

FOR IMMEDIATE RELEASE

January 19, 2017

ICRA Lanka Assigns Issuer rating of [SL]BBB- to Ceylon Tea Brokers PLC

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service has assigned an Issuer rating of [SL] BBB- (pronounced S L Triple B minus ¹) with stable outlook for Ceylon Tea Brokers PLC ("CTB"/"the company").

The rating considers CTB's position as one of the main tea brokers in Sri Lanka with long standing track record in the tea broking industry and experienced management, which has helped it in garnering around ~12% market share. ICRA Lanka also takes note of the diversified revenue streams from brokerage, financing and warehousing operations; although they remain susceptible to the cyclicity in the Sri Lankan tea industry driven by factors like agro climatic risks, demand volatility and labour issues. The working capital intensity of the brokerage operations also remains moderate. Further ICRA Lanka also draws comfort from the support from the parent-Capital Alliance Group, which is primarily engaged in financial services business.

The rating is however constrained by the slowdown in the Sri Lankan tea industry witnessed in recent years on account of adverse weather conditions and labour issues impacting production coupled with demand slowdown from key exporting regions in CIS and Middle Eastern countries. This has adversely affected CTB's financial performance during FYE15 and FYE16, with revenue decline at a CAGR of ~15% during this period and operating margin also witnessed moderation from ~45.3% to 29.3%, although they remain at healthy level. The revenue decline during FY16 was partly also on account of company's policy to strengthen its credit policy and let go of some high risk customers. During the first half of current fiscal, there has been some improvement in revenue and operating margin aided by new customer acquisitions. ICRA Lanka also notes that industry associations like Colombo Tea Traders and Tea Brokers Associations, ensure that buyers generally maintain a good credit history, which mitigates credit risk for brokers like CTB, although the company does have some legacy long outstanding receivables, against which company has made provisions. Due to exposure to financing operations, the margins also remain susceptible to volatility in interest rates.

CTB's capital structure is highly leveraged with gearing in the range of 3-5x in the last few years (~3.1x as on March 31, 2016) and the coverage indicators have been moderate with interest coverage and TD/OPBDITA in the range of 1.5-2x and 3.7-5.4x respectively during this period (from FY12 to FY16). Company's debt profile mainly comprises of short term debt. However, the high leverage is partly on account of financing operations of the Company, which has accounted for ~31-44% of revenue in the last four years and due to aggressive dividend policy, which impacted the net worth. Adjusted for the financial operations, the debt requirement for brokerage and warehousing is at relatively moderate levels, given the low working capital intensity. The company is exploring options for warehouse expansion, which if debt funded, may exert additional pressure on the capital structure. However, going forward, ICRA Lanka will continue to monitor the same besides the plans for such expansion are in incipient stage. Thus, the company's ability to maintain/grow its market share and profitability in a competitive market, remain key rating sensitivity factors.

¹ For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

Ceylon Tea Brokers PLC;

Ceylon Tea Brokers was founded in 1963 as a partnership firm, which was converted into a private limited company in June 1999 and was taken over by the Capital Alliance Group in February 2005 and renamed as Ceylon Tea Brokers Ltd. It was subsequently listed on the Colombo Stock Exchange in Feb 2010 and is the only listed tea brokering Company.

During FYE Mar 2016, CTB reported a net profit of LKR 25.90 Mn on operating income of LKR 337.40 Mn, compared to a net profit of LKR 54.7 Mn reported on operating income of LKR 437.5 Mn during FYE March 2015. According to unaudited results, for the 6M FYE Mar-17, CTB reported a net profit of LKR 11.6 Mn on operating income of LKR 178.6 Mn compared to a net profit of LKR 11.6 Mn reported on operating income of LKR 175.2 Mn during the same period in FY16.

January 2017

For further details please contact:

Analyst Contacts:

Mr. Sai Krishna (Tel. No. +91- 44 45964304)

sai.krishna@icraindia.com

Mr. Danushka Perera, (Tel. No. +94-77-4781591)

danushka@icralanka.com

Relationship Contacts:

Mr. W Don Barnabas, (Tel. No. +94-11-4339907)

wdbarnabas@icralanka.com



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

Contents may be used freely with due acknowledgement to ICRA Lanka.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

