Lanka Rating Agency

Rating Report

Alliance Finance Company PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
03-May-2025	BBB	Stable	Upgrade	-
02-Apr-2024	BBB-	Stable	Maintain	-
10-Feb-2023	BBB-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sri Lanka's economy experienced a significant rebound in 2024 following a phase of economic and political instability. In CY24, GDP grew by ~5.4% driven by strong performance in the industrial and services sectors. Economic indicators showed significant improvement, with currency stabilization, single-digit policy rate, and a sharp drop in inflation (-4.2% YoY in February 2025). This positive shift has lowered both country and systemic risk, benefiting Sri Lankan Licensed Finance Companies (LFCs). The LFC sector experienced asset growth of ~13.9% and a substantial improvement in asset quality with the gross NPL ratio falling to about ~11.3% in 9MFY25 (FY24: ~14.7%). This was due to increased size of lending portfolio and better repayment capacity of the borrowers. CBSL's master plan for consolidation of NBFIs Phase-II has been revised and is now underway.

Alliance Finance Company PLC ("AFC" or "the Company") is a Licensed Finance Company (LFC) listed on the Colombo Stock Exchange since 1959. The rating reflects AFC's established presence, improved profitability, better asset quality and focus on sustainable financing solutions. AFC is the oldest finance company in Sri Lanka and adopted the Triple Bottom Line (TBL) philosophy in 2012. The Company plans to develop its products in line with these values driven by a sustainable business mandate. The Company is classified as a mid-sized LFC, representing approximately ~3.9% of the sector's assets, ~3.1% of its deposits and ~4.0% of the sector's total loans and advances as of 9MFY25. The portfolio's diversification with higher-value loan products, leading to lower costs associated with small-ticket lending, has strengthened profitability and improved asset quality. AFC's Net Interest Income (NIM) increased to LKR~5.9bn in 9MFY25 compared to LKR~4.0bn in 9MFY24, a growth of ~48.3% y-o-y. Likewise, AFC's net profit stood at LKR~993.5mn in 9MFY25 (9MFY24: LKR~492.6mn). AFC has invested in people, systems, processes, and sustainability certifications resulting in modest short-term profits but expected to boost long-term sustainability and profitability. The Gross NPL ratio was ~6.8% during 9MFY25, lower than the industry average of ~11.3%. The Company's Capital Adequacy Ratio stood at ~14.5% in 9MFY25, above the Central Bank of Sri Lanka's (CBSL) statutory requirement of ~12.5% but remains below the industry average. Going forward, AFC is committed to sustainability, reflected in climate-focused products like Cinnamon Cultivators Development and Rooftop Solar Loans.

The rating is dependent on sustaining strong asset quality while aligning profitability and CAR with industry peers. Improved profitability and stronger capitalization would have a positive impact on the rating. Meanwhile, a significant decline in profitability or asset quality could lead to a rating downgrade.

Disclosure	
Name of Rated Entity	Alliance Finance Company 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(Feb-25)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Profile

Structure Alliance Finance Company PLC ("AFC" or "the Company") was incorporated as a public company in 1956 under the provisions of the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. It was listed on the Colombo Stock Exchange (CSE) in 1959.

Background AFC is the oldest Finance Company in Sri Lanka, with 68 years in the industry. It formally adopted the Triple Bottom Line ("TBL") philosophy in 2012.

Operations The principal business activities include acceptance of fixed and savings deposits and granting term loans, gold loans, and other credit facilities, leasing, vehicle trading and hiring services.

Ownership

Ownership Structure The largest shareholder of the Company is Mr. R K E P De Silva, with an ownership of ~36.87%. He is also the Deputy Chairman (DC) and the Managing Director (MD) of the Company.

Stability Mr. R K E P De Silva was appointed to the Board in 1990 and serves as a non-executive director in AFC's associates and subsidiaries.

Business Acumen Mr. De Silva is a Fellow of the Institute of Credit Management. He also holds directorships in many companies and is also a member of multiple professional bodies.

Financial Strength AFC currently does not have a need for capital infusion. However, the sponsors are willing and able to provide financial support if AFC needs it.

Governance

Board Structure The Board has 9 Directors, out of which 3 are Independent Directors and 3 are Non Independent Non Executive Directors. Mrs. Dharmakirti-Herath leads the Board members since 2020.

Members' Profile The Executive Directors have experience in Non-Banking Financial institutions (NBFI), micro financing, investment banking and marketing, both locally and internationally. The Non-Executive Directors possess a wealth of experience in sectors such as healthcare, financial services, brand building, strategic planning and law.

Board Effectiveness The Company has formed ~5 board sub-committees, namely, Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Related Party Transactions Review Committee (RPTRC), Human Resources and Remuneration Committee (HRRC), and Nomination and Governance Committee (NGC).

Financial Transparency The external auditors of the company, Deloitte, issued an unqualified audit opinion pertaining to the annual financial statements for FY24.

Management

Organizational Structure The head of the organization remains on the Board, 4 divisions in the Company report directly to Mr. De Silva, while other departments report to Mr. De Silva through the relevant Executive Directors.

Management Team The management team is headed by Mr. R K E P De Silva. The Managing Director is supported by a team of Executive Directors, Chief Experience officers (CXOs), Assistant General Managers, and a team of managers for different functions and areas. The Company has a large corporate and middle management. They have acquired decades of experience in their respective careers.

Effectiveness AFC has formed 7 management committees to run the operations smoothly in the Company.

MIS The Company is planning to move into a new core banking system which features direct connectivity to Lanka pay platform for seamless integrations to payment systems of Sri Lanka. The on-premises datacenters were migrated to local cloud Datacenters hosted by Dialog Axiata as well which resulted in improved performance and the DR process.

Risk Management Framework The internal audit department follows a comprehensive audit plan where all branches are audited at least once a year, while the gold loan divisions are audited twice a year. The risk management division focuses mainly on credit risk, market risk, and liquidity risk.

Business Risk

Industry Dynamics There are 34 Licensed Finance Companies ("LFC") in Sri Lanka, out of which, 27 are listed on the CSE. The sector profitability of the LFC sector improved by ~23.5% to LKR~43.1bn in 9MFY25 compared to 9MFY24 which was LKR~34.9bn (FY24: LKR~51.5bn). The deposits of the LFC sector increased by ~13.0% in 9MFY25 to LKR~1056.4bn while it was at LKR~935.1bn in 9MFY24 (FY24: LKR~987bn). However, total borrowings of the sector increased by ~15.3% in 9MFY25 to LKR~305.4bn from LKR~264.8bn in 9MFY24 (FY24: LKR~248.5bn). Total loans and advances of the sector have increased by ~22.8% to LKR~1,430.2bn in 9MFY25 from LKR~1,164.8bn in 9MFY24 (FY24: 1,214.7bn). 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 (FY24: LKR~1,760.7bn).

Relative Position AFC is considered as a medium sized Licensed Finance Company and accounts for ~3.9% of the assets and ~3.1% of the deposits in the sector, as at 9MFY25. AFC's net loans and advances accounts for ~4.0% of the loans and advances in the sector in 9MFY25.

Revenues AFC earned a net interest income of LKR ~5.9bn (FY24: LKR ~5.9bn), in 9MFY25, which is a ~48.3% increase since the same quarter of previous financial year. Interest income improved by ~11.2% to LKR~10.8bn (FY24: LKR~13.2bn) in 9MFY25 compared to 9MFY24. Interest expense decreased by ~15.1% to LKR~4.8bn (FY24: LKR~7.3bn) in 9MFY25 compared to 9MFY24. The growth in interest income was as a result of in the improvement in interest income from loans and advances. The core spread was improved to ~12.3% in 9MFY25 and ~11.0% in FY24 however it was at ~9.6% in FY23.

Performance The Company's PAT increased by ~102% to LKR~993.5mn in 9MFY25 from LKR~492.6mn in 9MFY24. This increase is due to growth in interest income and net fee and commission income. The significant growth was due to the favorable external environment and the successful implementation of strategic initiatives. ROE and ROA as at 9MFY25 stood at ~15.5% and ~1.9%.

Sustainability AFC is deeply committed to sustainability, reflected in its diverse product portfolio, which includes climate financing initiatives like Cinnamon Cultivators Development and Rooftop Solar Loans. The Company is transitioning towards electric vehicles to enhance its mobility solutions.

Financial Risk

Credit Risk The Company has maintained a gross and net NPL of ~6.79% (FY24: ~9.38%) and ~2.93% (FY24: ~5.48%) respectively in 9MFY25. It has maintained gross and net NPL below industry levels over the periods. These improvements reflect the Company's proactive recovery efforts and prompt credit management strategies.

Market Risk The Company increased its investments by ~16.2% to LKR~3.5bn in FY24 as compared to LKR~3.1bn in FY23 by increasing the investments in Government securities. The investments stood at LKR~5.2bn in 9MFY25 and Government securities constituted ~81.2% of the total investments.

Liquidity And Funding The Company remains largely reliant on deposits, which accounted for ~52.5% of its funding as of 9MFY25, compared to around ~58.3% in FY24. Its total borrowings comprise both local and foreign sources, including securitized borrowings, various credit facilities, and bank overdrafts. Local borrowings made up ~82% of the total, while foreign borrowings contributed ~18%. The concentration of the top 20 depositors rose to ~20.5% of total deposits in 9MFY25 (FY24: ~19.1%), highlighting moderate concentration risk.

Capitalization As of 9MFY25, the Company's Capital Adequacy Ratio (CAR) is ~14.5%, slightly above the Central Bank of Sri Lanka's (CBSL) statutory requirement of ~12.5%. it is well below than the industry average of ~21.2%

LRA

Lanka Rating Agency

Alliance Finance Company PLC	Dec-24	Mar-24	Mar-23	Mar-22
#	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	55,614	43,471	35,400	40,472
2 Investments	6,395	4,142	3,564	1,913
3 Other Earning Assets	6,971	5,024	5,572	1,201
4 Non-Earning Assets	5,115	4,905	4,109	4,724
5 Non-Performing Finances-net	1,755	2,633	3,603	(171)
Total Assets	75,850	60,175	52,248	48,140
6 Funding	63,410	48,698	43,047	38,107
7 Other Liabilities	3,487	3,348	2,243	3,352
Total Liabilities	66,897	52,046	45,290	41,459
Equity	8,953	8,129	6,958	6,681
B INCOME STATEMENT				
1 Mark Up Earned	10,762	13,185	11,947	7,852
2 Mark Up Expensed	(4,815)	(7,298)	(7,411)	(2,651)
3 Non Mark Up Income	717	712	422	518
Total Income	6,664	6,599	4,957	5,719
4 Non-Mark Up Expenses	(3,692)	(3,944)	(3,385)	(2,776)
5 Provisions/Write offs	(530)	(336)	(275)	(103)
6 Reversals	44	47	73	78
Pre-Tax Profit	2,442	2,366	1,370	2,918
7 Taxes on Financial Services	(651)	(669)	(419)	(555)
Profit Before Income Taxes	1,791	1,698	951	2,364
8 Income Taxes	(841)	(781)	(446)	(901)
Profit After Tax	950	917	505	1,463
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	55.4%	59.8%	68.3%	48.5%
b ROE	15.5%	12.2%	7.4%	23.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	94.1%	98.5%	94.7%	110.2%
b Accumulated Provisions / Non-Performing Advances	56.7%	41.5%	32.6%	111.2%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	19.8%	16.6%	21.0%	7.9%
b Borrowings from Banks and Other Financial Institutes / Funding	47.5%	41.7%	52.4%	59.2%
4 MARKET RISK				
a Investments / Equity	71.4%	50.9%	51.2%	28.6%
b (Equity Investments + Related Party) / Equity	11.3%	7.0%	3.9%	3.8%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	11.8%	13.5%	13.3%	13.9%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	11.7%	9.1%	5.0%	20.5%

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

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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’.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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