

# Richard Pieris Finance Limited

## Key Rating Drivers

**Parental Support Drives Rating:** Richard Pieris Finance Limited's (RPF) rating reflects Fitch Ratings' expectation of support from parent, Richard Pieris & Company PLC (RICH), a Sri Lankan conglomerate. This view is based on RICH's majority 98% effective shareholding and the common brand name. Fitch views RPF's intrinsic financial strength to be significantly weaker than its support-driven rating due to its weak financial profile, small franchise (around 1% market share), limited operating history, and higher risk appetite.

**Limited Role In Group:** We regard RPF to be of limited importance to RICH, given its limited contribution to the group's core businesses, which is evident in RPF's smaller share of lending within the group's ecosystem. Furthermore, RPF's integration with the group is low, as the subsidiary exercises considerable management and operational independence. In addition, we believe support from the parent could be constrained by RPF's large size, as its assets represented 95% of group equity and 25% of group assets at end-September 2020 (1HFY21).

**Ordinary Capital Support:** The Central Bank of Sri Lanka imposed lending and deposit caps on RPF, as its regulatory capital ratios and core capital levels fell below the interim regulatory minimum requirements at end-1HFY21 due to interim losses and delayed capital injections. RPF indicated that the regulatory restrictions were removed following a capital injection of LKR350 million in October 2020. RPF is required to raise its core capital further to LKR2.5 billion by the extended regulatory deadline of end-2021.

RPF's debt (including deposits)/tangible equity rose to 10.2x by end-1HFY21, as a result of lower equity due to interim losses and higher debt from Tier 2 capital issuance. We expect leverage to increase in the near- to medium-term due to lower or negative earnings retention relative to loan growth.

**Weak Performance Persists:** RPF's asset-quality metrics remain weak, with a regulatory non-performing loan ratio of 26.1% at end-1HFY21 (FY20: 27.8%, FY19: 7.5%). We expect further pressure on this metric once the ongoing coronavirus pandemic-related moratorium ceases in March 2021, given the high vulnerability of RPF's customer segments to deteriorating economic conditions. Profitability deteriorated significantly during 1HFY21 as a result of a negative adjustment to interest income caused by lower yields of its facilities under the moratorium.

## Rating Sensitivities

**Parent's Credit Profile:** RPF's National Long-Term Rating would most likely be upgraded following an improvement in RICH's credit profile, as we do not expect a significant increase in RPF's strategic importance to its parent.

**Weaker Propensity; Relative Size:** Any perceived weakening in RICH's propensity to support RPF could be negative for RPF's rating. This may stem from a further weakening in performance at RPF that raises questions over the parent's long-term commitment to the subsidiary. Delays in providing support to RPF to address regulatory capital shortfalls could signal a weakening propensity to provide support and result in wider notching.

RPF's rating could be downgraded if its size relative to that of its parent were to place greater constraints on RICH's ability to support its subsidiary.

## Ratings

**National**  
National Long-Term Rating AA-(Ika)

**Sovereign Risk**  
Long-Term CCC  
Foreign-Currency IDR CCC  
Long-Term Local-Currency IDR CCC  
Country Ceiling B-

## Outlook

National Long-Term Rating Stable

## Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

## Related Research

Fitch Affirms Richard Pieris Finance's National Rating at 'AA-(Ika)'; Outlook Stable (March 2021)

What Investors Want To Know: Impact Of Sri Lanka National Scale Recalibration On Bank Ratings (January 2021)

Fitch Ratings 2021 Outlook: APAC Emerging-Market Finance and Leasing Companies (November 2020)

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## Income Statement

	6 Months - Interim	30 Sep 2020	31 Mar 2020	31 Mar 2019	31 Mar 2018
	USDm	LKRunits	Year End	Year End	Year End
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
<b>Revenue</b>					
Operating and finance lease income net of depreciation	n.a.	n.a.	-35,473,899.0	n.a.	n.a.
Gross interest, leasing and dividend income	5	895,750,000.0	2,844,023,510.0	2,780,492,056.0	2,133,736,798.0
Total interest expense	5	874,410,000.0	2,053,313,727.0	1,660,379,137.0	1,211,243,242.0
Net interest income	0	21,340,000.0	790,709,783.0	1,120,112,919.0	922,493,556.0
Total non-interest operating income	0	47,870,000.0	216,520,939.0	254,774,523.0	176,497,420.0
<b>Expenses</b>					
Total non-interest expenses	1	269,960,000.0	555,794,548.0	540,193,624.0	372,322,035.0
Pre-impairment/provision operating profit	-1	-200,750,000.0	451,436,174.0	834,693,818.0	726,668,941.0
Impairment charges	0	36,210,000.0	725,790,606.0	111,449,049.0	102,108,135.0
Securities and other credit impairment charges	n.a.	n.a.	368,915,738.0	105,268,386.0	n.a.
Operating profit	-1	-236,960,000.0	-643,270,170.0	617,976,383.0	624,560,806.0
Pre-tax income	-1	-236,960,000.0	-633,750,037.0	617,976,383.0	624,560,806.0
Net income	-1	-236,960,000.0	-644,006,847.0	328,701,419.0	398,351,605.0
Fitch comprehensive income	-1	-236,960,000.0	-643,250,392.0	330,758,081.0	394,904,606.0
Memo: EBITDA	3	637,450,000.0	1,461,312,522.0	2,312,934,319.0	1,857,566,093.0
Exchange rate		USD1 = LKR185.5224	USD1 = LKR188.6236	USD1 = LKR176.13	USD1 = LKR155.9

Source: Fitch Ratings, Fitch Solutions, RPF

## Balance Sheet

	6 Months - Interim USDm	30 Sep 2020 6 Months - Interim LKRunits	31 Mar 2020 Year End LKRunits	31 Mar 2019 Year End LKRunits	31 Mar 2018 Year End LKRunits
<b>Assets</b>					
<b>Loans and leases</b>					
Gross loans	n.a.	n.a.	14,759,915,154.0	15,675,729,477.0	12,236,411,122.0
Net loans	68	12,569,380,000.0	13,530,072,323.0	15,171,677,255.0	11,779,188,115.0
Gross loans and leases	n.a.	n.a.	14,759,915,154.0	15,675,729,477.0	12,236,411,122.0
Loan loss allowances for receivables and loans	n.a.	n.a.	1,229,842,831.0	504,052,222.0	457,223,007.0
Net loans and leases	68	12,569,380,000.0	13,530,072,323.0	15,171,677,255.0	11,779,188,115.0
Other earning assets	1	94,390,000.0	129,328,427.0	108,019,837.0	109,400,331.0
Total earning assets	71	13,119,010,000.0	14,532,998,943.0	15,979,449,180.0	12,418,149,372.0
Total assets	95	17,579,140,000.0	17,440,838,287.0	19,037,074,196.0	13,863,771,679.0
<b>Liabilities and equity</b>					
<b>Debt and deposits</b>					
Total customer deposits	48	8,933,670,000.0	8,710,786,500.0	6,911,973,425.0	5,070,356,531.0
Total deposits	48	8,933,670,000.0	8,710,786,500.0	6,911,973,425.0	5,070,356,531.0
Total short-term debt funding	n.a.	n.a.	2,744,087,252.0	2,604,165,589.0	2,436,805,980.0
Total long-term funding	34	6,312,820,000.0	3,212,181,782.0	5,797,565,299.0	2,683,834,150.0
Total debt and deposits	82	15,246,490,000.0	14,667,055,534.0	15,313,704,313.0	10,190,996,661.0
Total interest-bearing liabilities	82	15,246,490,000.0	14,667,055,534.0	15,313,704,313.0	10,190,996,661.0
Total liabilities	85	15,758,920,000.0	15,468,651,036.0	16,421,636,553.0	11,379,121,231.0
Total equity	10	1,820,220,000.0	1,972,187,251.0	2,615,437,643.0	2,484,650,448.0
Total equity less non-controlling interest/minority interest	10	1,820,220,000.0	1,972,187,251.0	2,615,437,643.0	2,484,650,448.0
Total liabilities and equity	95	17,579,140,000.0	17,440,838,287.0	19,037,074,196.0	13,863,771,679.0
Exchange rate		USD1 = LKR185.5224	USD1 = LKR188.6236	USD1 = LKR176.13	USD1 = LKR155.9

Source: Fitch Ratings, Fitch Solutions, RPF

## Summary Analytics

	30 Sep 2020 6 Months - Interim	31 Mar 2020 Year End	31 Mar 2019 Year End	31 Mar 2018 Year End
<b>Asset quality ratios (%)</b>				
Impaired loans and leases/gross loans and leases	n.a.	30.0	8.4	n.a.
Growth of gross loans and leases (yoy)	n.a.	-5.8	28.1	10.1
Loan loss allowances for impaired loans and leases/impaired loans and leases	n.a.	27.8	38.3	n.a.
Impairment to capital ratio	n.a.	163.9	37.1	-22.2
<b>Earnings and profitability ratios (%)</b>				
Pre-tax income/average assets	-2.7	-3.5	3.8	4.8
Non-interest expense/gross revenue	28.6	18.2	17.8	16.1
Pre-tax income/average equity	-25.0	-27.6	24.2	27.7
Impairment charges/pre-impairment operating profit	-18.0	242.5	26.0	14.1
<b>Capitalisation and leverage ratios</b>				
Debt+deposits/tangible equity	10.1	8.9	6.8	4.8
Tier 1 Capital ratio (%)	5.3	6.3	12.1	16.8
Fitch Core Capital/tangible assets	8.7	9.6	12.1	15.8
Debt+off balance sheet funding/Fitch Core Capital	10.1	8.9	6.8	4.8
<b>Funding, liquidity and coverage ratios</b>				
Customer deposits/funding	58.6	59.4	45.1	49.8
Loans/Customer deposits	140.7	169.4	226.8	241.3

Source: Fitch Ratings, Fitch Solutions, RPF

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