

## ICRA Lanka reaffirms the ratings of First Capital Holdings PLC

December 01, 2021

Instrument	Previous Rated Amount (LKR Mn)	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	N/A	[SL]A with Stable outlook; reaffirmed
Senior Unsecured Redeemable Debenture programme	2,000	2,000	[SL]A with Stable outlook; reaffirmed
Commercial Paper Programme	1,500	1,500	[SL] A1; reaffirmed
<b>Total</b>	<b>3,500</b>	<b>3,500</b>	

### Rating action

ICRA Lanka Limited has reaffirmed the issuer rating of [SL]A (pronounced S L A) with Stable outlook for First Capital Holdings PLC (FCH or the Company). ICRA Lanka has also reaffirmed the issue rating of [SL]A (pronounced S L A) with Stable outlook for the LKR 2,000 Mn Senior, Unsecured, Redeemable Debenture programme of the Company. Further, ICRA Lanka has reaffirmed the issue rating of [SL]A1 (pronounced SL A one) for the LKR 1,500 Mn commercial paper programme of the Company.

### Rationale

ICRA Lanka has taken a consolidated view of the First Capital group (comprising of First Capital Holdings PLC and its subsidiaries), which is involved in a range of financial services such as primary dealership, equity trading, corporate advisory, debt structuring and asset management. There is a strong interlink between the entities through sharing of a common brand, management team, systems and group treasury functions.

The ratings factor in FCH's status as the holding company of First Capital Treasuries PLC (FCT, rated [SL]A/Stable outlook), the leading standalone primary dealer (PD) currently in Sri Lanka. The ratings also take note of the presence of other financial services businesses in the First Capital group. However, FCH's performance continues to be driven by FCT; thus it remains susceptible to the risks inherent to the PD<sup>1</sup>. The ratings also factor in the healthy capital and gearing profiles, with FCH's group net worth standing at LKR 4.5 Bn in September 2021 (LKR 4.8 Bn in March 2021 and LKR 4.0 Bn in March 2020). FCH's standalone gearing stood at 2.2 times in September 2021 vis-à-vis 1.9 times in March 2021 and 1.7 times in March 2020, whilst the consolidated gearing had improved to 4.8 times in September 2021, vis-à-vis 6.2 times and 10.2 times in March 2021 and March 2020, respectively. The ratings also take comfort from the steady moderation of FCH's exposures to group/related party entities in 6M FY2022.

The ratings however, take cognizance of the consolidated net loss of LKR 303 Mn in 6M FY2022 vis-à-vis the net profits of LKR 2,093 Mn in FY2021 and LKR 1,073 Mn in FY2020, due to the net losses of equity accounted investees (mainly FCT). However, cyclical fluctuations based on recurring macro-economic

<sup>1</sup> Please refer the rating rationale of First Capital Treasuries PLC via the given [link](#).

cycles are expected for the PD, and ICRA Lanka does not envisage the same to affect the long term group profitability. Going forward, the ability to maintain a healthy capital and earnings profile with comfortable liquidity, whilst expanding operations would be crucial from a ratings perspective.

## Outlook: Stable

The outlook may be revised to “Positive” based on FCH’s ability to further improve its liquidity, leverage and capital profiles, and its exposure indicators. The outlook may be revised to “Negative” in case of deterioration in the earnings, leverage, and capital profiles, and in the event of significant increase in the inter-group exposures from current levels. Any weakening in FCT’s credit risk profile, impacting dividend income, would also exert pressure on FCH’s ratings.

## Key rating drivers

### Credit strengths:

**Holding company of FCT:** FCH holds 94% ownership of FCT, currently the leading standalone primary dealer in the country, with a total net worth of LKR 4.1 Bn in September 2021. On a consolidated basis, exposure to treasury backed securities contributed to around 62% of the asset base in September 2021 (70% in March 2021). The ratings are supported by the negligible credit risk and healthy liquidity profile of these government securities. Going forward, a steady dividend stream from FCT, is expected to support the earnings profile of FCH.

**Good market position offering diverse financial services:** Presence of group entities offering various financial services augurs well with the initiative of the group to diversify its income sources. Nevertheless, group performance continues to be driven by the performance of FCT. First Capital Limited (FCL), which is 100% held by FCH and involved in corporate debt structuring, corporate finance advisory services and investments reported a total fee income of LKR 168 Mn in FY2021 (LKR 175 Mn in FY2020) from transaction advisory activities. The company also generated about LKR 190 Mn in trading gains from the sale of corporate debt/equity securities in FY2021. The asset management arm of the group, First Capital Asset Management Limited (FCAM) reported a total fee income of LKR 128 Mn in FY2021 (LKR 64 Mn in FY2020), with total assets under management at LKR 45.2 Bn as of 31 March 2021. First Capital Equities (Private) Limited (FCE), which is a licensed stockbroker on the Colombo Stock Exchange, reported a total income of LKR 252 Mn in FY2021 (LKR 71 Mn in FY2020).

**Strong senior management team and sound governance structure:** FCH has a well experienced management team and a healthy governance structure, with 5 of the 8 board directors being independent. Moreover, the company has taken measures to curtail its related party lending via its subsidiary, FCL, which is a positive. The total group/ related party lending accounted for 18% of the investments portfolio of FCL, in September 2021; same has moderated from 23% in March 2021 and 20% in June 2021.

**Healthy capitalization and leverage on a standalone and consolidated basis:** Due to a higher share of subsidiary profits (in particular FCT’s) in FY2020 and FY2021, leading to a higher accretion to reserves, the standalone net worth of FCH stood at LKR 4.3 Bn in September 2021, vis-à-vis LKR 4.6 Bn in March 2021 (LKR 3.7 Bn in March 2020). The standalone gearing stood at 2.2 times in September 2021 compared with 1.9 times in March 2021 (1.7 times in March 2020). Moreover, the leverage profile at the group level had improved to 4.8 times in September 2021, vis-à-vis 6.2 times in March 2021 (10.2 times in March 2020), whilst the consolidated net worth stood at LKR 4.5 Bn in September 2021 from LKR 4.8 Bn in March 2021 (LKR 4.0 Bn in March 2020). ICRA Lanka notes that the net worth of FCH group is in excess of the regulatory capital requirements, particularly of the PD business. However, ICRA Lanka also notes that the parent entity of FCH, Janashakthi Limited (rated BBB-/Negative) is dependent on the dividends up-streamed by

its subsidiaries including FCH; thus it will be crucial for the company to maintain adequate capital buffers and an overall healthy leverage profile, going forward.

## Credit challenges

**Market risk vulnerability as majority of the revenues are through the primary dealer:** As in March 2021, about 70% of the group assets and 71% of the consolidated income were represented by FCT. On a standalone basis, FCH reported a net loss of LKR 281 Mn in 6M FY2022, compared to a net profit of LKR 1,990 Mn and LKR 1,006 Mn, in FY2021 and FY2020, respectively. The standalone profitability in 6M FY2022 was impacted by the share of loss of subsidiaries, in particular FCT's, due to a rising interest environment. ICRA Lanka envisages that the market conditions may remain unfavourable for FCT in the near term, which would in turn result in lower group profitability in FY2022. However, ICRA Lanka takes comfort from the continued expansion of FCH's fee based businesses, in particular the asset management business and advisory business; same is expected to contribute further towards consolidated operating income and profitability, going forward.

**Negative cumulative ALM mismatch in the short-term buckets:** The standalone funding profile of FCH largely comprises of commercial papers and debentures, against which FCH has extended credit to FCL (about LKR 8.7 Bn in September 2021), which in turn has undertaken various non-treasury related lending and investments. As in June 2021, the combined short term asset liability mismatch (<1 year) for FCH and FCL stood at negative 15% (negative mismatch of 33% in June 2020) of the total earning assets, while the same adjusted for repo borrowings on long term securities stood at negative 5% (negative mismatch of 14% in June 2020). Although the ALM mismatch exposes FCH to re-financing risks, the group's access to funding facilities from banks and other financial institutions (the company had access to about LKR 3.1 Bn in unutilized facilities in September 2021), provides comfort from a liquidity perspective.

**Analytical approach:** For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below.

**Links to applicable criteria:** [ICRA Lanka's Issuer Rating Methodology and ICRA Lanka's Rating Methodology for Primary Dealers](#)

## About the company:

Incorporated in year 1992, First Capital Holdings PLC (FCH) is a public limited company listed on the Colombo Stock Exchange. FCH's equity stake of 83.02% was held by Janashakthi Limited (formerly known as Janashakthi PLC) as in September 2021.

FCH is engaged in strategic investments and managing its subsidiaries i.e. First Capital Treasuries PLC (FCT) which is a Primary Dealer in Government Securities, First Capital Limited (FCL) engaged in structuring and placement of corporate debt, corporate finance advisory services and investments, First Capital Asset Management Limited (FCAM) engaged in unit trust and portfolio management, First Capital Trustee Services (Pvt) Limited (FCTS) which is a trustee services provider for corporate debt securities and First Capital Equities (Pvt) Limited (FCE) which is engaged in stock broking activities.

For the financial year ended March 31, 2021, FCH on a stand-alone basis reported a net profit of LKR 1,990 Mn, on a total asset base of LKR 13.8 Bn, vis-à-vis a net profit of LKR 1,006 Mn on a total asset base of LKR 10.2 Bn during the previous fiscal.

For the financial year ended March 31, 2021, FCH group (consolidated) reported a net profit of LKR 2,093 Mn, on a total asset base of LKR 36.6 Bn, vis-à-vis a net profit of LKR 1,073 Mn on a total asset base of LKR 45.6 Bn during the previous fiscal.

For the 6 months ended September 30, 2021, FCH reported a stand-alone net loss of LKR 281 Mn on a total asset base of LKR 13.8 Bn and a consolidated net loss of LKR 303 Mn on a total asset base of LKR 28.2 Bn.

## Key financial indicators (Audited)

### Consolidated

LKR Mn	FY2020	FY2021	H1 FY2022*
Total Income	5,220	6,033	1,061
Profit after Tax	1,073	2,093	(303)
Net Assets	3,953	4,822	4,519
Total Assets	45,553	36,603	28,188
Return on Equity	27.2%	47.9%	-13.0%
Return on Assets	2.5%	5.1%	-1.9%
Reported gearing (times)	10.2	6.2	4.8
Adjusted Gearing <sup>1</sup> (times)	11.0	6.2	4.9

### Stand-alone

LKR Mn	FY2020	FY2021	H1 FY2022*
Total Income	1,126	856	471
Profit after Tax	1,006	1,990	(281)
Net Assets	3,744	4,570	4,289
Total Assets	10,225	13,846	13,860
Return on Equity	27.2%	47.9%	-12.7%
Return on Assets	9.3%	16.5%	-4.1%
Reported gearing (times)	1.7	1.9	2.2

\*Unaudited; Ratios for H1 FY2022 are annualized.

Note 01: Gearing based on net assets adjusted for one-off deferred tax asset

### Rating history for last three years:

Instrument	Amount Rated (LKR Mn)	Current Rating FY2022 Nov-21	Chronology of Rating History for the past 3 years		
			FY2021 Nov-20	FY2020 Dec-19	FY2019 Dec-18
Issuer rating	N/A	[SL]A (Stable)	[SL]A (Stable)	[SL]A- (Stable)	[SL]A- (Stable)
Senior unsecured redeemable debentures	2,000	[SL]A (Stable)	[SL]A (Stable);	N/A	N/A
Rated commercial paper programme	1,500	[SL]A1	[SL]A1	[SL]A2+	[SL]A2+



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