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Moody's Downgrades Sri Lanka's Rating to Caa2; Outlook Stable

Moody's Investors Service (Moody's) has downgraded the Government of Sri Lanka's long-term foreign currency issuer and senior unsecured debt ratings to Caa2 from Caa1 under review for downgrade. The outlook is stable. This concludes the review for downgrade initiated on 19 July 2021.

The decision to downgrade the ratings is driven by Moody's assessment that the absence of comprehensive financing to meet the Government's forthcoming significant maturities, in the context of very low foreign exchange reserves, raises default risks. In turn, this assessment reflects governance weaknesses in the abilityof the country's institutions to take measures that decisively mitigate significant and urgent risks to the balance of payments.

External liquidity risks remain heightened. A large financing envelope that Moody's considers to be secure remains elusive and the sovereign continues to rely on piecemeal funding such as swap lines and bilateral loans, although prospects for non-debt generating inflows have improved somewhat since Moody's placed Sri Lanka's rating under review for downgrade. Persistently wide fiscal deficits due to the government's very narrow revenue base compound this challenge by keeping gross borrowing needs high and removing fiscal flexibility.

The stable outlook reflects Moody's view that the pressures that Sri Lanka's Government faces are consistent with a Caa2 rating level. Downside risks to foreign exchange reserves adequacy remain without comprehensive financing and narrow funding options. Should foreign exchange inflows disappoint, default risk would rise further. However, non-debt generating inflows particularly from tourism and foreign direct investment (FDI) may accelerate beyond Moody's current expectations, which, coupled with the track record ofthe authorities to put together continued, albeit partial, financing, may support the Government's commitment and ability to repay its debt for some time.

Sri Lanka's local and foreign currency country ceilings have been lowered to B2 and Caa2 from B1 and Caa1,respectively. The three-notch gap between the local currency ceiling and the sovereign rating balances relatively predictable institutions and government actions against the very low foreign exchange reserves adequacy that raises macroeconomic risks, as well as the challenging domestic political environment that weighs on policy making.

The three-notch gap between the foreign currency ceiling and local currency ceiling takes into consideration the high level of external indebtedness and the risk of transfer and convertibility restrictions being imposed given low foreign exchange reserves adequacy, with some capital flow management measures already imposed.

Ill-timed and unacceptable rating action by Moody's

The Sri Lankan Government responding to Moody's rating Stated:

"The Government of Sri Lanka (GOSL) wishes to express strong displeasure on the recent assessment by Moody's Investors Service (Moody's) that led to the rating action, after being placed under review for downgrade three months ago in a similar fashion.

Once again, Moody's irrational rating action with regard to Sri Lanka comes a few days before a key event, namely the announcement of the Government Budget for 2022, and this apparent hastiness and the view expressed during discussions with Moody's analysts that the nature of the Budget is irrelevant to the financing plans of the Government clearly demonstrates the lack of understanding of such analysts.

It also reflects serious governance weaknesses of such agencies, where they systematically overlook the positive developments and expectations in emerging market economies, but attribute much greater weight to downside risks. Moody's assessment has also failed to take into account the latest developments in strengthening the country's external position through an array of measures, some of which have already yielded intended outcomes, as announced by the Central Bank of Sri Lanka (CBSL) on 26 October 2021.

Moreover, the assessment exposes the rating agency's ignorance on the well-established political stability within a democratic setup, when it claims about "governance weaknesses" and "challenging domestic political environment", and its obvious insensitivity to the challenges faced by a country that is recovering from adverse external events without bringing pain to investors who have stood by Sri Lanka during various difficulties that the country has undergone in the past.

In addition to the six-month strategy articulated in the Road Map presented by the CBSL on 01 October 2021, Moody's assessment has failed to recognise the medium to long-term funding arrangements that are being finalised with various bilateral sources, which are due to be materialised in the near term.

In addition, a substantial amount of funds is expected from the already lined-up prioritised project loan related inflows to the Government. The recent discussions on bilateral currency SWAP arrangements with several central banks are also expected to provide the country with additional support in the near term. Without considering such cashflows, any assessment on the repayment capacity of the Government carries prejudice. Rating action based on such biased assessment is unfair and detrimental to the country's prospects, as Sri Lanka is emerging strongly from the adverse effects of the COVID-19 pandemic.

Needless to say, such action by an international rating agency calls into question the validity of its advice to the investor community. Nevertheless, it is clear that international investors have continued to put faith in Sri Lanka's plans for recovery, as repeatedly reflected in their preference to hold Sri Lanka's International Sovereign Bonds (ISBs) to maturity, despite claims by Moody's about a heightened risk of default by Sri Lanka.

The GOSL is in the process of preparing its Budget for the forthcoming year to be presented on 12 November 2021 with economic activities returning to near normalcy, and the country is already experiencing strong signs of revival of tourism and other activities that generate non-debt creating foreign currency inflows, including the monetisation of under-utilised non-strategic assets.

This untimely rating decision taken prior to the Budget shows that Moody's has not taken all the relevant information to form its assessment of the country's performance and the expected path, into account."

Reserves bleed $40.85M

By Paneetha Ameresekere

Money market liquidity decreased by Rs 8,293 million (US$ 40.85 million) during trading due to the possible settlement/s of Government of Sri Lanka's (GoSL's) foreign debt servicing commitments and/or Central Bank of Sri Lanka (CBSL) sales of US dollars to the market at the discounted price of Rs 203 to the US dollar for the import of so-wwcalled essential items and/or GoSL's sales/swaps to/ with CBSL and/or CBSL's swaps with the market yesterday.

Conversions are based on Tuesday's administered 'spot' price which was Rs 203 to the dollar. CBSL's open market operations (OMO) data doesn't capture transactions between CBSL and other central banks, Asian Clearing Union and the IMF. Nonetheless, CBSL is not transparent in its OMO data.

GoSL's at least theoretical money printing borrowing costs (MPBCs) increased by 0.56 per cent (Rs 330.46 million) to Rs 59,052.95 million yesterday led by panic sales of Treasury (T) Bills and T Bonds in secondary market trading due to Moody's downgrade of Sri Lanka and complemented by GoSL's non-demand pull inflationary face value (FV) MP debt increasing by Rs 4,065 million (0.24 per cent) to Rs 1,729,691.03 million (Rs 1.7297 trillion).

GoSL's FVMP debt has been over one trillion rupees for a record consecutive 68 market days to yesterday due to a lack of revenue.

Money market was short for the thirty sixth-consecutive market day to yesterday, thereby causing persistent rate pressure, with market shortfall increasing by 2.47 per cent (Rs 4,228 million) to Rs 175,472 million. Transactions between GoSL and CBSL are foreign reserves neutral.

Eight-day bullish run ends at CSE

Ex-Pack IPO 11 times oversubscribed

By Mario Andree

The eight-day bullish run which led the Colombo Stock Exchange to record an all-time high the previous day, ended on Thursday (28) with the benchmark index retreating on a higher turnover with continued foreign exits from the Colombo Bourse, though the recent Initial Public Offerings (IPO) show promise.

The Colombo Stock Exchange has witnessed several successful IPO during the last few days and is hoping the future offerings too would perform in a similar manner boosting overall performance of the Bourse.

Last Week, Ex-Pack saw its Rs 700 million IPO oversubscribe on the opening day and according to marketing sources it has preformed much better than expected. The offering which closed on the opening day was oversubscribed by 11 times, after receiving more than 6,000 applications, making it the best preforming IPO in recent times. Ex-Pack shares are expected to trade at the exchange early November.

The benchmark All Share Price Index (ASPI), which started the day at 10,146.90 points, rose to 10,154.50 during the opening hours of the day before crashing to 10,127.23, the index then peaked to 10,202.98 points before slowing down to close the day at 10,137.85 points, losing 9.05 points (0.09 per cent) compared to the previous day's close

The more liquid S&P SL20 index which started the day at 3,698.72 points, crashed to 3,682.82 points during the early hours of the day before recovering to peak at 3,722.31 points. The index then crashed to 3,687.56 points to close the day losing 11.16 points (0.30 per cent) compared to the previous day's close.

The day's turnover stood at Rs 4.18 billion, lower than Rs 5.08 billion recorded on the previous day.

More than 142 million shares changed hands during 33,289 trades taken place.

Shares of 257 companies were traded during the day, of which 177 emerged as winners ahead of 82 losers.

Foreigners were sellers during the day. The net foreign outflow on Thursday (28) stood at Rs 89 million as foreigners sold shares worth Rs 129 million as against purchases worth Rs 40 million.

The top ten losers during the day were: Blue Diamonds, HNB Finance (non-voting), Abans, Asia Assets (P), Lanka Realty, e-Channeling, Keleni Cables, Colombo Fort Investment, Ceylon Investments, Lanka Ventures.

The top ten winners were: Industrial Asphalt, Galadari, Amana Bank, Durdens (non-voting), Lake House Printers, Commercial Development, Serendib Hotels (non-voting), Malwatte Plantations (non-voting), Guardian Capital and Anilana Hotels.

Cargills among Most Admired Companies in SL 2021

CIMA and ICC Sri Lanka recognised the winners of Sri Lanka's Most Admired Companies Awards, at an event held at the BMICH on 27 October. The award recognised companies not just for their financial performance, but also the value they create for their shareholders, customers, employees and the wider community.

As an essential service provider and a leading food company, Cargills continued to meet the needs of consumers during a challenging year. In addition to operating 465 supermarket outlets and 50 restaurants across the country, Cargills operates 8 manufacturing facilities which produce value-added dairy products, confectionery, beverages, culinary products, and convenience food. The Group's main food brands have become leading national brands over

Cargills Group Chief Human Resources Officer Geetha Yasanayake and Group Manager Corporate Communications Sandamali Hewanayake holding the award while High Commissioner of India to Sri Lanka, Gopal Baglay, Mayor of Colombo Rosy Senanayake, CIMA Sri Lanka Country Head Zahara Ansary look on

time, with a key focus on quality and innovation. Cargills has given prominence to sourcing its raw materials locally, creating markets for local farmers and suppliers, staying true to its mission of supporting regional development and bridging disparities across the country. The Group is the single largest collector of fruits and vegetables in the country and also the leading private sector collector of fresh milk, working with a network of over 23,000 agricultural and dairy farmers. Cargills generated direct income over Rs9 billion to the dairy and agriculture farming communities in Sri Lanka last year through its purchases.

With a team of 12,000, Cargills is also a key generator of opportunities for the rural youth. Over 60 per cent of the Cargills team comes from regions outside the Western Province and more than 70 per cent of the team is under the age of 35. The company invests in developing the skills of its young team through an internal training academy – the Albert A. Page Institute – which provides internationally recognised certifications and training programmes.

The company invested Rs 6.4 billion during the last financial year across all its business verticals, to further grow and drive community development. One of oldest companies in the country, with a heritage of 177 years, Cargills continues to stay true to its core values of providing affordable nutrition and serving communities across Sri Lanka.

Seylan Bank 3Q 2021 PAT hits Rs 3.2B

Seylan Bank PLC announced a Profit After Tax (PAT) of Rs 3.2 Bn in the nine months ending 30 September 2021 reflecting a 45% increase over the corresponding period last year. The Bank's Net Interest Income grew by 14.76% to Rs 17,068 Mn during the period under review, announcing a robust growth as the industry overcomes the prolonged impact of the pandemic.

The Bank reported a credit growth of 8.75 % increasing the advances from Rs 394 Bn to Rs 428 Bn. This is mainly due to increase in term loans, revolving import loans, pawning and leases which was partly set off by decrease in refinance loans and export bills etc. Further, the Bank's asset base expanded by Rs 26,047 Mn to Rs 583,755 Mn.

Seylan Bank's deposit base grew from Rs 440 Bn to Rs 451 Bn during the nine months ended 30

Ravi Dias

Kapila Ariyaratne

September 2021. The overall Current Account Savings Account (CASA) balances increased by 7.45% during the period under review and the CASA ratio stood at 34.61 %.

Seylan recorded a noteworthy growth of 24.89 % in net fees and commission income for the period under review. The growth was mainly attributed to fee income from guarantees and trade finance activities. Net gains from de-recognition of financial assets, net gains on foreign exchange transactions and other operating income, came together to deliver a net gain of Rs 1,979 Mn in 3Q 2021 mainly as a result of upward movement in exchange income despite the loss in Mark to Market on Derivatives Financial Instruments and drop in net capital gains on treasury bills and bonds.

Total expenses in the period increased by 5.42% to Rs 10,036 Mn, as the Bank focused on embracing digital technology and process re-engineering, to achieve leaner and efficient processes while keeping the cost under control. Meanwhile, both interest income and interest expenses declined year-on-year, reflecting the reduced interest rate environment, with the latter posting a larger decline at 29.62% aided by the growth in Current Account Savings Account (CASA) balances.

Seylan Bank recorded 10.56 % as Total Tier 1 Capital Ratio and 13.87 % as the Total Capital Ratio. The Gross NPA (Net of IIS) Ratio stood at 6.42 % as at 30 September 2021.The Bank's Earning per Share (EPS) improved to Rs. 6.00 from Rs 4.16 in Q3 2020. The Bank recorded a Return (Profit Before Tax) on Average Assets (ROAA) of 1.04 % and Return on Equity (ROE) of 8.61%. The Bank's Net Assets Value per share as at 30 September 2021 was Rs 94.74 (Group Rs. 98.17).