



Lanka Rating Agency

Rating Report

Sarvodaya Development Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
08-Jul-2026	BBB-	Stable	Maintain	-
03-Nov-2025	BBB-	Stable	Upgrade	-
11-Apr-2025	BB+	Stable	Upgrade	-
02-Oct-2023	BB	Stable	Maintain	-
21-Sep-2022	BB	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reaffirmation reflects Sarvodaya Development Finance PLC's ("SDF" or "the Company") improving financial profile, supported by loan portfolio growth, enhanced profitability, sustained asset quality, and a strong capitalization. The Company offers a diversified range of financial services, including deposit mobilization, microfinance, SME lending, leasing, housing finance, society bulk loans, gold-backed lending, and digital financial services. The strategic focus remains on agriculture financing and rural financial inclusion through its longstanding affiliation with the Sarvodaya Movement and connected societies. The Company continues to maintain a niche presence in the licensed finance company (LFC) sector through its focus on microfinance, SME, society bulk loans and agriculture-related lending. SDF's loan portfolio grew by ~55.2% to LKR 29.8Bn in FY26 (FY25: LKR ~19.2Bn), outpacing industry growth due to small loan base. Despite the accelerated growth, the Company remains a relatively small player, accounting for just ~1.2% of sector assets and ~0.8% of sector deposits as at FY26.

SDF's profitability improved to LKR ~820.1Mn during FY26 (FY25: LKR ~473.8Mn), supported by lower funding costs, strong portfolio growth, and stable spreads. Although the Company has improved its earnings, its profitability (including ROA and ROE) remains modest. The Company's gross and net NPL ratios reduced to ~4.9% and ~2.9%, respectively, but is above industry averages. Better asset quality was supported not only by recoveries but also by the rapid expansion of the loan portfolio.

The Company has strong capitalization with a Capital Adequacy Ratio (CAR) of ~22.1% as of FY26 (FY25: ~20.6%), which is above the industry average. This capital buffer is expected to provide adequate headroom for the envisaged portfolio growth, facilitating the achievement of its FY27 projected growth. The Company's deposit base grew by ~7.8% to LKR ~10.6Bn during FY26 and makes up ~34% of the funding mix. The proportion of borrowings has increased in the total funding as observed in the LFC sector.

The rating is contingent upon the sustainability and improvement in the Company's quality of earnings and will be closely monitored. Similarly, upholding other key performance indicators like asset quality and capitalization will be important. Improvement in relative position within the sector and significantly enhancing profitability will have positive impact on the rating.

Disclosure

Name of Rated Entity	Sarvodaya Development 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(Apr-26)
Rating Analysts	Nipuni Mihirangi nipuni@lra.com.lk +94 114 500099



Leasing & Finance Companies

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Profile

Structure Sarvodaya Development Finance PLC ("SDF" or "the Company") is a public limited liability company incorporated in 2010 under the provisions of the Companies Act No. 07 of 2007 and licensed under the Finance Business Act No. 42 of 2011. The Company was listed on the Colombo Stock Exchange ("CSE") in December 2021, further strengthening its capital market presence and corporate governance framework.

Background The Company was incorporated in 2010 as Deshodaya Development Finance Company Limited and changed its name to Sarvodaya Development Finance Limited in 2015 to better align with its strategic identity and brand positioning.

Operations SDF offers a diversified range of financial products and services, including deposit mobilization, microfinance, SME lending, leasing, housing finance, business loans, gold-backed lending, and digital financial services. SDF operates a network of 56 branches, with over 82% located outside the Western Province, supporting its strong regional presence. The Company also benefits from its affiliation with the Sarvodaya Movement, providing access to approximately 5,400 societies and over 800,000 members.

Ownership

Ownership Structure SEEDS holds the largest individual stake in the Company at approximately 36.1%, while entities affiliated with the Sarvodaya Movement collectively own around 55%, reflecting strong sponsor support. Other key shareholders include Janashakthi Capital Limited (10.8%), Senthilverl Holdings (Pvt) Ltd (9.1%), and Gentosha Media Consulting Inc. (9.0%).

Stability SEEDS, established in 1986 as the economic arm of the Sarvodaya Movement, has remained the Company's largest shareholder, with its ownership stake broadly unchanged following SDF's listing on the CSE.

Business Acumen SEEDS is engaged in promoting rural economic development through business development initiatives and financial services.

Financial Strength The Sarvodaya Movement consists of multiple companies and independent units operating under its structure. The Company does not have any written financial guarantees from its parent entity or other shareholders.

Governance

Board Structure The Board has ~9 directors, out of which, ~5 are Independent Non-Executive directors and ~4 are Non – Independent Non-Executive directors. The Chairman of the Company, Mr. Ginige Channa Ajith de Silva is a Non-Executive Director, appointed to the Board in 2011.

Members' Profile The Board consists of professionals with diverse expertise spanning banking, sales, marketing, IT, and consulting, with substantial industry experience in their respective fields. The Chairman, Mr. Channa de Silva, brings extensive leadership experience, having held senior management roles in several reputed financial institutions and banks.

Board Effectiveness The Board of Directors has established seven sub-committees, namely the Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Nomination & Governance Committee (BNGC), Board Human Resources & Remuneration Committee (BHRRC), and Board Information Technology Committee (BITC), supporting oversight across key governance and control functions.

Financial Transparency The external auditors of the Company, MS/Deloitte, issued an unqualified audit opinion pertaining to the annual financial statements for FY26.

Management

Organizational Structure The Company has 15 separate divisions to carry out its operations. The Compliance Department and the Risk Departments report to the BIRMC, while the Internal Audit Department reports to the BAC.

Management Team The management team is headed by the Chief Executive Officer ("CEO"), Mr. Nilantha Jayanetti. The CEO has extensive knowledge of business management and strategic leadership and has experience in the banking and financial sectors.

Effectiveness SDF has formed five management committees, namely, i) Assets and Liability Management Committee ("ALCO"), ii) Management Credit Committee ("MCC"), iii) IT Steering Committee ("ITSC"), iv) Management Committee ("MC"), v) Product Development Committee ("PDC"), vi) Sustainability Committee ("SC"), vii) Information Security Committee ("ISC"), viii) Management Operation Risk Management Committee ("MORMC").

MIS The main ERP system of the Company is the e-Financials system, provided by Scierer Technologies (Pte) Ltd. The Company is also connected to the Lanka Pay CEFT network, Shared ATM Switch ("SAS") and Common ATM Switch ("CAS").

Risk Management Framework The Board Audit Committee (BAC) oversees the integrity of financial reporting and the effectiveness of internal control systems. Risk reports are escalated to the Board Integrated Risk Management Committee (BIRMC) for review, together with corresponding rectification plans. At the operational level, heads of departments are responsible for identifying, assessing, and managing risks within their respective areas.

Business Risk

Industry Dynamics There are thirty-two (32) Licensed Finance Companies (LFCs) in Sri Lanka, out of which thirty (30) are listed on the CSE. The Profit After Tax (PAT) of LFCs and Specialized Leasing Companies sector for FY26 stood at LKR~89.4bn. The sector's Net interest income (NII) improved by ~26.1% in FY26 to clock in at LKR~253.5bn (LKR~201.0bn in FY25). The total asset base of the LFC sector stood at LKR~3.1tn as of FY26 (LKR~2.1tn as of FY25, a strong growth of ~47.6% YoY).

Relative Position The Company is considered as a small-size Licensed Finance Companies ("LFC"). SDF accounts for ~1.2% of the assets and ~0.8% of the deposits as at FY26 in the Licensed Finance Companies sector. SDF's net loans and advances account for ~1.2% in FY26 in Licensed Finance Companies sector.

Revenues SDF's interest income is recorded at LKR ~5.8 Bn in FY26 (FY25: ~4.1 Bn; FY24: ~3.1 Bn), driven mainly by Loans and Advances. Interest expenses are recorded at LKR ~ 2.3 Bn in FY26 (FY25: ~1.4Bn). Net interest income improved to ~LKR 3.6 Bn in FY26 (FY25: ~2.6 Bn and FY25: ~1.8Bn), indicating steady earnings from core lending operations.

Performance SDF's profitability improved in FY26, with PAT increasing to ~LKR 820.1Mn (FY25: ~LKR 473.8Mn). The expansion in total assets to ~LKR 37.4 Bn as at FY26 (FY25: ~LKR 22.5 Bn) supported an improvement in ROA to ~2.7% as at FY26 (FY25: ~2.5%), indicating enhanced efficiency in asset utilization. Similarly, the growth in total equity to ~LKR 4.4 Bn contributed to a stronger ROE of ~19.6% (FY25: ~12.6%), reflecting improved returns to shareholders. Overall, the Company demonstrates better earnings supported by balance sheet growth.

Sustainability The Company intends to strengthen customer reach and accessibility by strategically growing the branch and ATM network to provide better financial access, especially to community-level businesses and economically active groups. SDF plans to expand market opportunities for MSMEs by fostering entrepreneurship among the youth and women associated with rural areas of the island.

Financial Risk

Credit Risk The Company's asset quality has improved since FY20, with a notable strengthening from FY25 onwards. The gross NPL ratio declined to approximately ~7.9% in FY25 and further to around ~4.9% as at FY26, while the net NPL ratio improved to approximately ~2.9% as at FY26.

Market Risk The Company increased its investments by ~50% in FY26 to LKR~1.8bn which is an increase from LKR~1.2bn in FY25. It increased its investment in government securities by ~74.3% to LKR~1.6bn in FY26 compared to LKR~906.3mn in FY25. Investments in government securities constituted ~90% of the total investments as at FY26.

Liquidity And Funding The Company's funding profile was predominantly supported by customer deposits up to FY25 (FY25: ~LKR 9.8Bn; FY24: ~LKR 7.4Bn). However, in FY26, borrowings increased significantly to approximately LKR 20.8Bn, reflecting a shift in the funding mix.

Capitalization The Company's CAR recorded at ~22.13% as of FY26 and stood at ~20.64% as at FY25 and ~26.00% in FY24, while the required rate was ~12.50%. Tier 1 Capital Ratio of the Company recorded at ~15.48% as at FY26 and ~20.52% as at FY25.



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Sarvodaya Development Finance PLC
Public Listed Companies

Mar-26
12M

Mar-25
12M

Mar-24
12M

A BALANCE SHEET

1 Total Finance-net	28,916	17,840	11,224
2 Investments	1,838	1,153	1,019
3 Other Earning Assets	4,451	1,230	494
4 Non-Earning Assets	1,290	943	810
5 Non-Performing Finances-net	877	1,376	1,351
Total Assets	37,372	22,542	14,898
6 Funding	31,384	17,648	10,700
7 Other Liabilities	1,564	950	627
Total Liabilities	32,948	18,598	11,327
Equity	4,423	3,944	3,571

B INCOME STATEMENT

1 Mark Up Earned	5,846	4,064	3,102
2 Mark Up Expensed	(2,271)	(1,424)	(1,322)
3 Non Mark Up Income	489	288	210
Total Income	4,064	2,927	1,990
4 Non-Mark Up Expenses	(1,785)	(1,372)	(1,081)
5 Provisions/Write offs	(546)	(439)	(333)
6 Reversals	88	23	15
Pre-Tax Profit	1,821	1,139	591
7 Taxes on Financial Services	(463)	(310)	(182)
Profit Before Income Taxes	1,359	830	409
8 Income Taxes	(539)	(356)	(160)
Profit After Tax	820	474	250

C RATIO ANALYSIS

1 PERFORMANCE			
a Non-Mark Up Expenses / Total Income	43.9%	46.9%	54.3%
b ROE	19.6%	12.6%	7.1%
2 CREDIT RISK			
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	97.0%	111.2%	120.3%
b Accumulated Provisions / Non-Performing Advances	42.6%	22.9%	18.2%
3 FUNDING & LIQUIDITY			
a Liquid Assets / Funding	19.8%	13.0%	12.8%
b Borrowings from Banks and Other Financial Institutes / Funding	58.7%	42.9%	28.1%
4 MARKET RISK			
a Investments / Equity	41.5%	29.2%	28.5%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%
5 CAPITALIZATION			
a Equity / Total Assets (D+E+F)	11.8%	17.5%	24.0%
b Capital formation rate (Profit After Tax - Cash Dividend) / E	12.3%	10.5%	4.0%



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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	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.
D	Obligations are currently in default.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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) LRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

- | | |
|---------------------------------|--------------------------------------|
| a) Broker Entity Rating | e) Holding Company Rating |
| b) Corporate Rating | f) Independent Power Producer Rating |
| c) Debt Instrument Rating | g) Microfinance Institution Rating |
| d) Financial Institution Rating | h) Non-Banking Finance Company |

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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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