



Lanka Rating Agency

Rating Report

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|----------------------------|---|
| Janashakthi Limited | Report Contents |
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| Rating History | | | | |
|--------------------|------------------|------------|----------|--------------|
| Dissemination Date | Long Term Rating | Outlook | Action | Rating Watch |
| | - | - | | - |
| 03-May-2024 | BBB- | Stable | Upgrade | - |
| 21-Jun-2023 | BB- | Developing | Maintain | Yes |
| 29-Mar-2023 | BB- | Negative | Initial | - |

Rating Rationale and Key Rating Drivers

LRA takes both consolidated and standalone view on the market positioning and performance of the Janashakthi Limited (“Janashakthi” or “the Company”). The assigned rating incorporates the Company's relative market position as a Holding Company for Janashakthi Group within the financial industry. Janashakthi has presence in various financial verticals namely Life Insurance, Leasing and Finance Sector, Corporate Services, Fund Management, Primary Dealer, and Health and Fitness. The rating reflects Janashakthi's improved financial results, better capitalization and leveraging indicators, and stable performance of its subsidiaries and associates. Healthy dividend inflows from First Capital Treasuries PLC (FCT), a prominent primary dealer subsidiary of the First Capital Holdings (FCH) group within Janashakthi's group, has been one of the major contributors towards Janashakthi's improved business profile and profitability. Moreover, the overall market conditions, particularly the declining interest rates following 2QFY24, have lowered the financing cost for the Company. The profitability and margins have increased in 9MFY24 due to improved returns emanating from the subsidiaries. Janashakthi's net profit stood at LKR~5.1bn in 9MFY24 in contrast to a net loss of LKR~2.1bn in 9MFY23, while the Group's net profit stood at LKR~7bn in 9MFY24 compared to a net loss of LKR~1.7bn in 9MFY23; this indicates a profound growth of ~348% and ~518% from the same period last year, respectively. The rating also takes into account the improved debt profile of Janashakthi wherein the total debt, in absolute terms, reduced to LKR~19.1bn as at end-Dec'23 compared to LKR~24.4bn as at end-Mar'23. The Company's leveraging, although still high on relative basis, has reduced as it paid off debt on the back of strong dividend inflow. Furthermore, due to enhanced profit retention, the equity of the Company rose to LKR~10bn as at end-Dec'23 (LKR~4.8bn as at end-Mar'23). Resultantly, the leverage ratio reduced to ~66% as at end-Dec'23 from ~85% as at end-Mar'23. With sustained income generation, financial indicators are expected to improve further in the coming periods. The management envisages diverse income inflows from strategies such as listing of the company on the CSE and settlement of related party receivables. The Company needs to strengthen its governance and control including timely dissemination of key information and financial statements.

The rating is dependent on the Company's ability to successfully execute its planned strategies to generate cash inflows that would further reduce leveraging and improve capital structure. Sustained performance of its subsidiaries is critical. Any substantial drag on equity due to losses or impairment in investments will have a negative impact on the rating. On the other hand, lower debt level, reduced financing cost and improvement in governance standards will result in higher rating.

| Disclosure | |
|------------------------------|--|
| Name of Rated Entity | Janashakthi Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Holding Company Rating(Jun-22) |
| Related Research | Sector Study Holding Company(Mar-23) |
| Rating Analysts | Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099 |



Profile

Background Janashakthi Limited ("Janashakthi" or "the Company"), is a limited liability company incorporated and operating in Sri Lanka since May 1994 under the name of Acland Finance Limited. The registered office and place of business of the company are in, Colombo.

Structural Analysis The Janashakthi Group operates in the Insurance, Finance, and Investment sectors. Janashakthi Limited is the ultimate parent company of the Group and it owns 79.03% of its main subsidiary Janashakthi Insurance PLC which is listed and has a market capitalization of LKR 6.5bn. The Company owns 93.69% of Orient Finance PLC which has a market capitalization of LKR 1.5bn. The Company has ownership of 77% in First Capital Holding PLC with a market capitalization of LKR 6.6bn.

Ownership

Ownership Structure The Company is 100% owned by Schaffters (Pvt) Limited, with the ultimate beneficiaries being two brothers, Mr. Ramesh Schaffter and Mr. Prakash Schaffter. Both brothers hold equal stakes, i.e., 50% ownership of Schaffters (Pvt) Limited.

Stability Ownership of the Company draws stability from the Schaffter family owning 100% of the stake of Janashakthi Limited. The Schaffters family has decades of experience in various sectors and has continuously diversified its business. With the family constitution and formal policies being drafted and put into place with regard to family succession planning, the next generation is expected to join the business and thus continue to ensure the stability of the Company.

Business Acumen The sponsoring family has decades of experience in various business sectors. As a holding company, Janashakthi has a presence in sectors of Financial Services, Non-Banking Financial Institute, and Insurance. The Holding Company has gained recognition and prominence over time.

Financial Strength The financial strength of the sponsors is reflected through the consolidated position of Janashakthi Limited, and the financial performance of its various subsidiaries such as Janashakthi Insurance, First Capital Holding, and Orient Finance.

Governance

Board Structure The Board of Directors comprises seven members, including four Non-Executive Independent Directors, and three Executive Non-Independent Directors. The Board has representation from multiple members of the sponsoring family.

Members' Profile The Board of Directors comprises highly qualified individuals with decades of experience. Their diversified backgrounds and extensive experience provide holistic guidance to the Company. The board is Chaired by Mr. Chandana Lal De Silva. He has more than 20 years of diversified experience in apparel, telecommunication, investment, and financial services. The Group CEO/MD, Mr. Ramesh Schaffter, has over three decades of experience in Finance & Marketing. He has served on the Boards of several public listed and unlisted companies.

Board Effectiveness There were four board meetings held during FY23, with majority attendance.

Transparency KPMG are the external auditors of the Company. They have given an unqualified opinion on the financial statements for the year-end of March 31, 2023.

Management

Organizational Structure The Company has a well-defined organizational structure that is divided into eight main departments, all of whom report to the MD. The eight departments are Legal, Brand Marketing, IT, Human Resources, Administration, Finance, Internal Audit, and Mergers & Acquisitions, and they provide relevant services to subsidiary companies through a shared services model. The highest level of Authority lies with the Chairman. The subsidiary company has its own CEO that reports directly to the BoD.

Management Team The Company's management team is spearheaded by its Managing Director & CEO, Mr. Ramesh Schaffter. The Director and operations of the Company are assisted by a well-qualified team of professionals with extensive experience in their relevant fields.

Management Effectiveness There are no formal management committees in place, but monthly Management Meetings are held to discuss KPIs, performance, and strategies within subsidiaries.

Control Environment The Company has set up an Internal Audit Function along with the Board's Audit Committee to help implement the policies and procedures. Janashakthi Limited currently operates with the MYOB accounting system. The Company uses MS office and one drive licensed versions along with a document management system named Omnidocs which has been implemented for the digital management of files.

Investment Strategy

Investment Decision-Making The final authority for Janashakthi's investment decisions lies with the Board of Directors.

Investment Policy The Company is in the process of formulating a formal investment policy. Currently, the Company holds investments in its four main sectors, which are Insurance, Non-Banking Finance Institutes, and Financial Services.

Investment Committee Effectiveness The Company does not have a formal Investment Committee in place, however, board-level, and management meetings are conducted on a regular basis for making investment decisions for the Company and to evaluate and discuss the performance of the subsidiaries.

Business Risk

Diversification The Company's investment portfolio consists of seven subsidiaries. Two of which, Janashakthi Corporate Services Ltd and Janashakthi Business Services, provide corporate and administrative services. While the remaining subsidiaries operate in various sectors such as Insurance, Financial Services, and Non-Banking Financial Institutes.

Portfolio Assessment The Company has a balanced portfolio. The Company's core investments are in listed subsidiaries. In the marketability/liquidity element of the portfolio, on a stand-alone basis, the Company has investments in financial assets amounting to LKR 163Mn. These investments comprise of quoted equity securities of LKR 114Mn, Reverse Repo Agreements of LKR 57Mn and short-term lending of LKR 49Mn.

Income Assessment Janashakthi aims for sustainable income flows, in form of share of profit, from its business ventures. On a consolidated basis, the Company's top-line stood at LKR 21.4bn for the period ended 31st December FY23, compared to LKR 17.3bn in FY23 (FY22: LKR 4.8bn). The Company's consolidated bottom-line closed at a net loss of LKR 933mn in FY23 compared to a loss of LKR 625mn in FY22.

Financial Risk

Coverages In recent years, Janashakthi Limited has experienced negative cash flows, particularly on a stand-alone basis. During FY23, Total Operating Cash Flows (TCF) stood at LKR 5.3bn (FY22: LKR -1.4bn). As a result, the Company's interest coverage ratio, TCF/Finance Cost ratio stood at 0.1 as of 9MFY24.

Capital Structure The Company has a highly leveraged capital structure, however it stood at 83.4% FY23 (FY22: ~72.9%, FY21: 69.6%) and 66% in 9MFY24. The Company's total borrowings stood at LKR 26.1Bn as at FY23 and decreased to LKR 19.2Bn as at 9MFY24.

Consolidated Position On a consolidated basis, Janashakthi Limited has total assets of LKR 165.1Bn (FY23: LKR 119Bn) and total equity of LKR 16.8Bn (FY23: LKR 10.4Bn) as at 9MFY24. Further the rating takes into note the consolidated net profit of LKR 6.9Bn for 9MFY24 compared to the net loss reported of LKR 1.6Bn for 9MFY23.



Lanka Rating Agency

Janashakthi Limited
Conglomerate

| Dec-23 | Mar-23 | Mar-22 | Mar-21 |
|------------|---------|---------|---------|
| 9M | 12M | 12M | 12M |
| Management | Audited | Audited | Audited |

A BALANCE SHEET

| | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|
| 1 Investments | 3,859 | 3,814 | 1,762 | 4,391 |
| 2 Related Party Investments | 21,681 | 26,051 | 21,442 | 21,321 |
| 3 Non-Current Assets | 1,027 | 1,036 | 1,054 | 989 |
| 4 Current Assets | 2,638 | 186 | 3,582 | 462 |
| 5 Total Assets | 29,206 | 31,087 | 27,840 | 27,163 |
| 6 Current Liabilities | 69 | 72 | 49 | 53 |
| 7 Borrowings | 15,715 | 26,175 | 19,221 | 18,292 |
| 8 Related Party Exposure | 3,509 | 40 | 1,109 | 750 |
| 9 Non-Current Liabilities | - | - | - | - |
| 10 Net Assets | 9,913 | 4,799 | 7,461 | 8,069 |
| 11 Shareholders' Equity | 9,913 | 4,799 | 7,461 | 8,069 |

B INCOME STATEMENT

| | | | | |
|---|--------------|----------------|--------------|--------------|
| 1 Total Investment Income | 9,620 | 3,864 | 1,519 | 3,735 |
| a Cost of Investments | (4,146) | (5,219) | (2,020) | (2,013) |
| 2 Net Investment Income | 5,473 | (1,355) | (501) | 1,721 |
| a Other Income | 20 | 43 | 81 | 146 |
| b Operating Expenses | (232) | (688) | (242) | (196) |
| 4 Profit or (Loss) before Interest and Tax | 5,262 | (2,000) | (662) | 1,671 |
| a Taxation | (147) | - | - | - |
| 6 Net Income Or (Loss) | 5,115 | (2,000) | (662) | 1,671 |

C CASH FLOW STATEMENT

| | | | | |
|---|----------------|----------------|--------------|--------------|
| a Total Cash Flow | 836 | 739 | 666 | 1,036 |
| b Net Cash from Operating Activities before Working Capital Changes | 836 | (4,480) | (1,354) | (864) |
| c Changes in Working Capital | 4,616 | 326 | 686 | (3,248) |
| 1 Net Cash (Used in) or Available From Investing Activities | 3,828 | (2,757) | (206) | 5 |
| 2 Net increase (decrease) in long term borrowings | - | - | - | - |
| 3 Net Cash (Used in) or Available From Financing Activities | (6,891) | 7,022 | 1,093 | 4,049 |
| 4 Net Cash generated or (Used) during the period | 2,389 | 112 | 219 | (58) |

D RATIO ANALYSIS

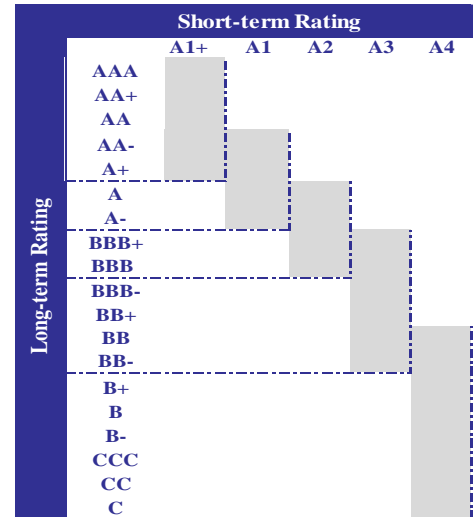
| | | | | |
|---|--------|--------|--------|--------|
| 1 Performance | | | | |
| a Asset Concentration (Market Value of Largest Investment / Market Value of | 46.4% | 63.5% | 38.9% | 38.9% |
| b Core Investments / Market Value of Equity Investments | 100.0% | 100.0% | 100.0% | 100.0% |
| c Marketable Investments / Total Investments at Market Value | 0.7% | 0.4% | 7.0% | 3.5% |
| 2 Coverages | | | | |
| a TCF / Finance Cost | 0.2 | 0.1 | 0.3 | 0.5 |
| b TCF / Finance Cost + CMLTB | 0.2 | 0.1 | 0.3 | 0.5 |
| c Loan to Value (Funding / Market Value of Equity Investments) | 1.4 | 1.6 | 1.6 | 1.4 |
| 3 Capital Structure (Total Debt/Total Debt+Equity) | | | | |
| a Leveraging [Funding / (Funding + Shareholders' Equity)] | 66.0% | 84.5% | 73.1% | 70.0% |
| b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity | 193.9% | 546.3% | 271.7% | 232.8% |

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.

| Scale | Long-term Rating Definition |
|-------|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+ | |
| 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. |
| AA- | |
| A+ | |
| 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+ | |
| 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- | |
| 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 | |
| CC | 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. |
| C | |
| D | Obligations are currently in default. |

| Scale | Short-term Rating Definition |
|-------|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



*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.

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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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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/credit-rating-agency/>

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will 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 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

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 will 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 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish 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 shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency 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 53 – Rules applicable to Credit Rating Agencies)

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

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.