Lanka Rating Agency

Rating Report

Commercial Credit and Finance PLC - LKR 1.3bn Guaranteed Debenture

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
23-Apr-2025	AA-	Stable	Upgrade	-
26-Feb-2024	A	Stable	Maintain	-
07-Feb-2023	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Commercial Credit and Finance PLC (CCFP or "the Company") is a licensed finance company (LFC) in Sri Lanka, specializing in hire purchase, finance leases, and gold loans. CCFP is a medium-sized company in the leasing industry with ~5.5% share in terms of assets and ~6.1% in deposits. The rating reflects the Company's sound profitability, extensive outreach and growing asset base. However, the Company endured alarmingly high non-performing loans (NPLs) recently emanating from moratoriums and relaxations granted to customers during COVID-19 pandemic and economic crisis period. As at 9MFY25, the Company's Gross and Net NPLs rose to approximately ~30.0% and ~19.1%, respectively, surpassing the industry averages of around ~11.3% and ~6.9%. The management has focused exclusively on recovery efforts and other measures to reduce this number. As a result, NPLs are expected to come down to ~18.2% by March 31, 2025. The rating watch signifies criticality of this matter. The net interest income (NII) of the Company increased to LKR~11.2bn in 9MFY25 from LKR~8.3bn in the same period last year due to lower interest expenses and relatively high yield on assets. The Company was able to sustain its profitability to LKR~2.1bn in 9MFY25 (9MFY24: LKR~2.0bn) despite higher impairment charges of LKR~3.1bn (9MFY24: LKR~1.2bn). The Capital Adequacy Ratio (CAR) of the Company stood at ~15.4% in 9MFY25, well above the regulatory requirement and it is expected to increase to ~20% as the Company intends to issue subordinated loan of LKR~1.5bn to strengthen its Tier II capital. The liquidation of the Company's second-largest shareholder, Group Lease Holdings PTE Limited, as ordered by the Singapore court in March 2024, is not expected to affect CCFP materially. However, any negative repercussions from this would have negative rating impact. The rating of the Debenture reflects its guaranteed structure. These are guaranteed by Hatton National bank to the tune of LKR~2.3bn, being the principal sum and two interest payments.

The Debenture rating is contingent on the continual written guarantee from Hatton National Bank. Any changes in HNB's rating or the removal of the guarantee will commensurately impact the Debenture rating.

Disclosure

Name of Rated Entity	Commercial Credit and Finance PLC - LKR 1.3bn Guaranteed Debenture
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Aug-24)
Related Research	Sector Study | Leasing & Finance Companies(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Issuer Profile

Profile Commercial Credit and Finance PLC ("CCFP" or "the Company") was incorporated as a limited liability company in 1982 under the provisions of the Companies Ordinance No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. CCFP was listed on the Colombo Stock Exchange (CSE) in 2011. During the initial stages of operation, the Company was mainly focused on lending to the agricultural sector with this sector accounting for over ~50% of the lending portfolio. The Company operated in ~16 locations throughout the island including the traditional agricultural regions such as Anuradhapura and Dehiattakandiya. The principal business activities include acceptance of deposits, granting lease facilities, hire purchase, term loans, personal loans, microloans, pawning, other credit facilities, real estate development, and related services.

Ownership The largest shareholding of the Company is with BG Investments (Pvt) Limited, with an ownership of ~50.25%. The ultimate ownership of BG investments lies with Mr. R. S. Egodage & Mrs. G. R. Egodage holding ~50% each. The 2nd largest shareholder is Group Lease Holdings Pte Limited with a shareholding of ~29.99%. The ownership structure is likely to remain the same in the foreseeable future which provides stability to the Company. Mr. R. S. Egodage has been involved in the financial services sector for over fifteen years. Mr. R. S. Egodage, who is also the Chief Executive Officer (CEO) and an Executive Director (ED), earned a BSc. Eng. degree from the University of Peradeniya. His business acumen and vision for the Company bodes well for providing strategic direction. CCFP draws stability from BG Investments Pvt. Ltd., holding the majority of shares.

Governance The Board has ~9 directors, out of which, ~4 are Independent Non-Executive directors and ~3 are Executive directors. The Chairman of the Company, Mr. G. B. Egodage is a Non-Executive Director, appointed to the Board on 17th November 2022. The Board members have decades of experience in their respective fields. The Chairman of the Company, Mr. G. B. Egodage is also the Chairman of Asia Pacific Institute of Information Technology (APIIT) Sri Lanka, Executive Member of SAARC (South Asian Association for Regional Cooperation) Chamber of Commerce and Industry, Director of Sri Lanka Coconut Research Institute, Director of Suwasevana Hospital (Pvt) Ltd etc. He has over ~37 years of experience in both local and international business markets. The Company has formed ~5 board sub-committees, namely, i) Board Audit Committee, ii) Board Integrated Risk Management Committee, iii) Board Related Party Transactions Committee, iv) Board Remuneration Committee, and v) Board Nomination Committee. The external auditors of the Company, Ernst & Young, issued an unqualified audit opinion pertaining to the annual financial statements for FY24.

Management The highest level of authority of the organization remains with the Board of Directors. The Company has a well-defined management hierarchy with clear roles and responsibilities. The management team is headed by the Chief Executive Officer (CEO) of the Company, Mr. R. S. Egodage. The CEO is supported by the Executive Director, Chief Operating Officer (COO), Executive Director and Deputy CEO. CCFP has formed four management committees, namely, i) Assets and Liability Management Committee, ii) Executive Credit Committee, iii) IT Security Committee and iv) IT Steering Committee. CCFP currently uses an inbuilt ERP system. The functional updates to the ERP are applied based on approved change requests by business teams. The disaster recovery system is managed by the internal team and it is located at Dialog iDC Malabe. The Company has an independent risk management department, Board-approved risk appetite, and risk tolerance levels along with well-defined procedures to support risk management. CCFP needs to further strengthen this function and revisit guidelines to further improve asset quality.

Business Risk There are ~34 Licensed Finance Companies (LFC) in Sri Lanka, out of which, ~27 are listed on the CSE. The profitability of the LFC sector improved by to LKR~43.1bn in 9MFY25 compared to LKR~34.9bn in 9MFY24. Net interest income improved in 9MFY25 by ~22.2% to LKR~145.2bn from LKR~118.8bn in 9MFY24. The deposits of the LFC sector increased by ~13.0% in 9MFY25 to LKR~1,056.4bn while it was at LKR~935.1bn in 9MFY24. Total loans and advances of the sector have increased by ~22.8% to LKR~1,430bn in 9MFY25 from LKR~1,164.8bn in 9MFY24. The total asset base of the LFC sector stood at LKR~1,930.7bn and LKR~1,695.5bn as at 9MFY25 and 9MFY24 respectively. The Company is considered as a mid-size Licensed Finance Companies ("LFC"). CCFP accounts for ~5.5% of the assets and ~6.1% of the deposits as at 9MFY25 in the Licensed Finance Companies sector. CCFP's net loans and advances account for ~5.0% in 9MFY25 in Licensed Finance Companies sector. The Company is focusing more on asset-backed and micro loans for growth. The interest income of the Company stood at LKR~18.4bn in 9MFY25 which is a decline of ~6.0% from LKR~19.6bn in 9MFY24. The interest expense of the Company stood at LKR~7.3bn in 9MFY25 showing a decline of ~35.6% from LKR~11.3bn in 9MFY24. This is due to the lower borrowing costs from the reduction in market interest rates which reduce the cost of funds. Profit After Tax ("PAT") recorded at LKR~2.1bn in 9MFY25 which is a ~2.5% increase compared to LKR~2.0bn in 9MFY24. The Return on Equity ("ROE") and the Return on Assets ("ROA") recorded at ~11.2% and ~2.6% in 9MFY25 as compared to ~13.4% and ~2.7% respectively in 9MFY24. CCFP has established an Information & Communication Technology (ICT) Department dedicated to implementing cutting-edge IT solutions across various departments. Additionally, they have developed a strong Cybersecurity Strategy to protect our digital assets, safeguard customer data, and uphold the integrity of our organization.

Financial Risk The Company's gross non-performing advances to total advances increased over the periods from FY21 to 9MFY25. As at 9MFY25, the Company's Gross and Net NPLs rose to approximately ~30.0% and ~19.1%, respectively, surpassing the industry averages of around ~11.3% and ~6.9%. The Company's investment in government securities grew to approximately LKR~8.4bn from FY20 to FY23, driven by a sharp rise in interest rates during FY23. However, it declined to around LKR~6.9bn in FY24 before rising again to LKR~7.3bn in 9MFY25. The Company is more dependent on deposits as it constitutes ~74.5% (FY24: ~80.1%) of funding in 9MFY25. The Company's deposit base increased by ~4.9% to LKR~62.1bn in FY24 (9MFY25: LKR~57.5bn) compared to LKR~59.2bn in FY23. The Capital Adequacy Ratio (CAR) of the Company stood at ~15.4% in 9MFY25, well above the regulatory requirement and it is expected to increase to ~20% as the Company intends to issue subordinated loan of LKR~1.5bn to strengthen its Tier II capital. .

Instrument Rating Considerations

About The Instrument CCFP issued a Senior, Listed, Redeemable, Rated, Guaranteed Debentures worth LKR~1,287mn on 24th February 2021. The tenure of debentures spans a maximum period of 5 years with bullet repayment. The objective of the issue was to provide a stable funding source for 5 years to further expand the lending portfolio of the entity.

Relative Seniority/Subordination Of Instrument The claims of the Debenture holders shall, in the event of winding up of the Company, rank above the subordinated debt, ordinary voting and non-voting shareholders and preference shareholders of the Company.

Credit Enhancement The Debentures are guaranteed by Hatton National Bank PLC (HNB) for LKR~2,360mn, being the principal sum and two interest payments at ~9.00% per annum payable annually, for two interest periods on the said Debentures. There has been a letter of guarantee issued by HNB to NSB Fund Management Co. Ltd. which is the trustee to the issue. Debenture holders will be entitled to claim the guarantee of HNB through the Trustee in the event the Company fails or neglects to redeem the said Debentures or pay the interest in terms of Clause 4.1 a) i, ii, iv, v and vi of the said Trust Deed or in the event there is an Event of Default as specified in Clause 10 of the said Trust Deed. HNB accounts for ~9.36% of the total assets out of the total assets of the banking sector, with a rating of AA- (lka). As of 9MFY24, the Bank reported a total equity base of LKR~181.8bn, with a total asset base of LKR~1,858bn.

Lanka Rating Agency

COMMERCIAL CREDIT AND FINANCE PLC	Dec-24	Mar-24	Mar-23	Mar-22
#	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	58,221	80,237	75,286	76,988
2 Investments	10,782	9,918	10,017	6,885
3 Other Earning Assets	9,148	4,190	3,527	2,166
4 Non-Earning Assets	14,165	12,442	12,439	10,586
5 Non-Performing Finances-net	13,777	1,200	885	(2,995)
Total Assets	106,093	107,988	102,154	93,630
6 Funding	75,867	76,024	76,799	68,603
7 Other Liabilities	5,248	7,784	4,996	5,834
Total Liabilities	81,114	83,808	81,795	74,437
Equity	24,979	24,180	20,359	19,193
B INCOME STATEMENT				
1 Mark Up Earned	18,437	27,239	25,055	18,365
2 Mark Up Expensed	(7,265)	(14,431)	(13,948)	(6,416)
3 Non Mark Up Income	1,721	3,024	3,136	2,466
Total Income	12,892	15,832	14,242	14,415
4 Non-Mark Up Expenses	(5,933)	(7,459)	(6,549)	(5,858)
5 Provisions/Write offs/Reversals	(2,423)	83	(2,612)	(764)
Pre-Tax Profit	4,537	8,456	5,081	7,792
6 Taxes on Financial Services	(1,126)	(1,861)	(1,221)	(1,401)
Profit Before Income Taxes	3,411	6,595	3,860	6,391
7 Income Taxes	(1,340)	(2,401)	(1,260)	(1,871)
Profit After Tax	2,071	4,194	2,600	4,520
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	46.0%	47.1%	46.0%	40.6%
b ROE	11.2%	18.8%	13.1%	26.1%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	109.7%	118.1%	110.2%	117.7%
b Accumulated Provisions / Non-Performing Advances	44.8%	87.4%	90.5%	179.5%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	27.4%	17.5%	18.8%	14.4%
b Borrowings from Banks and Other Financial Institutities / Funding	22.4%	16.6%	21.2%	28.0%
4 MARKET RISK				
a Investments / Equity	43.2%	41.0%	49.2%	35.9%
b (Equity Investments + Related Party) / Equity	2.6%	2.5%	1.8%	1.7%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	23.5%	22.4%	19.9%	20.5%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	4.4%	19.0%	10.2%	19.4%

Credit Rating

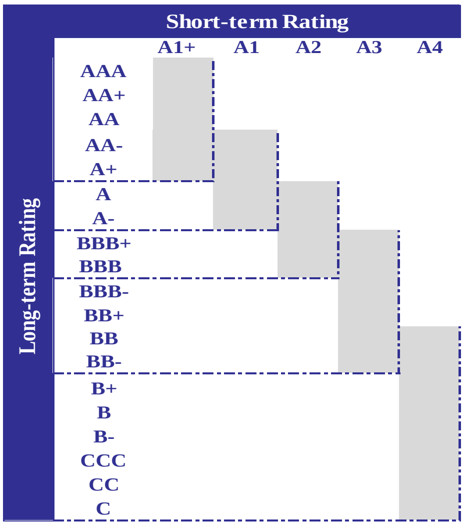
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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.

Short-term Rating

Scale	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 surveill 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

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 6MFY25 (LKR)
Listed, Rated, Subordinated, Unsecured, Redeemable Debenture (Guranteed by Hatton National Bank PLC)	1,287,590,000	5 years	No Securities	NA	NA	NSB Fund Management Company Ltd	1,287,590,000

Name of Issuer	Commercial Credit & Finance PLC
Issue Date	March 5, 2021
Maturity	March 4, 2026
Coupon Basis	5 Year, Fixed rate of 9% Interest Payable annualy
Repayment	Bullet repayment at maturity
Option	NA

Commercial Credit and Finance PLC

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding
	LKR				YYYY-MM-DD	LKR
Type A					Fixed	
05-Mar-21	1,287,590,000	-		9.00%	9.00%	1,287,590,000
04-Mar-22		-	04-Mar-22	9.00%	9.00%	
04-Mar-23		-	04-Mar-23	9.00%	9.00%	
04-Mar-24		-	04-Mar-24	9.00%	9.00%	
04-Mar-24		-	04-Mar-24	9.00%	9.00%	
04-Mar-25		-	04-Mar-25	9.00%	9.00%	
04-Mar-26		1,287,590,000	04-Mar-26	9.00%	9.00%	