



Lanka Rating Agency

## Rating Report

### Janashakthi Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2023	BB-	-	Developing	Maintain	Yes
29-Mar-2023	BB-	-	Negative	Initial	-

#### Rating Rationale and Key Rating Drivers

LRA has assigned 'Rating Watch' to the Entity Rating of Janashakthi Limited (herein referred to as "Janashakthi"). This is in the wake of the announcement by People's Leasing & Finance PLC of potential acquisition of ~33% shareholding in First Capital Holding PLC (FCH), by the divestment of shares of Janashakthi from ~83% to ~50%. The execution of sales purchase agreement has been affirmed with a target price of LKR~37.10/share amounting to a total consideration of LKR~5bln. The transaction remains subject to the approval by the Central Bank of Sri Lanka and other regulatory authorities applicable to the parties. People's Leasing & Finance PLC will acquire ~33% shareholding from Janashakthi Holding and will also have presence on the board. LRA is closely following the transaction and will consider all aspects once the transaction is finalized. The materialization of this transaction is expected to have a positive impact on Janashakthi's financial risk profile, as it would ease out the cashflow crunch currently stressing the financial position of the Company. FCH is a prominent Holding Company within the financial service industry under the Janashakthi arm. First Capital Treasuries PLC (FCT), the Company's subsidiary in Primary Dealer activities, has been a major contributor towards FCH business profile and profitability. The rating takes into account the liquidity mechanism to be undertaken by the Company to ensure timely payments of maturing debt obligations.

The rating is dependent on the Company's ability to successfully execute its planned strategies to generate cash inflows that would reduce its debt leveraging. Materialization of the sales purchase agreement is critical and is placed under close surveillance. Moreover, improvement in the debt matrix to off-load mounting debt repayments through recurring income streams is imperative.

#### Disclosure

<b>Name of Rated Entity</b>	Janashakthi Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Holding Company Rating(Jun-22)
<b>Related Research</b>	Sector Study   Holding Company(Oct-22)
<b>Rating Analysts</b>	Rabiya tul Athaviya Naushard   rabiya@lra.com.lk   +92-42-35869504



## 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 5.1bn. The Company owns 93.69% of Orient Finance PLC which has a market capitalization of LKR 1.8bn. The Company has ownership of 83.01% in First Capital Holding PLC with a market capitalization of LKR 11.3bn.

## 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, & Orient Finance.

## Governance

**Board Structure** The Board of Directors comprises seven members, including two Non-Independent Executive Directors, three Independent Non-Executive Directors along with the Chairman and the Group CEO/MD serving the board. 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 ten board meetings held during FY21, with the 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, 2022.

## 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 six 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 113mn. These investments comprise quoted equity securities of LKR 43mn, Short-Term lending of LKR 49mn, and unquoted equity securities of LKR 21mn.

**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 16bn for the period ended 31st December FY23, compared to LKR 10.4bn in FY22 (FY21: LKR 12.6bn). The Company's consolidated bottom-line closed at a net loss of LKR 1.6bn for 31st December FY23 compared to a loss of LKR 664mn in FY22.

## Financial Risk

**Coverages** In recent years, Janashakthi Limited has experienced negative cash flows, particularly on a stand-alone basis. During FY22, Total Operating Cash Flows (TCF) stood at LKR - 668mn (FY21: LKR -4112mn). As a result, the Company's interest coverage ratio, TCF/Finance Cost ratio stood at 2.3 as of 2QFY23.

**Capital Structure** The Company has a highly leveraged capital structure, 82.8% 3QFY23 (FY21: ~69%, FY20: 73%). The Company's total borrowings stood at LKR 20.3bn as at Mar-22 and increased to LKR 23.8bn as at 31st Dec-22. The Company has plans to increase its equity base by approximately LKR 5-10bn from the current LKR 8.1bn which will improve the capitalization levels. Further the Company is looking at a group restructuring which is to sell 25% of the stake of First Capital Holdings.

**Consolidated Position** On a consolidated basis, Janashakthi Limited has total assets of LKR 120bn (FY22: LKR 101bn) and total equity of LKR 10bn (FY22: LKR 12.3bn) as at Dec-22 Further the rating takes into note the consolidated net loss of LKR 1.6bn for 3QFY23 compared to the net loss reported of LKR 664mn for FY22.



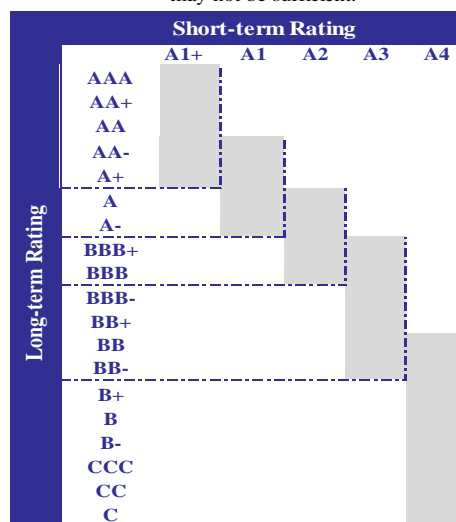
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	Dec-22	Mar-22	Mar-21	Mar-20	Mar-19
	9M	12M	12M	12M	12M
	Unaudited	Audited	Audited	Audited	Audited
<b>A BALANCE SHEET</b>					
1 Investments	160	1,762	4,391	3,443	668
2 Related Party Investments	23,854	21,442	21,321	18,160	12,332
3 Non-Current Assets	1,047	1,054	989	868	753
4 Current Assets	3,787	3,582	462	199	40
5 Total Assets	28,847	27,840	27,163	22,670	13,793
6 Current Liabilities	70	221	388	326	13
7 Borrowings	23,857	20,158	18,706	16,634	9,308
8 Related Party Exposure	3,489	1,109	750	1,640	684
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	1,431	6,352	7,320	4,070	3,788
11 Shareholders' Equity	4,920	7,461	8,069	5,711	4,472
<b>B INCOME STATEMENT</b>					
1 Total Investment Income	1,135	1,582	3,867	289	364
a Cost of Investments	(3,618)	(2,020)	(2,013)	(1,630)	(935)
2 Net Investment Income	(2,483)	(438)	1,853	(1,341)	(571)
a Other Income	580	18	14	9	-
b Operating Expenses	(179)	(242)	(196)	(141)	(93)
4 Profit or (Loss) before Interest and Tax	(2,063)	(662)	1,671	(1,473)	(664)
a Taxation	-	-	-	(5)	(8)
6 Net Income Or (Loss)	(2,063)	(662)	1,671	(1,477)	(672)
<b>C CASH FLOW STATEMENT</b>					
a Total Cash Flow	(868)	666	1,036	295	(98)
b Net Cash from Operating Activities before Working Capital C.	(4,414)	(1,354)	(864)	(1,300)	(941)
c Changes in Working Capital	783	686	(3,248)	(2,123)	(737)
1 Net Cash (Used in) or Available From Investing Activities	(3,631)	(668)	(4,112)	(3,423)	(1,678)
2 Net increase (decrease) in long term borrowings	1,798	(206)	5	(158)	(3,726)
3 Check	1,052	1,093	4,049	3,325	1,223
4 Net Cash generated or (Used) during the period	(781)	219	(58)	(257)	(4,181)
<b>D RATIO ANALYSIS</b>					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / M <sub>t</sub> )	38.9%	38.9%	35.6%	55.5%	66.7%
b Core Investments / Market Value of Total Investments	100.0%	100.0%	91.7%	91.7%	92.0%
c Marketable Investments / Total Investments	0.5%	5.5%	5.9%	3.2%	4.6%
2 Coverages					
a TCF / Finance Cost	-0.2	0.3	0.5	0.2	-0.1
b TCF / Finance Cost + CMLTB	-0.2	0.3	0.5	0.2	-0.1
c Loan to Value (Funding / Market Value of Total Investments )	1.8	1.5	1.3	1.6	1.1
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	82.8%	72.9%	69.6%	73.9%	66.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	481.0%	269.4%	228.6%	283.2%	194.0%

## 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	<b>Highest credit quality.</b> 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	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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.

<b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.	<b>Rating Watch</b> 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.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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.	<b>Harmonization</b> 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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial 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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