FOR IMMEDIATE RELEASE
April 11, 2017

ICRA Lanka Reaffirms the issuer rating of [SL]BBB+ for E. B. Creasy & Company PLC

ICRA Lanka Limited, Subsidiary of ICRA Limited, Group company of Moody's Investors Service has reaffirmed the Issuer rating of [SL] BBB+ (pronounced S L triple B plus[1]) with stable outlook for E.B. Creasy & Company PLC ("EBCR"/ "the Company").

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 /recovering from past financial losses. The Group's strong 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 and to restrict intercompany borrowings, provides additional comfort.

The reaffirmed rating primarily factors in the Company's strong brand name, leading market share in the highly stable consumer product segment, and the launch of new product categories for untapped markets such as BIC razor products for ladies' segment, new Hair Gel products, Denta Kids products, and a new biodegradable toilet bowl cleaner product- "Bio Clean". The company has a growing marketing & distribution segment - the main products being marketed and distributed under this segment include 3K batteries, generators, fork lifts and renewable energy sources (such as net metering systems and solar water pumps). EBCR's financial profile is healthy, characterized by stable accruals, comfortable capital structure and coverage metrics and adequate liquidity position supported by strong accruals and readily marketable securities, (where the market value is relatively higher than the cost of investments). ICRA Lanka also takes into account the experience of the promoters, the Company's strong track record and reputation in the industry which have helped the company enjoy steady access to funding both from the capital markets as well as financial institutions that have supported its growth over the years. The Company's professional top management team coupled with strong corporate governance structure adds further comfort for the rating.

These rating strengths are moderately offset by the intense competition prevalent in the consumer product segments from incumbents and as well as new entrants which moderates pricing flexibility, and the high dependence on four major brands which exposes revenues to concentration risks. The company's revenues and profits are vulnerable to foreign exchange risks (given the large dependence on imports which are not hedged fully) and the regulatory risks such as imposition of new taxes. The company's new investments in Lanka Special Steels Limited and the recent investment in centrifuged medical latex products business would further diversify the business risks. However, in the medium term, the company is likely to further incur additional capital expenditures in order to support its operation.

While EBCR has a firm policy in place which greatly restricts 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 dependent on short term loans to fund its working capital position, as operating cash accruals have been

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

invested for capital expenditure requirements. Ability of the Company to reduce reliance on short term debt and align cash flows in line with investment (fixed and working capital) requirements would be other sensitivities to the rating.

The Company is a market leader in several of consumer product categories and enjoys healthy margins from most of the product categories. Despite leading product categories and healthy profitability, the Company's revenues are largely concentrated on few brands/products. In order to mitigate the revenue concentration risk, the Company has started expanding the scope of products, and focuses more on indigenous/private label products to diversify its revenues streams. The company's ability to achieve this, 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 10-12% 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. The revenue growth has also been robust in 9MFYE17 driven by new product launches. Strong market position coupled with focused efforts to improve operating efficiencies, have also enabled the Company to generate high operating margins (14-15%) on a consistent basis over the last few years.

The company's 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 including the liquidity position is fairly comfortable with sufficient accruals and moderate cash and liquid investment buffer. 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, inventory funding has been through short term borrowings from banks (required to be refinanced regularly). In order to correct the same, the Company has to raise long term funds to reduce reliance on refinancing of short term debt and further improve the liquidity position.

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.

Lankem Ceylon PLC (LCEY) (including its subsidiaries) is EBCR's largest subsidiary contributing to 68% of the Group revenues. LCEY is engaged in the manufacturing and distribution of Agro Chemicals, Decorative Painting products, Industrial Chemical & Bitumen Products, and FMCG products. LCEY has been reporting financial losses over the past few years mainly due to negative performance of their Agro Chemical segment. During 9MFYE17, notwithstanding the positive financial performance of most investee entities of Lankem Ceylon PLC, the performance of the Agro segment has been further impacted owing to the adverse weather conditions that prevailed in the country during CY2016 and the stringent regulatory environment in the agro chemical industry. The Lankem Group has sufficient investments, 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.

The Company acquired a 100% stake of Lanka Special Steels Limited from Tata Steel Limited in FYE16. Lanka Special Steels Limited is in the business of manufacturing & exporting and also a dealer in galvanized wire, nail wire, galvanized barbed wire, and all other varieties of related products. During Q4FYE17, the company has fully acquired a centrifuged medical latex product business-Dura Medical (Lanka) Ltd from a Malaysia investor for a total investment of LKR 220 Mn (Equity contribution of this venture was LKR 70Mn). The commercial operation of this acquisition is expected to commence in June CY2017.

Company Profile

Established in 1878, E B Creasy & Company PLC ("EBCR"/"the Company"), was converted to a limited liability 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 FYE16, EBCR reported a net profit of LKR 264.3 Mn on a total income of LKR 3,646.6 Mn compared to a net profit of LKR 241.0 Mn reported on a total income of LKR 3,208.6 Million in FYE15. During 9M ending FYE17, the company has recorded a net profit of LKR 228.8 Mn on a total income of LKR 2,968.5 Mn compared to a net profit of LKR 230.3 Mn on a total income of LKR 2,587.1 Mn in the same period of FYE16.

On a consolidated basis, for the FYE 16, EBCR reported a net profit of LKR 240.9 Mn on a total income of LKR 24,924.3 Mn compared to a net profit of LKR 43.1 Mn reported on a total income of LKR 20,386.0 Mn in FYE15. During 9M ending FYE17, EBCR has reported a net loss of LKR 361.1 Mn on total income of LKR 19,028.3 Mn compared to a net profit of LKR 194.3 Mn on total income of LKR 18,091.4 Mn in the same period of FYE16.

April 2017

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