E. B. Creasy & Company PLC

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]BBB+ (Stable) Assigned
Proposed Senior Unsecured Redeemable Listed Debentures	600	[SL]BBB+ (Stable) Assigned

ICRA Lanka has assigned an Issuer rating of [SL]BBB+ (pronounced S L triple B plus[1]) for E.B. Creasy & Company PLC ("EBCR"/ "the Company"). ICRA Lanka has also assigned a rating of [SL]BBB+ for the proposed LKR 600Mn senior debt programme (with a sinking fund provision) of the company. The outlook on the ratings is stable.

Rationale: ICRA Lanka has taken a standalone view on EBCR given the very low dependence of the Company on its subsidiaries (dividends/advances) and the absence of contractual obligations to support group entities which are currently reporting losses. The management's written commitment (in line with Group's corporate governance policy) to maintain priority of the cash flows required for meeting EBCR's debt obligations and growth needs over that of its subsidiaries, provides additional comfort.

The assigned rating primarily factors in the Company's strong brand name and dominant market share in a highly stable consumer product segment, its growing presence across several new product categories such as batteries and solar panels, which have cumulatively enabled it to record healthy revenue growth over the past several years, notwithstanding downturns in the economy. ICRA also takes into account the experience of the promoters, the Company's strong track record and reputation in the industry which have enabled it to enjoy steady access to funding both from the capital markets as well as financial institutions that have supported its growth over the years. EBCR's financial profile is also healthy, characterized by stable accruals, comfortable capital structure and coverage metrics and adequate liquidity position supported by cash balances and readily marketable securities, wherein market value is relatively higher than the cost of investments. The Company's professional management team coupled with a strong governance structure adds further comfort for the ratings.

Some of the aforementioned strengths are moderately offset by the intense competition prevalent in the consumer product segments from incumbent and as well as new entrants which moderates pricing flexibility, the high dependence on three major brands which exposes revenues to concentration risks and the vulnerability of EBCR's revenues and profit to foreign exchange risks given the large dependence on imports which are not hedged fully.

Even as EBCR's standalone profile is strong, several of the Company's investee companies have been reporting severe losses owing to a combination of cyclical (rubber), regulatory (agri-inputs), structural (wage inflation for the plantation business) and agro-climatic (rubber and tea) factors. While EBCR has a firm policy in place which greatly limits intergroup transactions, ability of the Company to strictly enforce the same coupled with ability to diversify its own income streams would be key sensitivities to the rating. While the Company's financial profile is comfortable, EBCR is presently heavily dependent on short term loans to fund its working capital position, as operating cash accruals have been invested for capital expenditure requirements. Ability of the Company to reduce reliance on short debt and align cash flows in line with investment (fixed and working capital) requirements would be other sensitivities to the rating.

Business and Competitive Position: Being an established conglomerate with a reputed name in Sri Lanka, EBCR (on a standalone basis) is engaged in the manufacturing of well-known homecare and personal care products under brands such as Ninja (mosquito coils & liquid vaporizers), Amrita (Joss sticks), BIC (disposable razors &

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

pens) & Denta (toothbrushes). The Company is a dominant market leader in several of these categories and enjoys healthy margins from most of the product categories. Despite a strong product portfolio and healthy profitability, the Company's revenues are largely concentrated on a few products. In order to mitigate the same, the Company is looking at expanding the scope of products, and focuses more on indigenous/private label products to diversify its revenues streams. Ability to do so, would be key towards improving the business risk profile over the medium term. The same would also enable the Company to enter into higher margin segments, where competitive pressures would be lesser, enabling better pass through of input side pressures.

Financial Position: The Company has maintained an attractive revenue growth in excess of around 20% or more over the last several years. This has been on the back of sustained brand building efforts which have enabled the Company to garner a large share of the product segments it is presently in. Strong market position coupled with focused efforts to improve operating efficiencies, have also enabled the Company to generate high operating margins (13-14%) on a consistent basis over the last few years.

The Company's financial profile is also comfortable with limited receivables (primarily due from group entity Darley Butler which is the marketing arm for EBCR) and lenient credit from suppliers (both local and international) which has supported the working capital position. Thus reliance on external borrowings is relatively limited. The same coupled with healthy accretion to reserves (leading to strong net worth position) on the back of robust profitability, has resulted in a healthy capital structure and strong debt protection metrics. As a result, the Company's financial profile is fairly comfortable.

While the working capital position is also fairly stable, the Company has been deploying its operating accruals for investing in assets/acquisitions in the past, as a result of which, inventory funding has been through short term borrowings from banks (required to be refinanced regularly). In order to correct the same, the Company is looking at raising long term funds (proposed debenture of LKR 600 Mn) to reduce reliance on refinancing of short term debt and improve the liquidity position. That said, the Company's liquidity position is fairly adequate, with sufficient accruals and moderate cash and liquid investment buffer.

In this context, the funds raised through the proposed debentures would not only enable the Company to better match cash flows, but also fund the capex/acquisitions which are required to grow the business into new product segments. Ability of the Company to successfully implement the proposed capex (LKR 50-60 Mn over the medium term) and better match cash flows would be key towards improving the overall credit profile.

Group Overview: Over the years EBCR has grown by strategic acquisitions and now constitutes a diversified group with 40 subsidiaries which are in manufacturing of FMCG products, import/export of agricultural inputs/ commodities, distribution and freight forwarding, trading of chemicals/auto components and power equipment (solar), managing hotels and plantations. The Colombo Fort Land & Building (CFLB) is the parent company of E B Creasy PLC (holding 52.98% stake), with EB Creasy accounting for approximately 97% of the revenue and nearly 70% of the net profits of CFLB. Thus, EBCR is strategically important to the Group.

The Company on its own also acts as a strategic investment holding company for the Group with several subsidiaries and step down subsidiaries being held by EBCR. However, there are no financial obligations toward any of the group entities. Further, dividend income from these entities forms less than 1% of the Company's revenues, making EBCR independent of any of the subsidiaries.

Lankem Ceylon PLC is EBCR's largest subsidiary (including its step down subsidiaries) contributing to 85% of the Group revenues. Though Lankem Ceylon PLC is currently making a loss owing to cyclical downturn in some businesses and adverse weather conditions which has impacted plantation business, the Lankem Group has sufficient investment and cash balances, coupled with large asset base (land and plantations) which can be monetized to meet its debt obligations. With several of Lankem's subsidiaries (including Lankem) being listed, the Group is also open to a rights issue to raise funds for supporting its debt obligations. Moreover, Lankem operates in some of the segments which are key to the Sri Lankan economy (tea, rubber, agriculture) and which are expected to witness a gradual recovery over the medium term (in line with global trends), that should enable the Group to return to profitability. Thus, despite the current weakness in several of its subsidiaries, ICRA Lanka does not envisage any significant pressure on EBCR to fund/support the financial obligations of its subsidiaries.

Company Profile

Established in 1878, E B Creasy & Company PLC ("EBCR" / "the Company"), was converted to a Limited Company and listed on the Colombo Stock Exchange in 1968. It is one of the oldest companies in Sri Lanka. The company is among the pioneers of the Ceylon Chamber of Commerce having joined it in 1890. Over the years EBCR has expanded by organic growth as well as by strategic acquisitions and now constitutes a diversified group. The Company on a standalone basis manufactures markets and distributes a range of homecare, personal care and household products. The range offered include, imported and manufactured disposable razors, toothbrushes, mosquito coils, mosquito liquid vaporizers, coconut shell powder, wood powder and torch / automotive batteries. Besides, own operations, the Company also acts as the key holding company for the Group.

On a standalone basis, for the FYE Mar-14, EBCR reported a net profit of LKR 224.4 Million on a total income of LKR 2,642.7 Million compared to a net profit of LKR 168.0 Million reported on a total income of LKR 2,213.8 Million in FYE Mar-13. For the six month period ended September 2014, the Company reported a profit after tax of LKR 118.7 Million on a total income of LKR 1,525.9 Million.

On a consolidation basis, for the FYE Mar-14, EBCR reported a net loss of LKR 320.1 Million on a total income of LKR 34,324.1 Million compared to a net profit of LKR 744.6 Million reported on a total income of LKR 29,093.8 Million in FYE Mar-13. For the six month period ended September 2014, the group reported a loss after tax of LKR 652.4 Million on a total income of LKR 16,516.9 Million.

February 2015

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