

RATING ACTION COMMENTARY

Fitch Maintains Richard Pieris Finance's 'AA-(Ika)' National Rating on Watch Negative

Mon 21 Nov, 2022 - 4:28 AM ET

Fitch Ratings - Colombo - 21 Nov 2022: Fitch Ratings has maintained the Rating Watch Negative (RWN) on Richard Pieris Finance Limited's (RPF) National Long-Term Rating of 'AA-(Ika)'.

KEY RATING DRIVERS

RWN Maintained: The RWN reflects heightened downside risks to RPF's rating from the potentially weaker ability of its parent - Richard Pieris & Company PLC (RICH) - to provide timely liquidity support should there be a liquidity crunch in the financial system. The risk is exacerbated by RPF's considerable size relative to the parent, with the finance company's assets representing 70% of group equity and 21% of group assets in the financial year ending March 2022.

We believe RPF, similarly to sector peers, is vulnerable to changes in creditor and market sentiment due to its deposit concentration and reliance on wholesale funding. This could result in the need for liquidity support, which is likely to be challenging for the parent amid Sri Lanka's weak operating environment and the stresses building up in the banking system. Should financial system stress rise further, we will reassess our assumptions around the likelihood of timely shareholder support.

Parental Support Drives Rating: RPF's rating reflects our expectation of shareholder support from RICH, a Sri Lankan conglomerate engaged in retail, rubber-related exports, plantation and manufacturing. Our support assessment is underpinned by RICH's 99% effective shareholding in RPF and the shared brand name.

Limited Importance to Parent: We regard RPF a finance and leasing company, to be of

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Lanka's challenging operating environment, which poses a threat to its long-term viability.

Weak Standalone Profile: We assess RPF's standalone credit profile as being weaker than its support-driven rating because of its small franchise, with a 1% market share, limited history of successful operations and high risk appetite. RPF's financial profile has significantly weakened following a substantial deterioration in loan-quality metrics. This weighs on its profitability and capital position.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

RPF's rating is sensitive to changes in RICH's credit profile as well as Fitch's opinion around RICH's ability and propensity to extend timely extraordinary support.

Developments that could lead to a downgrade include:

- insufficient or delayed liquidity support from RICH relative to RPF's needs that hinders RPF's ability to meet its obligations in a timely manner;
- intervention by authorities that constrain RPF's ability to service its obligations.

An increase in RPF's size relative to the parent that makes extraordinary support more onerous for the parent may result in the removal of parental support and lead to a downgrade. RPF's rating would then be reassessed based on its standalone credit profile, which is multiple notches below its support-driven rating.

The resolution of the RWN is contingent upon developments in the operating environment, the parent's credit profile and the evolution of the finance company's funding and liquidity position, which may take more than six months to emerge.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

There is limited scope for upward rating action given the RWN.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Appendix B.

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RPF's rating is directly linked to the credit quality of the parent, RICH.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Richard Pieris Finance Limited	Natl LT	AA-
	AA-(Ika) Rating Watch Negative	(Ika) Rating Watch Negative
	Rating Watch Maintained	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria - Effective from 31 January 2022 to 5 May 2023 \(pub. 01 Feb 2022\) \(including rating assumption sensitivity\)](#)

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Richard Pieris Finance Limited

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