

SENKADAGALA FINANCE PLC- PB 238 PQ
No. 267, 2nd Floor, Galle Road, Colombo 03

CIRCULAR TO SHAREHOLDERS

March 12, 2021

Dear Shareholder,

ISSUE OF 5,176,790 NEW ORDINARY VOTING SHARES AT RS. 70.00 PER SHARE

If you are in doubt as to the action you should take, you should consult your Stockbroker or other Professional advisor immediately.

Approval, in principle, has been obtained from the Colombo Stock Exchange to issue and list the new Ordinary Voting shares. Trading of the “Rights” shall commence on the fourth (4th) Market Day from and excluding the date of dispatch of the letters of provisional allotment. Such trading shall continue throughout the period of renunciation to the CDS.

The listing of the Ordinary Voting Shares by the Colombo Stock Exchange will no way be reflective of the merits of the issue. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports included.

All the documents relating to the issue have been seen and approved by the Directors of the Company and the Directors collectively and individually accept full responsibility for the accuracy of the information given and confirm having made all reasonable enquiries, that, to the best of their knowledge and belief there are no other facts the omission of which would render any statement in the Circular misleading.

The last traded price of the Company’s Ordinary Voting Share, as at March 10, 2021 was Rs 92.00 per share.

1) OBJECTIVE OF THE RIGHTS ISSUE

The primary objective of the rights issue is to maintain a higher capital adequacy for the Company. This objective will be achieved once the company completes the rights issue. The company expects to complete this by 31st March 2021 or at the earliest possible date.

The funds will be utilized in the ordinary course of business **primarily to increase the loan book of the company**. The funds raised through the Rights Issue, Rs. 362,375,300 will be utilized for lending disbursement as finance leases within one month of its receipt. The current average loan disbursement of the company for the last quarter is Rs. 900.0 Mn. On average, Rs. 300-400 Mn worth of new funds are required for a month given the current business volume of the Company. Therefore the proceeds of the Rights Issue will be utilized within one month of the receipt. Further a higher capital adequacy for the Company satisfies the Fitch Ratings and thereby the Company expects an upgrading of the current ratings. The current capital adequacy ratios maintained by the company is well above the regulatory requirements as mentioned in the table below;

	CBSL Requirement	Company Rate
Core Capital Ratio	6.5%	14.63%
Total Capital Ratio	10.5%	19.46%

However through this Rights Issue the company is expecting to further strengthen the capital ratio which might be helpful to prospective investors of the Company in their investment decisions.

- a) The Company is in compliance with the Capital Adequacy requirements at present. The Core Capital Ratio and the Total Capital Ratio as at December 31, 2020 stands at 14.63% and 19.46% respectively. CBSL Capital Adequacy Ratio as at December 31, 2020 as per Direction No. 03 of 2018 is given below.

Company with Assets less than Rs.100 billion

Components of capital	31.12.2020
Tier 1 Capital	7.00
Total Capital	11.00

Further to the above, CBSL Circular dated 31st March 2020 has deferred the requirement of 01-07-2021 as per table below by further one year in support of businesses and individuals affected by the Covid – 19.

Company with assets less than Rs.100 billion

Components of capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
Tier 1 Capital	6.00	6.50	7.00	8.50
Total Capital	10.00	10.50	11.00	12.50

- b) The total assets of the Company grew by 13% for the 9 months ended 31st December 2020. The high growth rate will experience an increase of the risk weighted asset base of the Company, thereby reducing the capital ratios.

The Fitch Ratings Lanka Ltd in its previous annual rating review has mentioned that an upgrade of company's rating is contingent upon the Company sustaining stronger capital levels. Hence the management has decided to improve the Company's capital in an attempt to improve its rating in the next rating revision of the Company.

The Fitch Ratings Lanka Ltd in its annual rating review of 25-09-2020 under caption "Rating Sensitivities" informs an update of Senkadagala rating in the longer term is contingent upon the company achieving greater scale by sustaining stronger capital levels. Hence the management has decided to improve the company's capital ratios.

- c) Forecasted capital ratios subject to the Rights Issue being fully subscribed,

	Forecasted Capital ratio as at	
	Post Rights Issue	Pre Rights Issue
Core capital ratio	16.30%	15.33%
Total capital ratio	21.08%	20.10%

2) FUND UTILIZATION DURING THE INTERIM PERIOD.

The proceeds of the Rights Issue will be utilized in the ordinary course of the business and will not be utilized for any related party transactions. In the event of a change in objectives of the Rights issue the company will comply with the relevant listing rules applicable.

Until the funds are utilized it will be invested in short term instruments such as Money market, Repos and short term Fixed deposits. The Head of Treasury with the consent of the Additional Chief Executive Officer will make decisions pertaining to the investments of the funds in the interim period. The expected rate of return by investing the proceeds in the short term instruments will be 6.00% - 6.50%.

The company will include information about utilization of funds in the format given below in its future Annual Reports and Interim Financial Statements from the date of raising funds.

Continuous disclosure regarding status of utilisation of funds raised via Rights Issue.
Rights Issue Proceeds Utilisation as at

Objective number	Objective as per Circular	Amount allocated as per Circular in LKR	Proposed date of Utilization as per Circular	Amount allocated from proceed in LKR (A)	% of total proceed	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilize including where the funds are invested (eg: whether lent to related party/s etc)
1								
2								

In the event the funds raised through the Rights Issue of Securities have been fully utilized by the Listed Entity as disclosed in Circular to shareholders between two financial periods, the Entity shall disclose such fact in the immediate succeeding Annual Report or the Interim Financial Statement, whichever is published first

3) THE RIGHTS ISSUE

The Rights issue is to the existing holders of Ordinary Shares on the basis of One (1) New Ordinary Voting Share for every Fourteen (14) existing Ordinary Voting shares at an issue price of Rs. 70.00 per share as at the end of trading on March 29, 2021.

The company has already obtained approval for the Rights Issue from the Central Bank of Sri Lanka (CBSL) by its letter dated February 02, 2021 and no other regulatory approvals applicable but the required approvals from the CSE.

The Directors of the Company have resolved that in their opinion the consideration for which the Shares are issued is fair and reasonable to the Entity and to all existing ordinary voting shareholders in terms of Section 52(1)(b) of the Companies Act No 7 of 2007.

The amount expected to be raised by this issue is approximately Rs. 362,375,300/-.

4) STATUS OF THE NEW SHARE

The Ordinary Voting Shares so issued shall rank equal and pari passu in all respects with the existing ordinary shares and will be entitled to dividend declared, only after the final allotment which shall be after the last date of acceptance and payment

5) BENEFITS OF THE RIGHTS ISSUE

- a) Strengthens the existing capital bone of the company to maintain the capital ratios at comfortable levels.
- b) To expand the lending and other business activities of the company.
- c) Higher Capital Adequacy ratios for the company satisfies "Fitch Ratings" and thereby the company expects an upgrade of its current ratings.

6) INVESTOR INFORMATION

i. Share price

The traded price of Company's Ordinary Voting Shares during the past 3 months were as follows.

	February 2021	January 2021	December 2020
High	Nil	Nil	Nil
Low	Nil	Nil	Nil
Closing	Nil	Nil	Nil

ii. Dividend History

Dividend History of the Company as follows,

Dividends Paid (Gross)	Financial Year ended March 31, 2020	Financial Year ended March 31, 2019	Financial Year ended March 31, 2018
Value in rupees (Rs.)	Nil	155,821,381.15	246,415,207.4
Dividends payout ratio (%)	Nil	24.02%	21.21
Dividends per share (Rs.)	Nil	2.15	3.40

iii. Top 20 Shareholders

The details of the top twenty shareholders of Ordinary Voting Shares as of March 10, 2021 were as follows.

No	Name	Shares	%
1	E.W. Balasuriya & Co. (Pvt) Ltd	40,918,535	56.46
2	Hallsville Trading Group Inc.	5,954,393	8.22
3	Est. of Late Mr. Mahendra Balasuriya	4,172,046	5.76
4	Dr. Gayathri Madan Mohan	4,172,045	5.76
5	Mr. Rohan Balasuriya	4,172,045	5.76
6	Dr. Asoka Balasuriya/ Mr. Dilshan Balasuriya	2,086,023	2.88
7	Mr. Lakshman Balasuriya/Mr. Sahishnu Keshav Balasuriya	2,086,023	2.88
8	Mr. Lakshman Balasuriya/Mrs. Amanthi Shanouska Balasuriya	2,086,022	2.88
9	Dr. Asoka Balasuriya/ Mr. Sonal Balasuriya	2,086,022	2.88
10	Mrs.Lakshmi Fernando & Ms. Sinduri Archana Fernando	1,166,232	1.61
11	Mrs.Lakshmi Fernando & Mr. Ashan Rajaindra Fernando	1,166,231	1.61
12	Mrs.Lakshmi Fernando & Ms. Anishka Lakshmi Fernando	1,166,231	1.61
13	Mr. Deberamandadige Kumar Chakrawarti Rajindra Fernando	673,348	0.93
14	Mrs. Chandra Fernando	172,888	0.24
15	Est.of Late Don Gamini Kodituwakku Hewamallika	172,888	0.24
16	Mr. Ifthikar Mubarak Thaha	144,073	0.20
17	Mr. Muhudugama Marambage Ariyaratne	31,653	0.04
18	Mr. Padmananda Pradeep Kumara Ikiriwatte	16,977	0.02
19	Mr. Jagath Kashyapa Jayatileke	16,963	0.02
20	Est. of Late Mrs. Sanoona Thaha	14,408	0.02
Total		72,475,046	

iv. Other – Public Holding

The percentage of Ordinary Voting shares held by public shareholders as at December 31, 2020 was 15.64%. The Company is currently not in compliance with the minimum public holding requirement of 200 public shareholders, as the number of public shareholders at present is 08. Pursuant thereto, the voting shares of the Company are listed in the Second Board.

However, further to the announcement dated January 04, 2021, the Company is in the process of evaluating options available to comply with the said requirements. The Company will finalise the steps to be adopted with the minimum public holding requirement by way of a market announcement no sooner management decides to comply the regulatory requirement

7) FINANCIAL PERFORMANCE

The group reported a Profit After Tax of Rs. 315.81mn for the nine-month period ended December 31, 2020 in comparison to the Rs. 248.81mn reported for the comparative period. The audited financial statement for the financial year 2019/20 and the latest interim financial statements could be accessed via <https://www.cse.lk/pages/company-profile/company-profile.component.html?symbol=SFCL.N0000>

7.1 Impact of Covid – 19

The Covid 19 pandemic has had an impact on the normal business operations of the company as well as on the businesses and sources of income of the customers of the company.

In addition to the adverse business environment, the circulars issued by the CBSL time to time details the concessions offered to the affected business and individuals by way of moratorium on payments. This will have a negative impact on financial institutions on the expected interest income due to them from its affected customers which will be differed until the end of the moratorium period. This non receipt of interest income will have an impact on the profitability of the lending institutions.

8) FRACTIONAL ENTITLEMENT

Fractional entitlements of shares shall **not be allotted to the shareholders**, and the cumulative shares left un-allotted from such fractional entitlements shall be made available to the additional share applicants.

Number of Ordinary Voting Shares held by a shareholder as at end of trading on the EGM Date X 1

14

9) PROVISIONAL LETTER OF ALLOTMENT

The Provisional Letter of Allotment provisionally allotting the Ordinary Voting shares on the aforementioned basis will be posted to the shareholders, consequent to the Shareholders' approval for the Rights Issue. It would contain the procedure on how you may accept the Ordinary Voting shares provisionally allotted.

In the event that you decide to accept the provisional allotment (in full or in part) you should complete only the Letter of Acceptance (Form "A") and forward it to ***Business Intelligence (Private) Limited, Registrars to the Issue at No. 8, Tickell Road, Colombo 8***, together with the Provisional Letter of Allotment in its entirety together with the cheque/Bank Draft to reach us not later than **4.30 p.m. on April 19, 2021**.

Strict compliance with the instructions detailed in the Provisional Letter of Allotment is necessary.

As per the applicable CSE Listing Rules, all new securities arising from the proposed Rights Issue would be directly deposited to the respective Shareholders' CDS Account, within Twelve (12) market Days from April 19, 2021, which is the last date of acceptance and payment.

No share certificates will be issued to any shareholder

All shareholders are therefore, requested to fill in correctly their valid CDS account number in the place provided for the same in the forms A, B & C of the Provisional Letter of Allotment.

In the event you do not possess a valid CDS account, please ensure to contact a 'Stockbroker' and avail yourself of a CDS account. Your entitlement of shares, until such time the Company Secretaries receive a valid CDS account number will be held in 'suspense', which would be deposited directly to your respective CDS Account as per your advice.

The Rights shares provisionally allotted to you could be renounced to the **CDS only**. For this purpose, please complete Form B, Letter of Renunciation only, indicating that you are renouncing in favour of the CDS and should be deposited with the CDS on or before April 16, 2021.

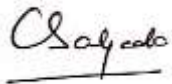
You are also offered the opportunity of applying for additional Ordinary Voting shares over and above the shares provisionally allotted which may be possible due to some members not taking up their entitlement. In the event that you wish to apply for such additional Ordinary Voting shares, you should complete and return to the Company Secretaries, the Form of Application for Additional Shares (Form "C") in accordance with the detailed instructions therein.

The Rights Issue has not been underwritten. It should be noted that the Major shareholders have given an undertaking to subscribe for its entitlement and any other undersubscribed rights under the Rights issue in full, after fully allotting to other shareholders who have applied for additional shares. In the event of an over- subscription, the basis of allotment of additional Ordinary Voting shares will be determined by the Board of Directors of the Company.

10) MODE OF PAYMENT

The remittances must be made by cheque /bank draft drawn upon any Commercial Bank in Sri Lanka and payable to "SENKADAGALA FINANCE PLC - RIGHTS ISSUE ACCOUNT" and crossed "Account Payee Only".

**By Order of the Board
SENKADAGALA FINANCE PLC
MANAGERS & SECRETARIES (PRIVATE) LIMITED**



SECRETARIES