



Lanka Rating Agency

Rating Report

Orient Finance PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
30-Dec-2021	BB+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Orient Finance PLC is a listed Leasing Finance Company (LFC) principally involved in financial activities including mobilization of deposits, savings accounts, leasing, hire purchase, gold loans, pledge loans, factoring, and pawning. The market share of the Company remains restricted below 1% representing sufficient room for business expansion complemented by a consolidation scheme at the industry level and rising competition. Historically, the company's financial performance indicators reflected a volatile pattern with fragility in profitability owing to dwindled asset quality and rising NPAs. However, the company's risk profile is now steered towards a turnaround trajectory with improved asset quality and gross NPAs reducing to 9.7% in 6MFY22 compared to 10.8% in 3MFY22 (10.4% in FY21); this is below the industry average ratio of 12.6%. Consequently, the net profit for 6MFY22 increased to LKR~200mln compared to 3MFY22, of LKR~59mln, but there is still room for improvement. The presence of key group management personnel at Orient Finance has boosted the company's operational efficiency, consequently, enduring economic instability caused by the COVID-19 pandemic. The company's current portfolio is concentrated towards leasing with a 68% focus. Although a shift in the lending portfolio towards the gold loans is observed, Orient Finance's policy is to maintain a ratio of 70:30 between leasing and other loan facilities. On the other hand with the Central Bank of Sri Lanka (CBSL) amalgamation program coming into play, the company is currently considering a possible merger or acquisition of another financial entity, the outcome of which is yet to materialize. The ratings also take into account improved governance and operational practices set out to support the efficacy of business processes which would ultimately translate into better financial performance.

The ratings are dependent on the management's ability to increase and retain its market share and diversify its revenue base to improve its competitive position in the industry of non-banking finance companies. Retention of key personnel, adherence to regulatory requirements, and sustainability of profitability will remain imperative to uphold the ratings.

Disclosure

Name of Rated Entity	Orient Finance PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies Rating(Jun-21)
Related Research	Sector Study Leasing & Finance Companies(Dec-21)
Rating Analysts	Rabiya tul Athaviya Naushard rabiya@lra.com.lk +94 114 500099



Leasing & Finance Companies

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Profile

Structure Orient Finance PLC ("the company") is a public limited company established in 1981. The company listed its business on the Colombo Stock Exchange (CSE) in 2011.

Background Orient Finance PLC was initially set up in 2003 as a specialized leasing company to provide leasing facilities to United Motors Lanka PLC. The company later converted to a licensed finance company in 2011 and listed its shares on the CSE. As part of the consolidation program of the Central Bank of Sri Lanka (CBSL) in 2014, Bartleet Finance which commenced business in 1981, was acquired by Janashakthi Holding Limited and merged with Orient Finance. Special approval was obtained from the CBSL to name the merged entity "Orient Finance PLC".

Operations The company is principally involved in financial activities including mobilization of deposits, savings accounts, leasing, hire purchase, gold loans, pledge loans, factoring, and pawning.

Ownership

Ownership Structure Janashakthi Holding owns 92% of the shares of Orient Finance PLC. The second major shareholder, First Capital PLC accounts only for 1% of the total shares.

Stability Orient Finance PLC is proceeding on a path of growth, in terms of financial assets on sound footings. A generally prudent approach is adopted by the Sponsors in its prospective expansion plans.

Business Acumen Apart from Orient Finance PLC, the Sponsors have a strategic stake in other sectors as well, thus the business acumen is considered strong.

Financial Strength The financial strength of Sponsors is considered sound as Janashakthi Holding possessed an asset base of over LKR~90bln as of FYMar21.

Governance

Board Structure The board of Orient Finance PLC is composed of eight members, with three independent directors, seven non-executive directors, and one executive director i.e., the CEO. The BoD represents professionals having vast experience in the banking and finance sectors.

Members' Profile The Chairman of Orient Finance PLC - Mr. Anil Tittawella PC, is a legal veteran, with a career spanning over 30 years. He has served in various senior management positions throughout his tenure, with prominent positions being held in numerous reputed entities around the world.

Board Effectiveness The board has established four board-level committees, namely; the Audit Committee, Human Resources and Remuneration Committee, Integrated Risk Management Committee, and Related Party Transactions Review Committee chaired by the respective directors.

Financial Transparency BDO Partners is the External Auditor of Orient Finance PLC. They have expressed an unqualified opinion on Orient Finance PLC's Financial Statements for FY21. The Audit Committee directly oversees the internal audit function, with a review of financial statements and smooth progression.

Management

Organizational Structure The management of the company is based on a team of seasoned professionals who have served in both banking and non-banking financial institutions over a long tenure. The operations are divided into twelve functional departments. The reporting lines of all departments converge towards the CEO, with Internal Audit and Risk & Compliance departments reporting to CEO as well as to the Board Audit Committee & Integrated Risk Management Committee.

Management Team The Company's management team is spearheaded by its CEO, K.M.M.Jabir, who has 36 years of vast experience in the Finance and Banking industry. The Directors and CEO are assisted by a vastly experienced team of professionals with over a decade of experience. The management team has been able to successfully turn a loss-making business into a profit-making organization in FY21.

Effectiveness There are currently three management committees in place, namely, i) Credit Committee, ii) Liquidity Committee, and iii) Assets and Liability Management Committee, which meets on a monthly basis to discuss the overall performance of the company, KPIs, and strategies.

MIS Scienet e-Financials solution, which was installed in the year 2020 by Orient Finance PLC, is a custom-developed client/server application of Orient Finance PLC that helps in managing the business processes efficiently.

Risk Management Framework Orient Finance PLC manages and monitors its risks in a prudent manner. Risk is managed through monitoring and controlling operational and strategic activities of Orient Finance PLC in terms of credit, liquidity, operational, and market risk. A comprehensive risk management framework is adopted by the company.

Business Risk

Industry Dynamics The Leasing and Finance sector comprise of 39 licensed finance companies in Sri Lanka of which 29 are listed on CSE. Total assets of the LFC sector for FY21 is LKR~1.4tln of which LKR~1.1tln (76%) is loans and advances. COVID-19 has adversely impacted the performance of overall non-banking finance companies owing to an increase in overall credit risk and disruption in growth due to a slowdown in economic activity and continuity of business operations.

Relative Position Compared to total Licensed Finance Company sector advances of LKR~1,060bln Orient Finance PLC accounts for a market share of 1% only. With increased challenges for businesses, political uncertainty, and several other economic issues, including a highly competitive market and intense competition with market players, Orient Finance PLC's performance has improved slightly.

Revenues Gross Interest Income at 6MFY22 accumulated to LKR~717mln which is mainly driven by Leasing income and Gold Loans. Orient Finance PLC's main focus is to maintain its lending portfolio dominated by Leases. During 6MFY21 net interest income was recorded at LKR~718mln which is an increase of 117%.

Performance The financial performance of the company showed progress, as the revenue boost gained further momentum through sustained financial costs and reduced overhead costs, converging into a Net Revenue of LKR~200mln 6MFY22 (3MFY22: LKR~59mln).

Sustainability Orient Finance PLC has taken the initiative to form an Alternate Finance Business Unit (AFBU) as a long-term initiative. The company has already obtained approval from the Central Bank of Sri Lanka to form an AFBU which gives Orient Finance access into the entry of Islamic Financing. Further, the company's rating would be influenced by the successful management of the CBSL consolidation program currently in place.

Financial Risk

Credit Risk In 6MFY22, the loan books of Orient Finance PLC comprise 68.2% of the loans provided to leases, 9% on loans and advances, 0.2% on hire purchase, 1% on factoring, and 21% on gold loans. Orient Finance PLC's gross NPA ratio has reduced to 9.7% in 6MFY22 compared to 10.8% in 3MFY22 (10.4% on FY21). The improvement in asset quality was due to the write-off of LKR~1,400mln worth of non-performing loans and the company is presently focussing on performing assets.

Market Risk As regulated by CBSL, 6% of the fixed deposits, 5% of borrowing, and 10% of savings deposits of the company should be held in approved securities to minimize the liquidity exposure. Thus, 782mln of Orient Finance PLC's investments are held in Treasury Bills which offered an average yield of 5%.

Liquidity And Funding The company's main source of funding remains bank borrowings and deposits. Orient Finance PLC maintains a fairly healthy funding structure, leveraging stood at 21.8% 6MFY22 (FY21: 23%, FY20: 22%). Deposits are predominantly by individual depositors.

Capitalization Capital adequacy (Equity to Total Assets) of the company was 12.8% as of 6MFY22 (FY21: 10.9%) above the CBSL statutory requirement of 12.5%. Total Debt/ Equity stands at (6MFY22: 3.9x; 3MFY22: 4.2x; FY21: 4.0x; FY20: 4.6x). The company is well equipped to handle any contingencies owing to an unutilized guarantee of LKR 480mln at 6MFY22 which has been provided by Janashakthi Holding.



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LKR mln

Orient Finance PLC
Listed Public Limited

Sep-21	Jun-21	Mar-21	Mar-20
6M	3M	12M	12M

A BALANCE SHEET

1 Total Finance-net	13,077	11,605	12,489	14,663
2 Investments	1,770	1,719	1,534	1,572
3 Other Earning Assets	-	-	-	-
4 Non-Earning Assets	2,175	1,943	1,908	1,726
5 Non-Performing Finances-net	(1,091)	-	(1,042)	(2,323)
Total Assets	15,252	13,548	14,397	16,389
6 Funding	12,165	12,271	11,527	12,442
7 Other Liabilities	670	45	475	485
Total Liabilities	12,835	12,316	12,002	12,927
Equity	3,096	2,951	2,887	2,710

B INCOME STATEMENT

1 Mark Up Earned	1,253	596	2,441	3,053
2 Mark Up Expensed	(536)	(267)	(1,334)	(1,800)
3 Non Mark Up Income	140	42	235	233
Total Income	857	372	1,342	1,486
4 Non-Mark Up Expenses	(524)	(259)	(913)	(896)
5 Provisions/Write offs/Reversals	(80)	(35)	(169)	(1,015)
Pre-Tax Profit	254	77	260	(426)
6 Taxes	(53)	(17)	(66)	(12)
Profit After Tax	201	60	194	(437)

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	61.1%	69.8%	68.1%	60.3%
b ROE	13.9%	8.5%	6.9%	-17.9%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	98.5%	94.6%	99.3%	99.2%
b Accumulated Provisions / Non-Performing Advances	0.0%	N/A	0.0%	0.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	10.5%	9.0%	9.3%	8.1%
b Borrowings from Banks and Other Financial Institutions / Funding	21.8%	25.8%	23.0%	22.0%

4 MARKET RISK

a Investments / Equity	57.2%	58.3%	53.1%	58.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.8%	2.3%	0.0%

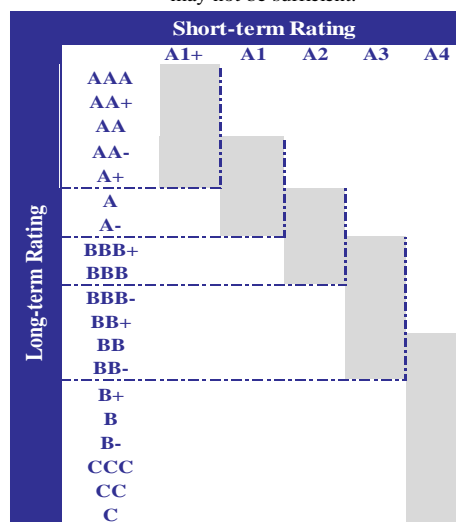
5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	19.4%	19.3%	19.4%	17.3%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	13.9%	8.3%	7.1%	-20.2%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating		Short-term Rating	
Scale	Definition	Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+		A1	A strong capacity for timely repayment.
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+		A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.		
A-			
BBB+			
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+			
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B-			
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.	Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit- worthiness of any issuer or a specific issue of securities. (<https://www.sec.gov.lk/index.php/credit-rating-agency/>)

2) Conflict of Interest

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

Restrictions

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

Conduct of Business

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

Independence & Conflict of interest

(7)LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8)LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

Monitoring and review

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

Proprietary Information

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