

RATING ACTION COMMENTARY

Fitch Affirms Richard Pieris Finance at 'A(lka)'; Outlook Remains Negative

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Related Content:

[Richard Pieris Finance Limited](#)

Fitch Ratings - Colombo - 07 Mar 2024: Fitch Ratings has affirmed Richard Pieris Finance Limited's (RPF) National Long-Term Rating at 'A(lka)'. The Outlook remains Negative.

KEY RATING DRIVERS

Parental Support Drives Rating: RPF's rating is driven by our expectation that its parent, Richard Pieris & Company PLC (RICH), would provide extraordinary support to RPF, if required. Our assessment is underpinned by RICH's 99% effective shareholding in RPF, strategic direction from the parent and the shared brand name.

Weak Propensity for Support: The Negative Outlook reflects downside risk to the parent's propensity to provide extraordinary support RPF. This is due to the financing subsidiary's weakened performance in recent years, which could continue to diminish its standing within the group. We regard RPF to be of limited importance to RICH, given its low contribution to the group and small share of lending within the parent's ecosystem.

Weak Standalone Profile: Fitch views RPF's standalone credit profile to be significantly weaker than its support-driven rating, due to its small franchise, high-risk lending exposure and weak financial profile.

Intermittent Capital Breaches: RPF's capitalisation and leverage remain weak. Its regulatory Tier 1 capital ratio of 8.0% as well as its core capital fall below minimum

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Our rating case is for RPF to restore its capital position within 12-24 months, but its significantly weak performance and lagging capital position raises uncertainty around parental support.

High Risk Profile: RPF's risk profile remains the weakest among Fitch-rated peers due to its predominant exposure to subprime domestic customers. This is heightened by weak and evolving underwriting standards and risk controls, as reflected in its above-industry gross stage 3 loan ratio of 43.9% as at end-1HFY24. We do not expect a major improvement in asset-quality metrics in the near- to medium-term in the absence of a resolution of RPF's large legacy non-performing loan portfolio.

Loan growth prospects remain subdued in light of capital constraints. We expect RPF to focus on capital-efficient lending products in the interim until capital shortfalls are addressed.

Moderate Profit Recovery: RPF is the only finance and leasing company among Fitch-rated peers to deliver a negative net interest margin in 1HFY24, following the sharp increase in domestic interest rates. We expect declining interest rates to ease pressure on its funding costs and lead to a modest improvement in pre-tax profit/average assets in FY25 (end-September 2023: -3.3%). Nevertheless, the company remains vulnerable to adverse interest rate movements, given the significant negative maturity mismatches.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

RPF's rating is sensitive to changes in its credit profile as well as our opinion around RICH's ability and propensity to extend timely and adequate extraordinary support. Developments that could lead to negative rating action, including the possibility of a multiple-notch downgrade, include:

- a prolonged delay in the company's capital remediation plans without credible support from its parent to cure its position
- a further tightening of regulatory restrictions in the absence of parental support to meet capital shortfalls that constrains RPF's ability to generate business volume
- a significant increase in RPF's size relative its parent that makes extraordinary support

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A further weakening in RICH's propensity to support RPF may result in the removal of Fitch's expectation for parental support. This would cause the rating to be assessed based on RPF's standalone credit profile, which is several notches below its current rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

There is a low probability of a positive action in the near to medium term. However, the Outlook may be revised to Stable if RPF's financial profile improves for a sustained period and reduces the likelihood of it requiring financial support from the parent.

Issuer Disclosure on Regulatory Action

Company has been informed to refrain from expanding the deposit base over Rs. 10.6 Bn by Central Bank.

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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 its parent, RICH.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Richard Pieris Finance Limited	Natl LT A(lka) Rating Outlook Negative Affirmed	A(lka) Rating Outlook Negative

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APPLICABLE CRITERIA

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

[Non-Bank Financial Institutions Rating Criteria \(pub. 18 Jan 2024\) \(including rating assumption sensitivity\)](#)

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Richard Pieris Finance Limited

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