



Date

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Applicable Criteria

- Criteria | Rating Modifiers | Jun-22
- Methodology | Non-Banking Finance Companies Rating | Jun-22

Related Research

- Sector Study | Leasing & Finance Companies | Jun-22

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LRA Assigns Initial Entity Rating to Sarvodaya Development Finance PLC

Rating Type	Entity
	Current (21-Sep-22)
Action	Initial
Long Term	BB
Outlook	Stable
Rating Watch	-

The rating reflects the stable growth Sarvodaya Development Finance PLC (SDF or the Company), has experienced in the past five years and its unique accessibility to the rural sector through the Sarvodaya Movement. The brand name and the legacy of the Sarvodaya Movement add credibility to the Company. The Company got listed on the Colombo Stock Exchange in December 2021 and has adhered to the statutory requirements for Capital Adequacy Ratio (CAR) and core capital. The Company, while having unique access to Small and Medium Enterprises (SMEs) and the rural sector, also faces the risk of the current economic turmoil in the country affecting a large portion of its customer base. SDF has been successfully maintaining its gross Non-Performing Loan (NPL) ratio below industry levels since FY21. However, the current economic conditions in the country have impacted its gross NPL levels to increase from ~8.9% as of FY22 to ~10.8% as of 1QFY23. Steady growth is observed in the Company since SDF earned an interest income of LKR 1.8bn and profit-after-tax of LKR 215mn in FY22, which is a ~15% and ~18% growth respectively. Ratings reflect the Company's small industry position given its share of ~0.9% in the leasing industry. Recently, the Company has significantly increased its leasing portfolio which leads to an Advance to Funding ratio of over 150% which amplifies the risk. Going forward, the Company's successful credit risk management of portfolio amidst challenging economic scenario and bringing Advance to Funding ratio below will remain critical for the ratings.

The rating is dependent on the Company's ability to confront the volatile macroeconomic climate persistent in the country and sustain its position. Maintaining its growth momentum will be imperative for the Company. The rating will rely on the Company's capability to expand its asset base while preserving the asset quality.

About the Entity

Sarvodaya Development Finance PLC (SDF) is a public limited liability company incorporated and domiciled in Sri Lanka and is a licensed finance company regulated under Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011. The largest share of the company is owned by Sarvodaya Economic Enterprises Development Services (Gte) Ltd, with an ownership of 36%, while the Sarvodaya Movement collectively owns ~55% of the Company. The Board of SDF consists of seven non-executive directors, of whom, three are independent and four are non-independent directors. The management team is headed by the Chief Executive Officer, Mr. Jayanetti, who has experience in business management and strategic leadership in the banking and financial sectors.

The primary function of LRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. LRA comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. LRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.