the HoldCo remains elevated. Therefore, positive out-turn of the expected divestments is critical, especially considering the overall economic conditions.

The rating is dependent on the HoldCo's ability to successfully execute its planned strategy that would improve its financial profile, particularly in terms of its capital structure and liquidity. Moreover, continuity of recurring income stream to support the Group in times of need is critical.

Disclosure

Name of Rated Entity	
Type of Relationship	Solicited
Purpose of the Rating	Rating
Applicable Criteria	Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Oct-22)
Rating Analysts	Rabiya tul Athaviya Naushard rabiya@lra.com.lk +92-42-35869504



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Profile

Background Softlogic Capital PLC 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 with the objective to form a fully-fledged finance arm to the greater Softlogic Group. The Company's ordinary shares were listed on the Diri Savi Board of the Colombo Stock Exchange in September 2011.

Structural Analysis At present, the Company's investments constitute core investments in four subsidiaries i.e., i) Softlogic Life Insurance PLC (SLIPLC), ii) Softlogic Finance PLC (SFPLC), iii) Softlogic Stockbrokers (Pvt) Ltd (SSB), iv) Softlogic Asset Management (Pvt) Ltd (SAM).

Ownership

Ownership Structure Mr. Asoka Kariyawasam Pathirage through Softlogic Holdings owns 40.92% of Softlogic Capital PLC directly. 20.75% of the shareholding is accounted by Samena Ceylon Holdings Limited. The effective shareholding of Mr. Asoka stands at 18.58%

Stability Ownership of the Company draws stability from Mr. Asoka Pathirage owning 40.92% of Softlogic Capital PLC, through Softlogic Holdings. Mr. Asoka has decades of experience in various sectors including retail, healthcare... etc, and has continuously diversified his business.

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 Softlogic Group, one of Sri Lanka's leading conglomerates. He manages over 50 companies with a pragmatic vision providing employment to more than 11,000 employees.

Financial Strength Mr. Ashoke owns adequate wealth reflecting the financial strength of the holding company sponsors. The Group also has 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 6 are Non- Executive Directors, which includes 03 Independent Directors. Mr. Iftikhar Ahamed, who is the Managing Director overlooks the overall financial services holding company of the group, "Softlogic Capital PLC".

Members' Profile The board members have decades of experience in their respective fields. Mr. Iftikhar Ahamed heads the Financial Services Sector of the Softlogic Group and is the Managing Director of Softlogic Capital PLC, which is the financial services holding company of the group that has interests in Insurance, Leasing and Finance, Asset Management, and Stockbroking. He is also the Managing Director of Softlogic Life Insurance PLC, Director of Softlogic Asset Management Pvt Ltd, Director of Softlogic Stockbrokers Pvt Ltd, and Director of Softlogic Corporate Services Pvt Ltd.

Board Effectiveness The Company has formed four 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 who is also a Fellow of the Institute of Chartered Accountants of Sri Lanka. It has held 04 board meetings for the year with majority participation

Transparency The external auditors of the Company, Earnest & Young, issued an unqualified audit opinion pertaining to the annual 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. Iftikhar Ahamed. The Director and operations of the company are assisted by a well-qualified team of professionals with 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 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.

Investment Strategy

Investment Decision-Making The final authority for Softlogic Capital's investment decisions lies with the Board of Directors. When the need arises to discuss a particular investment opportunity, a sub-committee is appointed by the Board in order to discuss and evaluate the relevant aspects. This evaluation is then brought to the complete board to reach a final decision. The Company does not have a formal Investment Committee in place.

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 On a standalone basis SLC reported total revenue of LKR 487mn for 9MFY23 (FY22: 96.9mn, FY21: 51.5mn), with a majority of the income mainly being driven by interest income from financial assets. The total asset base of the company stood at LKR 13.6bn for 9MFY23 (FY22: 11.4bn, FY21: 8.08bn),

Income Assessment SLC 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 27.4bn for FY22 (LKR 24.4bn for 9MFY23). The Company's consolidated bottom line closed at a net profit of LKR 1bn for FY22 (LKR 225mn loss for 9MFY23).

Financial Risk

Coverages SLC's interest coverage stood at 0.3x during 9MFY23 (FY22: 1.2x). Owing to investment income generated. The debt payback capacity of SLC is at 4.1x for 9MFY23 and 9.8x for FY22.

Capital Structure SLC's leverage stood at 76% for 9MFY23, compared to the FY22 leverage of 64%. The Long-term and Short-term borrowings for 9MFY23, stood at LKR 5.8bn & 4.1bn respectively. The group net worth for 9MFY23 stood at LKR 10bn.

Consolidated Position On a consolidated basis, Softlogic Capital has a total asset base of LKR 77bn and a total equity of LKR 10bn for 9MFY23. Further, the rating takes into note the consolidated net loss of LKR 225mn for 9MFY23 compared to the net profit reported of LKR 1bn for FY22.



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Softlogic Capital PLC	Dec-22 9M Audited	Mar-22 12M Audited	Mar-21 12M Audited	Mar-20 12M Audited
A BALANCE SHEET				
1 Investments	146	189	192	114
2 Related Party Investments	12,975	10,804	7,128	5,427
3 Non-Current Assets	412	473	573	446
4 Current Assets	95	19	193	121
5 Total Assets	13,628	11,485	8,087	6,109
6 Current Liabilities	69	39	35	49
7 Borrowings	10,425	7,311	4,073	3,479
8 Related Party Exposure	11	-	1	5
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,124	4,135	3,978	2,575
11 Shareholders' Equity	3,124	4,135	3,978	2,575
B INCOME STATEMENT				
1 Total Investment Income	490	690	638	26
a Cost of Investments	(1,446)	(597)	(470)	(307)
2 Net Investment Income	(957)	93	168	(281)
a Other Income	106	293	191	164
b Operating Expenses	(114)	(175)	(190)	(151)
4 Profit or (Loss) before Interest and Tax	(965)	212	169	(267)
a Taxation	-	(5)	224	-
6 Net Income Or (Loss)	(965)	207	393	(267)
C CASH FLOW STATEMENT				
a Total Cash Flow	533	159	112	29
b Net Cash from Operating Activities before Working Capital Changes	(575)	(364)	(326)	(193)
c Changes in Working Capital	(1,317)	(1,512)	(22)	(757)
1 Net Cash (Used in) or Available From Investing Activities	(1,892)	(1,876)	(348)	(949)
2 Net increase (decrease) in long term borrowings	(849)	(1,617)	(1,191)	(541)
3 Net Cash (Used in) or Available From Financing Activities	2,446	3,225	1,739	1,291
4 Net Cash generated or (Used) during the period	(296)	(268)	201	(200)
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of	86.0%	86.0%	86.0%	86.0%
b Core Investments / Market Value of Equity Investments	100.0%	100.0%	100.0%	100.0%
c Marketable Investments / Total Investments at Market Value	0.2%	0.3%	0.3%	0.1%
2 Coverages				
a TCF / Finance Cost	0.4	0.3	0.3	0.1
b TCF / Finance Cost + CMLTB	0.4	0.3	0.3	0.1
c Loan to Value (Funding / Market Value of Equity Investments)	0.3	0.2	0.1	0.1
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	77.0%	63.9%	50.6%	57.5%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	338.9%	180.4%	102.4%	135.3%

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.
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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

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