FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Richard Pieris Finance to 'A(lka)'; Maintains Rating Watch Negative

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Fitch Ratings - Colombo/Mumbai - 08 Mar 2023: Fitch Ratings has downgraded Richard Pieris Finance Limited's (RPF) National Long-Term Rating to 'A(lka)' from 'AA-(lka)'. The rating remains on Rating Watch Negative (RWN).

KEY RATING DRIVERS

Weakening Ability to Support: The downgrade of RPF's National Rating stems from our view that a probable default on the sovereign's local currency obligations increases credit, funding and liquidity stresses for the financial sector, including RPF. This, together with the significant deterioration in RPF's financial profile, increases the potential burden on its parent, Richard Pieris & Company PLC's (RICH), to extend extraordinary support to the finance company in a timely manner, given the parent's liquidity position is only manageable.

Weakening Propensity to Support: We believe RPF's weak financial performance in recent years may further diminish its parent's propensity to provide it with extraordinary support. We regard RPF to be of limited importance to RICH, given its low contribution to the group's core businesses. This is evident in RPF's small share of lending within the group's wider network.

RWN Maintained: The RWN reflects the potential for further deterioration in RPF's creditworthiness relative to other entities on the Sri Lankan National Ratings scale amid sustained pressure on the domestic operating environment arising from the stressed sovereign credit profile (Sri Lanka's Long-Term Local-Currency Issuer Default Rating: CC). Such stresses may continue to erode RPF's financial profile and put further pressure on its parent's ability and propensity to support the finance subsidiary.

rating reflects our view that RPF is not immune to these system-wide stresses despite parental support.

Parental Support Underpins Rating: RPF's rating reflects our expectation of extraordinary shareholder support to flow through from RICH to RPF to avoid default of RPF's senior obligations. Our support assessment is underpinned by RICH's 99% effective shareholding in RPF and the common branding.

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 of assets as of September 2022, limited history of successful operations and high risk appetite.

RPF's financial profile has significantly weakened due to the recent increase in interest rates, as evident in the near-zero net interest margin at end-September 2022 alongside weakening asset quality metrics. Some moderation in funding costs is likely, given the recent downward trend in interest rates. Even so, we expect rising risks to asset quality to further delay RPF's return to profitability. This weighs on its capital position and poses a threat to its long-term viability.

Thin Liquidity Buffer: We expect RPF's thin liquidity buffer to come under further pressure from falling collections. This will make RPF more vulnerable to potential credit and liquidity stresses should domestic operating conditions continue to deteriorate. RPF's share of liquid assets in total assets of 10% at end-September 2022 was one of weakest among Fitch-rated Sri Lankan FLCs. The finance company's assets represented 51% of group equity and 18% of group assets, so any required support could be considerable relative to the parent's ability to provide it.

RATING SENSITIVITIES

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

RPF's rating is sensitive to changes in RPF'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 negative rating action, including the possibility of a multiple-notch downgrade, include:

- insufficient or delayed liquidity support from RICH relative to RPF's needs that hinders

- significant increase in RPF's size relative to that of the parent that makes extraordinary support more onerous for the parent.

A further weakening in RICH's propensity to support RPF may result in the removal of parental support and lead to a downgrade. If institutional support cannot be relied on, the rating would be reassessed based on RPF's standalone credit profile, which is multiple notches below its current 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 because of 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 Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

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 Downgrade	A(lka) Rating Watch Negative	AA-(lka) Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of

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)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

Potential Conflicts Resulting from Revenue Concentrations

ENDORSEMENT STATUS

Richard Pieris Finance Limited	-

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