

FOR IMMEDIATE RELEASE

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ICRA Lanka has put the ratings of Janashakthi PLC and its subsidiaries under watch

Update

On February 2, 2018, the Board of Directors of Janashakthi PLC announced the proposed sale of Janashakthi General Insurance Limited (JGIL) to Allianz SE (“Allianz”), for a total consideration of LKR 16.4 Bn. The price paid by Allianz represents a multiple of 2.1x the net asset value of JGIL as of December 2017. The transaction is subject to various conditions and approvals, including regulatory approvals.

Rating action

In view of the above development, ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody’s Investors Service, has taken the ratings actions indicated in the table below:

Company	Instrument	Rated Amount (LKR Mn)	Rating Action
Janashakthi Insurance PLC (JIP)	Claims paying ability rating	N/A	[SL]A; rating put on watch with negative implications.
Janashakthi General Insurance Limited (JGIL)	Claims paying ability rating	N/A	[SL]A; rating put on watch with developing implications.
Janashakthi PLC (JPLC)	Issuer rating	N/A	[SL]BBB; negative outlook removed; rating put on watch with developing implications
Janashakthi PLC	Senior Unsecured Redeemable Debenture Programme	LKR 1,000Mn	[SL]BBB; negative outlook removed; rating put on watch with developing implications
Orient Finance PLC (OFF)	Guaranteed Redeemable Debenture Programme	LKR 1,000 Mn	[SL]A-(SO); rating put on watch with developing implications.
Orient Finance PLC	Issuer rating	N/A	[SL]BB+; rating put on watch with developing implications

Rationale

Janashakthi Insurance PLC

ICRA Lanka had taken a consolidated view of JIP along with its wholly-owned subsidiary JGIL for arriving at the rating in the past. The holding company, JIP, is presently focused on life insurance business; JGIL was incorporated in 2014 and the non-life business of JIP was transferred to JGIL from January 01, 2015 onwards. The general insurance business accounted for 81% of the consolidated gross written premium (GWP) in CY¹2017 (78% in CY2016). JIP’ standalone (life business) GWP and net profits for CY2017 were LKR 2,901 Mn and LKR 254 Mn respectively as compared with the consolidated GWP and net profits of

¹ CY- Calendar year- January to December

LKR 15,115 Mn and LKR 1,131 Mn respectively. JIP's market share in the life business was 4.6% in CY2016 while it was about 12.8% in the non- life segment. ICRA Lanka envisages JIP's business and financial risk profile to weaken post the sale of JGIL. In view of the above, ICRA Lanka has put JIP's claims paying ability rating of [SL]A under watch with negative implications.

Janashakthi General Insurance Limited

ICRA Lanka has put JGIL's claims paying ability rating of [SL]A under watch with developing implications, pending clarity on the status of JGIL post the acquisition by Allianz.

Janashakthi PLC

ICRA Lanka expects JPLC to receive around LKR 9.0 Bn in lieu of the share re-purchase by JIP; this is likely to improve JPLC's capital structure and liquidity profile going forward; standalone gearing of JPLC stood at 20.4x in September 2017 (8.6x in March 2017). JPLC's earnings profile is dependent on the dividend income from subsidiaries, especially from JIP (dividends accounted for 57% of total income in FY²2017) and, income from other equity investments. ICRA Lanka notes that JPLC's earnings profile going forward would be impacted as JIP's standalone earnings is quite moderate presently. Therefore, the extent of deleveraging by JPLC and the subsequent improvement in its overall credit risk profile would be a key rating monitorable. In view of the above, ICRA Lanka has removed the negative outlook on JPLC and, has put the [SL]BBB issuer rating and the [SL]BBB rating on the senior unsecured redeemable debenture programme under watch with developing implications.

Orient Finance PLC

ICRA Lanka has placed OFF's issuer rating under watch with developing implications reflecting the rating action on the parent entity (JPLC). Going forward, the extent of the parent company's support, in view of OFF's stretched capital position (gearing at 6.7x times as in December 2017) and, the deterioration witnessed in the profitability (RoA at -0.8%³ for 9MFY2018 vis-a-vis 1.4% in FY2017) and asset quality indicators (gross NPA at 9.6% in December 2017 vis a vis 6.0% in March 2017) in the recent past, is key from a rating perspective.

OFF has a LKR 1,000 Mn JGIL guaranteed rated redeemable debenture programme. As the rating of the guarantor is put under watch with developing implications; ICRA Lanka has also placed the [SL]A-(SO) rating on the LKR 1,000 Mn guaranteed redeemable debenture under watch with developing implications.

Links to applicable criteria: [ICRA Lanka's Credit Rating Methodology for Life Insurance Companies;](#) [ICRA Lanka's Credit Rating Methodology for General Insurance Companies;](#) [ICRA Lanka's Issuer Rating Methodology;](#) [ICRA Lanka's Credit Rating Methodology for Non - Banking Finance Companies.](#)

² FY Financial year- April to March

³ ROA for 9M 2018 is annualized

About the Janashakthi Group:

Janashakthi PLC (Parent company)

Janashakthi PLC is an investment holding company incorporated in the year 1990. The company is owned and managed by the Schaffter family (Mr. Prakash Schaffter 50%, Mr. Ramesh Schaffter 50%). The main subsidiaries include Janashakthi Insurance PLC, which is an established insurance company in Sri Lanka operating for over two decades and Orient Finance PLC, which is a listed finance company in Sri Lanka. During the financial year ended March 31, 2017 Janashakthi PLC reported a standalone net loss of LKR 295 Mn on a total operating income of LKR 498 Mn, compared to net profit of LKR 600 Mn (including one-time gain of LKR 1,018 Mn from the share buy-back of Orient Finance), on a total operating income of LKR 327 Mn in the corresponding period of the previous fiscal.

On a consolidated basis, Janashakthi group reported a net profit of LKR 1,097 Mn on a total income of LKR 17,493 Mn in FY2017 compared to a net profit of LKR 1,443 Mn on a total income of LKR 13,949 Mn for the previous fiscal.

Janashakthi Insurance PLC

Janashakthi Insurance Company 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. 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 year ended December 2017, JIP reported a consolidated net profit of LKR 1,131 Mn on a gross written premium of LKR 15,115 Mn, compared to the net profit of LKR 1,647 Mn on a gross written premium of LKR 13,651 Mn for the year ended December 2016.

Orient Finance PLC

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 Sri Lanka to accept Fixed Deposits from the public. The Company was listed on the Main Board of the Colombo Stock Exchange in June 2011.

In July 2015, BFP acquired erstwhile Orient Finance Plc after paying close to LKR 1.70 Bn in cash and 1,213 Bartleet shares to the OFF shareholders. After the merger, the company was renamed as Orient Finance PLC and Janashakthi PLC became the main shareholder of the company with a 99.9% shareholding. In January 2015, OFF made an initial public offer (IPO) of about LKR 1.0 Bn. Objective of the IPO was to improve the capital structure of the company and settle the short term loan obtained from Orient Capital Limited (a fully owned sub-subsidiary of Janashakthi PLC) for acquisition. Currently Janashakthi PLC holds 89.8% of the shareholding of OFF. For FY 2017, OFF reported a PAT of LKR 258 Mn on a total asset base LKR 19.4 Bn, compared to PAT of LKR 607 Mn (including the tax credit of LKR 311 Mn) on a total asset base of LKR 17.1 Bn during the corresponding period, previous fiscal.

Janashakthi PLC (Standalone company) - Audited

LKR Mn	March 2016	March 2017	9M as of Dec 2017 (Unaudited)
Total Income	1,344	699	162
Operating Profit/Loss	1,267	622	114
Profit After Tax	600	(295)	(824)
Reported Net Worth	1,530	974	150
Borrowings	7,128	8,399	9,314
Operating Expenses /ATA	1.01%	0.84%	0.68%
RPAT /ATA	7.84%	-3.24%	-11.58%
Gearing	4.66	8.62	62.15
Total Assets	8,752	9,436	9,534

Janashakthi Insurance PLC (Life insurance business) - Audited

LKR Mn	FY2015	FY2016	FY2017 (Unaudited)
Gross Written Premium(GWP)	2,551	2,943	2,901
Net Earned Premium (NPE)	2,469	2,853	2,804
Profit After Tax	316	533	254
Reported Net Worth*	1,820	2,323	2,027
Claims Ratio	34%	39%	40%
Acquisition Cost ratio	29%	24%	24%
Operating Expenses Ratio	60%	46%	46%
Combined Ratio	93%	85%	86%
Capital Adequacy Ratio	248%	278%	N/A

* Networth has been adjusted to account for only the life insurance component of JIP.

Janashakthi General Insurance Limited - Audited

LKR Mn	FY2015	FY2016	FY2017 (Unaudited)
Gross Written Premium(GWP)	8,113	10,708	12,212
Net Earned Premium (NPE)	6,510	8,686	9,216
Profit After Tax	774	1,114	1,059
Reported Net Worth	6,415	6,719	7,878
Claims Ratio	66%	64%	67%
Acquisition Cost ratio	15%	14%	16%
Operating Expenses Ratio	40%	38%	39%
Combined Ratio	106%	102%	106%
Capital Adequacy Ratio	171%	194%	N/A

Orient Finance PLC - Audited

LKR Mn	March 2016	March 2017	9M as of Dec 2017 (Unaudited)
Total Income	2,363	3,310	2,584
Operating Profit/Loss	625	623	281
Profit After Tax	607	258	(114)
Reported Net Worth	2,243	2,500	2,353
Borrowings	14,122	16,372	15,679

LKR Mn	March 2016	March 2017	9M as of Dec 2017 (Unaudited)
RPAT / ATA	3.9%	1.4%	-0.8%
Gross NPA	7.74%	5.98%	9.59%
Total CAR	10.32	11.70	12.83
Gearing - reported	6.30	6.55	6.66
Gearing – adjusted**	9.04	9.00	9.37
Total Assets	17,112	19,450	18,554

** Gearing has been adjusted for goodwill and re- valuation reserves

Rating history for last three years:

Company	Instrument	Type	Current Rating (CY2017)		Chronology of Rating History for the past 3 years			
			Amount Rated (LKR Mn)	Amount Outstanding (LKR Mn)	Date & Rating CY 2017	Date & Rating in CY2016	Date & Rating in CY2015	Date & Rating in CY2014
Janashakthi PLC (JIPLC)	Issuer rating	N/A	N/A		[SL]BBB	[SL]BBB	[SL]BBB	[SL]BBB
Janashakthi Insurance PLC (JIP)	Claims paying ability rating	N/A	N/A		[SL] A	[SL] A	N/A	N/A
Janashakthi General Insurance Limited (JGIL)	Claims paying ability rating	N/A	N/A		[SL] A	[SL] A	N/A	N/A
Orient Finance PLC (OFP)	Issuer rating	N/A	N/A		[SL] BB+	[SL] BB+	N/A	[SL] BB+
Orient Finance PLC (OFP)	Issue rating of guaranteed redeemable debenture programme	N/A	1,000 Mn		[SL] A-(SO)	SL] A-(SO)	N/A	N/A
Janashakthi PLC (JIPLC)	Issue rating of senior unsecured redeemable debenture programme	N/A	1,000 Mn		[SL]BBB	SL]BBB	SL]BBB	SL]BBB

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