



Lanka Rating Agency

Rating Report

Ceylon Waste Management Refinery Limited

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
07-May-2024	B-	Stable	Initial	Yes

Rating Rationale and Key Rating Drivers

Ceylon Waste Management Refinery Limited ("the Company" or "CWMR") is the only precious metal refinery in Sri Lanka. It is a family owned business. CWMR extracts precious metals like gold, silver, platinum, palladium and copper through electronic waste (e-waste) re-cycling. It has a re-cycling refinery with a capacity of refining 1 ton of circuit boards per day with 99.99% purity. The refining operations commenced in September'23 and the refinery is currently operating at ~30% capacity. The Company has the capacity to extract 180g of gold, 60g of palladium, 1kg of silver and 250kg of copper from one ton of circuit boards. The Company foresees to expand its capacity by three times in a year. The Company's raw materials are locally sourced and circuit boards are mainly supplied by Ceylon Waste Management (CWM), an associate company with the same ownership. Availability of sufficient raw material is critical for the Company. The Company has not recorded any revenue and still awaits the necessary export licenses to sell its products overseas. The Company expects to export gold for the first time in April'24 and has projected sales of LKR ~1,073 mln. Although the Company has commenced operations, sustainability of production and achieving targeted sales remains to be seen. CWMR reported a loss of LKR~42 mln in 9MFY24 as compared to a loss of LKR~120 mln in FY23. Since CWMR has been operating with no revenue for the past few years, the margins remain persistently negative. The Company has high financial risk as it is majorly financed through external debt and has a very small equity base as reflected by its very high leveraging ~(98%) and debt to asset ratio ~(88%).

The rating is dependent on the management's ability to achieve sustainable production, obtain necessary certifications/accreditations, set revenue targets and meet other milestones. Overcoming bottlenecks to optimize production and uninterrupted availability of quality raw material are imperative. Meanwhile, strengthening management team and governance framework is critical. The rating is also kept on a "Watch" to monitor projected milestones.

Disclosure

Name of Rated Entity	Ceylon Waste Management Refinery Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22)
Related Research	Sector Study Waste Management Companies(Feb-24)
Rating Analysts	Savindri Hansamala Kuruppu savindri@lra.com.lk +92-42-35869504



Waste Management Companies

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Profile

Legal Structure Ceylon Waste Management Refinery Limited (“CWMR” or “the Company”) was established in 2016 with Board of Investment (BOI) approval, specializing in refining valuable metals from electronic waste for export. It is the associated company of Ceylon Waste Management Ltd (“CWM”).

Background CWMR commenced operations in 2016 as an approved venture under Sri Lanka's Board of Investment BOI. It is associated with CWM through same ownership, which has been leading the e-waste management and recycling industry in Sri Lanka since its establishment in 2009.

Operations CWMR stands out as the sole e-waste refinery in the nation, it has become the mandatory supplier for all e-waste exporters in Sri Lanka, who collectively account for 40% of the market. This is in accordance with the international regulations on the transboundary movement of waste, as stipulated by the Basel Convention. CWM holds a commanding share of 60% in the local e-waste collection domain, and it is due to the strategic disposals agreements with major corporations which bolster the refinery's robust raw material supply chain as CWM provides the raw materials for CWMR such as circuit board scraps.

Ownership

Ownership Structure CWMR and CWM operates under a joint ownership structure, with Mr. Sudesh Nandasiri and Mrs. Sewwandi Ranasinghe, who are spouses. Mr. Nandasiri plays an active role in the day-to-day operations of the Company, serving as the founder, Managing Director, and Chairman.

Stability CWM, under joint family ownership, has demonstrated resilience since 2009. The integrated operations with CWMR exemplify shared familial vision and leadership, establishing both entities as key players in sustainable e-waste practices. Their international experience and achievements position the Company as a regional market and process leader.

Business Acumen Mr. Nandasiri is a well-recognized figure in the global waste management industry. His illustrious career includes holding high-ranking positions in the public sector, further solidifying his expertise and business acumen. He is also a visiting lecturer at Post Graduate Institute of the University of Peradeniya.

Financial Strength The Company's financial strength is anchored in the substantial wealth of its principal shareholders, Mr. Nandasiri and Mrs. Sewwandi, who are renowned as leaders in the waste management sector, particularly in e-waste processing. They Ceylon Chemicals (Pvt) Ltd and Ceylon Green Gold and Sapphires Ltd in UK are both under the ownership of the shareholders.

Governance

Board Structure The board consists of five Non-Executive Directors (NED) all of whom are Independent (ID). Mrs. Sewwandi is an Executive Director, and Mr. Sudesh Nandasiri is the Managing Director and Chairman.

Members' Profile Mr. Sudesh Nandasiri is the Chairperson of the board. The remaining board members come from a diverse professional background and have a satisfactory association with the company's board.

Board Effectiveness The first Board meeting has been held in December 2023, prior to which only Mr. Nandasiri and Mrs. Sewwandi has taken joint decisions. The Board has Board Audit Committee (“BAC”) and Related Party Transaction Committee as sub-committees.

Financial Transparency W.R. Rodrigo & Co., the external auditors engaged by the Company, have given an unqualified audit opinion for the FY23.

Management

Organizational Structure CWMR is a family-owned business and has a well-defined organizational structure which consists of four divisions: production, operations, administration and finance.

Management Team The Company is led by Mr. K.J.R.S. Fernando - Technical Director, who has two master's degrees from University of Peradeniya. He oversees the technical functions and operations at the production floor.

Effectiveness Management team ensures effective decision-making and strategic planning through the use of a KPI-based system enhances progress monitoring, contributing significantly to overall organizational success.

MIS The company has implemented ZOHO accounting system since 2020 for accounting, inventory management and ZOHO CRM for customer management which have streamlined operations, providing seamless integration and accessibility. The company is planning to implement an integrated ERP system in FY25.

Control Environment The Company's internal control measures, including quality assurance, risk management, compliance monitoring, and information systems controls, are aligned with ISO 9001, 14001, and 45001 standards, reflecting a commitment to quality, environmental responsibility, occupational health and safety, and continual improvement in line with these internationally recognized management system standards.

Business Risk

Industry Dynamics E-waste is the fastest-growing waste stream in the world as per the UN reports. E-waste disposal will be a strategic operation in future as all financial, personal, corporate important or strategic information will be stored at e- devices ever than before. With the strategic location of Sri Lanka in the Indo-Pacific Economic Corridor (“IPEC”), where it is forecasted that the region will be more digital than traditional services by year 2030, there will be better opportunities for CWMR in near future.

Relative Position CWMR is the precious metal refinery by E-Scrap but not limited to it. Company allows to extract of any precious metal (Gold, Silver, Platinum, Palladium) and Base metals (Copper, Tin, Nickel) at current processes. It is the single precious metal and base metal refinery in Sri Lanka. Hence there is no active competition for the Company in Sri Lanka. But there is competition to get quality raw materials for the refining as few exporters are operating in the country. But in that regard, 65% of the raw material collection in the industry is done by CWM which provides company the much-needed raw material.

Revenues It was observed that CWMR is not generating revenue at the moment. CWMR has an alternate revenue stream from consultancy services done by Mr. Nandasiri. This amounted to 100% of the revenue of LKR 33.8 Mn in FY22 and LKR 75.6 Mn in FY21. While the Company currently focuses on the extraction of gold, silver, platinum, palladium and copper, there is potential to expand into the recovery of other valuable materials such as nickel, tin, and rare earth elements.

Margins CWMR has been operating with no revenue for the past few years as the operations started only in September 2023. Hence the margins are negative for the current year.

Sustainability Sustainability is a cornerstone of the e-waste recycling industry. CWMR is taking an extra step in its commitment to environmental stewardship by: implementing a closed-loop system where materials are continually recycled, minimizing the need for virgin resources and reducing environmental impact, investing in energy-efficient technologies and renewable energy sources to power refining operations, thereby lowering the carbon footprint, developing transparent supply chains and ensuring responsible sourcing of e-waste, with a focus on protecting human rights and preventing environmental degradation.

Financial Risk

Working Capital The working capital for the Company is the circuit boards extracted from e-waste, chemical such as acids and bases, diesel and LPG. The average production time is 18 days, and the net working capital days is ~30 days at present.

Coverages The company's interest coverage ratio stood at -67.6x as at 9MFY24 and -1.3 times in FY23, a considerable decline, due to inadequate revenues and cash inflows. By FY26 the coverage is expected to reach 248x.

Capitalization The firm's capital structure is highly leveraged. At the end of FY23, the debt to asset ratio stood at 81% and it was 88% as at 9MFY24. These loans are in USD terms and are taken out for putting up the factory building and machinery purchase. The two shareholders act as guarantors for the loans.



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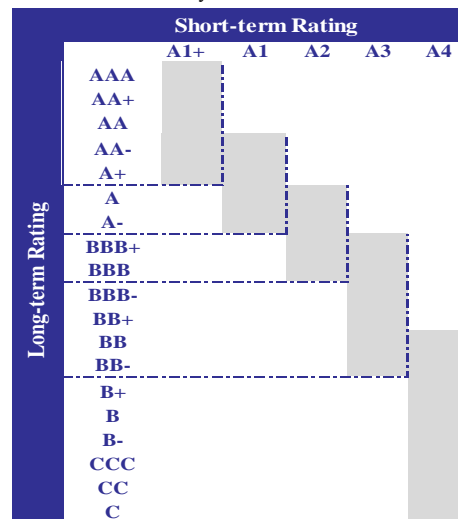
Ceylon Waste Mangement Limited Corporate	Dec-23	Mar-23	Mar-22	Mar-21
	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	545	553	726	260
2 Investments	-	-	-	-
3 Related Party Exposure	12	14	8	0
4 Current Assets	23	13	9	186
a Inventories	17	5	5	185
b Trade Receivables	-	-	-	-
5 Total Assets	580	580	743	446
6 Current Liabilities	12	2	3	1
a Trade Payables	10	-	-	-
7 Borrowings	488	472	514	180
8 Related Party Exposure	17	-	1	196
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	63	105	225	69
11 Shareholders' Equity	63	105	225	69
B INCOME STATEMENT				
1 Sales	-	-	34	76
a Cost of Good Sold	(14)	(15)	(2)	(3)
2 Gross Profit	(14)	(15)	32	73
a Operating Expenses	(29)	(21)	(59)	(5)
3 Operating Profit	(43)	(36)	(27)	68
a Non Operating Income or (Expense)	1	16	15	-
4 Profit or (Loss) before Interest and Tax	(42)	(20)	(12)	68
a Total Finance Cost	(0)	(100)	(0)	-
b Taxation	-	-	-	-
6 Net Income Or (Loss)	(42)	(120)	(12)	68
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(31)	(133)	40	70
b Net Cash from Operating Activities before Working Capital Changes	(31)	(133)	40	70
c Changes in Working Capital	7	(13)	(22)	(26)
1 Net Cash provided by Operating Activities	(24)	(146)	18	44
2 Net Cash (Used in) or Available From Investing Activities	(3)	186	(300)	(231)
3 Net Cash (Used in) or Available From Financing Activities	26	(42)	283	189
4 Net Cash generated or (Used) during the period	(1)	(1)	1	1
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	N/A	N/A	-55.4%	0.0%
b Gross Profit Margin	N/A	N/A	94.4%	96.1%
c Net Profit Margin	N/A	N/A	-36.4%	89.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	N/A	N/A	54.3%	57.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	-66.9%	-72.6%	-8.3%	97.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	N/A	1027	891
b Net Working Capital (Average Days)	N/A	N/A	1027	891
c Current Ratio (Current Assets / Current Liabilities)	1.9	5.1	3.2	135.6
3 Coverages				
a EBITDA / Finance Cost	-67.6	-1.3	1000.1	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	-9.3	-1.3	0.7	3.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-11.8	-2.0	12.6	5.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	88.9%	81.8%	69.6%	84.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	N/A
c Entity Average Borrowing Rate	0.1%	20.3%	0.0%	0.0%

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	
Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. 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.
AA-	
A+	
A	High credit quality. 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	Good credit quality. 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+	Moderate risk. 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	High credit risk. 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	Very high credit risk. 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.

Short-term Rating	
Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) 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’.

Rating Watch 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.

Suspension 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.

Withdrawn 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

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/credit-rating-agency/>

Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will 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 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

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 will 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 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

Monitoring and review

(10) For purposes of transparency the LRA will publish 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 shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency 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 53 – Rules applicable to Credit Rating Agencies)

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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