



Mr. K M M Jabir  
Richard Pieris Finance Limited,  
#69, Arpico Complex,  
Hyde Park Corner,  
Colombo 2

September 28, 2018

Dear Jabir,

**Re: Initial Rating Letter for Richard Pieris Finance Limited**

Fitch (see definition below) assigns the following rating today:-

National Long-Term Rating at 'BBB+(lka)'. The Outlook is Stable.

**RATING DRIVERS**

Richard Pieris Finance Limited's (RPF) rating is driven by institutional support from its parent, Richard Pieris & Company PLC (RICH). This reflects Fitch's belief that there is a high propensity of support from RICH to RPF, if needed. Our assessment takes into account the parent's 98% effective control in RPF and their common brand name.

RICH's credit profile and its ability to support RPF is reflected in its 'A(lka)/Stable' rating, which is underpinned by its standalone strength. However, the relatively large size of RPF would contain the parent's ability to provide extraordinary support to the subsidiary. RPF's total assets and equity accounted for 24% and 15.6% of RICH's group assets and equity respectively, at end-March 2018.

RPF is rated two notches below its parent because of its limited contribution to the group's core businesses. Despite its relative size, RPF's synergies with its parent are limited as the subsidiary's role in facilitating group's core business is low. Further, RPF's integration with the group is also low as the subsidiary exercises considerable management and operational independence.

RPF's standalone rating is weaker than its support-driven rating mainly due to its heightened risk appetite underpinned by weak underwriting standards and risk controls. This is reflected in RPF's deteriorating asset quality measures; its NPL ratio spiked to 9.7% at end-March 2018, which is well above the industry average of 5.8%. Further, RPF's loan loss coverage ratio decreased sharply by end-March 2018 as increase in NPLs, which rose by more than 1.5 times, outpaced the increase in provisioning.

In order to accommodate the company's loan growth expectations, RPF is likely to need additional capital in the medium term in order to meet the enhanced total capital ratio of 12.5% by 1 July 2021. This is despite of RPF's satisfactory capital levels, with Tier I and Total Capital Ratio of 13.4% at end-March 2018, which is above the regulatory minimum of 5% and 10% respectively.

RPF is likely to rely on wholesale funding in the medium term to support its future expansion although the company has commenced soliciting deposits in FY18.

# Fitch Ratings

## RATING SENSITIVITIES

Weakening links with the parent, including declining parental control or importance to the group, or a downgrade of RICH's National Long-Term Rating, could trigger a rating downgrade on RPF.

Fitch believes the possibility for a rating upgrade is most likely to result from an upgrade of RICH or a significant increase in RPF's role and/or strategic importance to its parent.

### **Rating Criteria**

[Non-Bank Financial Institutions Rating Criteria \(June 2018\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

You should notify your business relationship manager at Fitch if you wish to publish the rating. Fitch will then publicly disseminate the resulting rating and the rating will be monitored. Should you not request that the rating be made public, the rating will be point-in-time only or, subject to agreement with Fitch, monitored on a non-public basis.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

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# Fitch Ratings

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact Sugath Alwis , Analyst at +94 11 2541900.

Sincerely,

Fitch Ratings Lanka Limited

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