ICRA Lanka assigns issuer rating of [SL]BB+ and issue rating of [SL]A-(SO) to the guaranteed redeemable Debentures of Orient Finance PLC

September 12, 2016

Instrument	Amount	Rating Action
Issuer	N/A	[SL]BB+ with stable outlook; Assigned
Guaranteed Redeemable Debentures	LKR 1,000 Million	[SL]A-(SO) with stable outlook; Assigned

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service has assigned the Issuer rating of **[SL]BB+ (Pronounced SL double B plus)** with a stable outlook to Orient Finance PLC (OFP or the Company). ICRA Lanka has also assigned the issue rating of **[SL]A-(SO) (Pronounced SL A minus Structured Obligation)** with a stable outlook to the LKR 1,000 Million Rated Guaranteed Redeemable Debentures programme of OFP. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating does not represent ICRA Lanka's opinion on the general credit quality of the issuer concerned.

The Issuer rating assigned to OFP draws comfort from OFP's parent company Janashakthi PLC's (JP; Issuer rating of [SL]BBB (Stable)) support on financial, managerial and operational aspects along with its experienced Board and senior management team. The rating, however, is constrained on account of factors like weak asset quality (gross NPA at 7.7% as on Mar-2016), stretched capitalization (CAR of 9.59% in Mar-2016; vis a vis the regulatory requirement of 10.0%) and moderate profitability (PBT/ATA[1] for FYE Mar 2016 at 1.9% vis a vis 0.5%[2] in FYE Mar 2015). The rating further takes note of the highly competitive business environment, which is expected to exert pressure on the margin and business expansion going forward. In view of OFP's marginal borrower profile, its ability to control incremental credit costs, undertake effective recoveries from delinquent accounts, and optimize its operating expenses as business expands, would be critical for incremental profitability. The company's funding profile is dominated by fixed deposits (64% of the total debt as in Mar-2016). While the company enjoys good renewal rates of 70-75%, it would have to diversify its funding profile to achieve a comfortable liquidity profile.

The rating for the LKR 1,000 Million Redeemable Debentures programme is based on the strength of an unconditional and irrevocable guarantee from Janashakthi Insurance PLC (JIP/the Guarantor) to an extent of the principal and two interest installments, and the payment mechanism designed to ensure payment on the rated instrument, where the guarantee has to be invoked by the debenture trustee, if the Issuer does not pay. The rating also assumes that the guarantee will be duly invoked by the debenture trustee, as per the terms of the underlying transaction, in case there is a default in payment by OFP (Issuer). ICRA Lanka has a Claims Paying Ability rating of [SL]A (pronounced SL A) with stable outlook outstanding on Janashakthi Insurance PLC. Please refer to our detailed rationale dated July 13, 2016 for the same.

OFP is a mid-sized NBFC with a portfolio of about LKR 14.6 billion as in Mar-2016 with close to about 25 branches and about 5 window offices in Sri Lanka. The company was formed post the merger of

[1] Profit before tax/ average total assets (Excluding onetime gains and extraordinary income)

[2] PBT/ATA for combined entity (ICRA Lanka consolidated the financials for analytical purposes)

the "Erstwhile OFP" with Bartleet Finance PLC (BFP) in Jul-2015, post which BFP was renamed as OFP. Close to 77% of the portfolio is backed with vehicles with about 8% towards factoring and about 2% towards equipment finance as in March 2016. About 23% of the portfolio is towards commercial vehicle and tractor financing, with 26% being towards car/vans, 22% towards 3-wheeler and 7% towards 2-wheelers. Prior to merger, BFP's portfolio largely consisted of commercial vehicles (46% in Mar-2015), while "Erstwhile OFP's" portfolio largely consisted of cars/vans (66%). Going forward, OFP is expected to focus on the cars/vans segment along with 2/3 wheeler segment as the delinquencies in the commercial vehicle segment (originally BFP portfolio) were high. The company also envisages extending shorter tenure gold loans with a cap of the total exposure at about 4-5% of its total portfolio. The combined portfolio (BFP + Erstwhile OFP) recorded a CAGR of 21% during the last 5 financial years ended Mar-2015. Combined portfolio growth was mainly supported by "Erstwhile OFP's" portfolio with its standalone CAGR of 35% during the above mentioned period. BFP's portfolio has posted a CAGR of 10% mainly due to a modest capitalization profile. During FYE Mar-2016, OFP has recorded a year on year portfolio growth of 28%. Going forward, the company plans to grow at about 15%-20% per annum to achieve a portfolio of about LKR 18-19 billion by Mar-2017 as compared to LKR 14 billion in Mar-2016.

OFP's gross NPAs stood at about 7.7% in Mar-2016 as compared to over 9.7% in Dec-2015 (10.3% in Jun-2015) as the company wrote off NPAs/repossessed stock and also undertook recoveries after the merger. Prior to the merger, "Erstwhile OFP" had a gross NPA of 8.1% in Mar-2015 (7.8% in Mar-2014) and BFP reported a gross NPA of 15.3% in Mar-2015 (12.2% in Mar-2014). After the merger, the company's NPA generation rate has moderated to 5.9% in Mar-2016 from 11.8% in Q2FYE Mar 2016. The rating however takes note of the company's improved coverage ratio of about 69% in Mar-2016 from 49% in Mar-2015. Ability to control incremental slippages and keeping a check on the asset quality of the new products envisaged by the company would be critical going forward.

Prior to the merger, "Erstwhile OFP" maintained a fairly reasonable capitalisation profile (total and Tier I capital at 13.0% in Mar 2015). The capitalisation profile of BFP in contrast was relatively weaker (total capital at 9.7% and Tier-I at 7.3% as in March-2015). BFP funded the merger through a short term loan obtained from Orient Capital Ltd. This had increased the leverage of the company and had an immediate adverse impact on capitalisation position of the company as of Dec-2015, with gearing at 13.9 times. The total capital ratio of the company stood at -0.8% (due to the adjustment to capital on account of goodwill etc); OFP then undertook a LKR 1.0 Billion IPO to settle the short term loan and improve the capitalisation position. With the IPO proceeds, the company has settled the short term loan and improved both tier 1 and total capital ratio to 8.8% and 9.6% (lower than the regulatory total capital ratio requirement of 10%) respectively as in Mar-2016. OFP's capitalisation profile is expected to remain stretched as there are no near-medium term capital raising plans, while it is expected to grow at about 15-20% in the medium term.

The company's funding profile is characterised by deposits which constituted about 64% of the total borrowings as in Mar-16, while funding from banks and via debentures accounted for 19% and 9% respectively. OFP' <1 year ALM mismatch was 19% as in Mar-2016 due to the shorter tenure of the deposit profile. As of Mar-2016, 64% of the deposits base had a maturity of one year or less. The company enjoys deposit renewal rate of about 70-75% and has unutilized funding lines close to LKR 1.2 Bn as of May-2016 to support the near term liquidity requirement. However, it would have to diversify its funding profile to maintain a comfortable liquidity profile in the longer term.

Prior to the merger, both companies had yields on portfolio of 23-26% due to the exposures on risky asset classes like used vehicle and commercial vehicle segment. Post the merger, new management has changed the portfolio risk profile by exposure to low risk categories like cars/vans. With the changes in the risk profile and moderation in the systemic interest rate, portfolio yield reduced to 16-17%. The cost of funds also moderated to 8-9% from about 10-12% in the previous years. Operational expenses moderated to 4.2% during FYE March 2016 (from 5.9% in the previous periods), which can be rationalised further as business expands. By strengthening the recovery process, the company has reduced its credit cost to 2.1% for the FYE March 2016 from 3.3% in FYE March 2015. With the new management, the company has improved its PBT to 1.9% during the FYE Mar-2016 and 2.6% for the 3 months ended Mar-2016. Ability to control credit costs would be crucial for overall profitability going forward. Tax benefit on account of the merger is likely to support the overall profits to an extent, going forward.

Company Profile

Orient Finance PLC (formerly known as Bartleet Finance PLC prior to the merger) was incorporated in 1981. The Company is a registered finance company and was licensed by the Monetary Board of the Central Bank of Sri Lanka to accept Fixed Deposits from the public. The Company was listed on the Main Board of the Colombo Stock Exchange since June 2011.

In July 2015, BFP acquired erstwhile OFP after paying close to LKR 1.70 Bn in cash and 1,213 Bartleet shares to the OFP shareholders. After the merger, the company was renamed as Orient Finance PLC and Janashakthi PLC became the main shareholder of the company with 99.9% shareholding. On 25th Jan 2015, OFP had an initial Public offer of about LKR 1.0 Billion. Objective of the IPO was to improve the capital structure of the company and settle the short term loan obtained from Orient Capital Limited for the acquisition. After the IPO, JP's stake reduced to 89.8% as of Feb-2016.

For FYE March 2016, OFP reported a PBT of LKR 292 Mn and PAT of LKR 574 Mn on a total asset base of LKR 16.9 Bn.

Parent Profile – Janashakthi PLC

Janashakthi PLC (JP) is an Investment holding company incorporated in the early 1990's. The company is an investment holding company of the Schaffter family. The main subsidiary of JP is Janashakthi Insurance PLC which is an established insurance company in Sri Lanka operating for over two decades. Presently Orient Finance PLC has become the other significant subsidiary of the company. Janashakthi PLC is jointly owned by Mr. Prakash Schaffter (49.99%) and Mr. Ramesh Schaffter (49.99%), sons of Mr. Chandra Schaffter.

During the year ended March 2015, JP group reported a PAT of LKR 1,068 Million on a total asset base of LKR 39.3 Billion as compared to a PAT of LKR 668 Million on a total asset base of LKR 25.6 Billion in the previous financial year. For FYE March 2016, JP reported a PAT of LKR 1,425 Million (Unaudited) on a total asset base LKR 52.1 Billion.

Guarantor Profile – Janashakthi Insurance PLC

Janashakthi Insurance PLC was initially incorporated in Sri Lanka as Janashakthi Life Insurance Co. Ltd (Janashakthi Life), a public company with limited liability in 1992. JIP began its operations in September 1994, as Sri Lanka's first specialized life insurer and ventured into Non-Life Insurance through Janashakthi General Insurance Co Ltd (Janashakthi General), which was established in 1995. JIP and Janashakthi General were merged in 2000 to form JIP. JIP acquired National Insurance Corporation Ltd in 2001, and later diversified into other areas of financial services. JIP was the 3rd largest general insurer and 7th largest life insurer in Sri Lanka in Dec-2015. Janashakthi General

Insurance Limited (JGIL) was incorporated as a wholly owned subsidiary of JIP during 2014 and, JIP transferred the non-life business to JGIL from January 01, 2015, thus complying with the regulatory requirement. JIP fully acquired AIA General Insurance Lanka Limited during 2015 and merged it with JGIL during January 2016.

During the financial year ended December 2015, JIP reported a consolidated net profit of LKR 951 Million on a Net Written Premium of LKR 9,338 Million compared to the net profit of LKR 1,061 Million for the financial year ended December 2014. During the 3M ended March 2016, JIP reported a consolidated net profit of LKR 357 Million on a Net Written Premium of LKR 2,752 Million.

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