



Lanka Rating Agency

Rating Report

George Steuart Health (Private) Limited

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Rating History

| Dissemination Date | Long Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|---------|---------|--------------|
| 02-Aug-2024 | A | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

George Steuart Health (Pvt.) Limited (“GSHPL” or “the Company”) operates in the pharmaceutical industry in Sri Lanka, primarily engaged in import and distribution of pharmaceutical products and equipment. The Company is part of George Steuart Group, which was founded in 1835 during the British colonial era. The rating reflects the Company's reputable brand and established legacy spanning over 180+ years. GSHPL enjoys sustained growth in revenues, healthy margins and steady profitability, although its market share in the industry remains modest. The rating incorporates the Company's very strong financial profile characterized by low leveraging and robust coverage ratios. GSHPL has a diverse presence in various pharma verticals namely, (i) Pharmaceuticals (ii) Medical devices (iii) Neutraceutical (iv) Cosmetic (v) Veterinary Medicine & Diagnostics (vi) Optometry (vii) Sports and fitness (viii) 3PL operations. The pharmaceutical industry in Sri Lanka operates through a regulatory framework overseen by the Government for price control of essential drugs by the National Medicines Regulatory Authority (NMRA). All imported and distributed healthcare products should be registered with NMRA. The industry relies on imports, mainly from India, USA, China, Thailand, Korea, Pakistan, Bangladesh, and remains susceptible to supply chain risk and currency fluctuation as seen during recent crisis. However, Company continued to show great resilience and continued to grow during times of external volatilities faced by the Country. GSHPL Sales operations encompass direct sales and sales through exclusive distributors to private hospitals, modern trade outlets (supermarkets), per-stocking doctors, and government hospitals. Most of the customers in top 10 are their own distributors, they supply to approximately ~2000 outlets throughout the country. GSHPL has acquired a manufacturing plant through a joint venture (JV) agreement. The project's objective is to reduce reliance on imported medicines by manufacturing them locally.

GSHPL intends to issue a corporate guarantee in favor of George Steuart & Company (Pvt.) Limited (GSCPL), the parent company of GSHPL and group holding company. GSCPL has a diverse portfolio of entities in Sri Lanka engaged in a range of businesses including tea exports, healthcare, travel, leisure, financial services, FMCG, and industrial solutions.

The rating depends on the Company's ability to maintain and further strengthen its market position in the pharmaceutical distribution sector. Sound financial management, including adhering to agreed leveraging and coverage parameters remain critical. Any adverse regulatory or economic change, significantly impacting pharmaceutical industry prospects, could have negative rating implications.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | George Steuart Health (Private) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Rating(Jun-22) |
| Related Research | Sector Study Pharmaceutical(Apr-24) |
| Rating Analysts | Imran Iqbal imran@lra.com.lk +94 114 500099 |

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Profile

Legal Structure George Stuart Health (Pvt.) Limited (“GSHPL” or “the Company”) is a limited liability company incorporated in Sri Lanka in 1975 and re-registered under the Companies Act No. 7 of 2007. The pharmaceutical industry is regulated by the National Medicines Regulatory Authority (NMRA). The Company has a license for warehousing storage issued by the NMRA.

Background GSHPL is a subsidiary of George Steuart & Company (Pvt.) Limited (“GSCPL”), which was founded in the year 1835. GSCPL is a diversified entity in Sri Lanka, engaging in a range of businesses including tea exports, healthcare, travel, leisure, financial services, FMCG, and industrial solutions.

Operations GSHPL is primarily engaged in import and distribution of pharmaceutical products and equipment. Warehousing operations include storage for general pharmaceutical products & cold chain products. The current storage facility spans over 18,000 square feet. Additionally, the Company relies on third-party logistic providers for the storage. The Company also provides 3PL (3rd party logistics) services.

Ownership

Ownership Structure The ownership structure of the Company is primarily held by GSCPL, which owns a majority stake of ~99.58%. GSHPL operates as a subsidiary of GSCPL. GSCPL is ~93.95% owned by Divasa Equity (Pvt.) Limited, a company incorporated in Sri Lanka. The ownership of Divasa Equity (Pvt.) Limited is with ~8 shareholders, Ms. Varuni Amunugama ~35.19%, Mr. Dilith Jayaweera ~35.19%, and Mr. S. A. Ameresekere ~17.17% and the remaining have ~12.44%.

Stability Mr. Dilith Jayaweera was the Group Chairman of George Steuart Group. On 13th September 2023, he resigned from all listed entities in the group and resigned from the George Steuart group on 10th January 2024, ending his corporate career to pursue a career in politics. Ms. Varuni Amunugama is a Director of the George Steuart Group, she also serves as a director for many other companies. Mr. S. A. Ameresekere is the Chairman of the George Steuart Group, and he holds several key positions within the group.

Business Acumen Mr. Jayaweera, with a Bachelor of Laws from the University of Colombo and an MBA from the University of Wales, co-founded Triad (Pvt.) Limited, an advertising firm. Ms. Amunugama, holding a Diploma in Advertising from L’Ecole-de-Publicitaire, Paris, and an LLB from the University of Colombo, is also a co-founder of Triad (Pvt.) Ltd., and serves as a director in multiple companies. Mr. Ameresekere holds Master’s Degree in Engineering Management from the University of Southern California, Los Angeles and a Bachelor’s Degree in Industrial and Operations Engineering from the University of Michigan, Ann Arbor.

Financial Strength GSCPL’s principal activities are providing strategic management, centralized support services, research and planning and renting out premises, reported a profit of LKR~408.6mln in FY24 compared to a profit of LKR~409.5mln in FY23. GSCPL has an asset base of LKR~7.4bn and equity of LKR~4.3bn in FY24.

Governance

Board Structure GSHPL has a formal Board structure comprising of 4 Executive Directors, and 4 Non-Executive Directors. The Chairman of GSCPL, Mr. Ameresekere is also the Non-Executive, Non-Independent Chairman of GSHPL.

Members’ Profile Mr. Ameresekere is the currently the Chairman of George Steuart Group, he holds directorships in the key entities within the group. He is a qualified professional in both business and engineering, possesses extensive local and international business experience.

Board Effectiveness The Executive Directors of GSHPL, led by the Managing Director, make operational decisions based on the agreed annual budget and strategy, with significant variations discussed at quarterly review meetings. The Managing Director with Executive Directors makes representation to the Chairman any significant management decision, who in turn makes recommendations with Board of GSCPL.

Financial Transparency EY Chartered accountants are the external auditors of the Company. They have given an unqualified opinion on the financial statements of the Company for the year ended 31st March 2023.

Management

Organizational Structure The Company has a functional organizational structure, with the finance function overseen by the finance director. The other three directors have their own promotional and support services for diverse products and services offered by the Company, while the sales remain to be a shared service.

Management Team The senior management team at GSHPL is led by Mr. Erandajith Ranasinghe, who serves as the Managing Director, with a 35 years of industry experience, having served as secretary and president of the Sri Lanka Chamber of Medical Devices Industry. The senior management also comprises 3 other qualified Directors who have 20+ years of experience in the industry.

Effectiveness The Company’s management meetings are held quarterly, during which managers, executives, and the board conduct a detailed analysis of each division. This analysis encompasses areas such as the effectiveness of promotions, the adequacy of stock levels, and the justification of team expenses.

MIS The Company uses Microsoft 365 platform and has implemented a multi-factor authentication to overcome any unauthorized access. In addition, the Company utilizes the IFS ERP system, enabling real-time monitoring of operations from the supply chain management to financial services.

Control Environment The Company currently has a limited internal audit function and is exploring outsourcing audit services from a third party. Subsequently, the Company plans to establish an internal control function by the next financial year.

Business Risk

Industry Dynamics The pharmaceutical industry in Sri Lanka operates through a regulatory framework overseen by the Government for price control of essential drugs by the NMRA. All imported and distributed healthcare products should be registered with NMRA. The industry relies on imports, mainly from India, USA, Pakistan, Bangladesh, and remains susceptible to supply chain risk and currency fluctuation as seen during the recent times.

Relative Position GSHPL has ~54 products that are under price control mechanisms. GSHPL has a regulatory affairs division, which comprises ~10 dedicated team members, including ~7 pharmacists registered with the Sri Lanka Medical Council. They liaise with the NMRA for the submission and obtaining of registration certificates and licenses.

Revenues In FY24, the Company’s revenue was recorded at LKR~9,992mln from the sale of goods. In FY23, the revenue reached to LKR~7,908mln, with pharmaceuticals contributing significantly to LKR~5,338mln, while the non-pharmaceutical products contributed LKR~2,570mln to the total revenue.

Margins The Company has healthy profit margins. The gross profit margin has declined in FY24, and the net profit margin has shown a slight decline ~0.4% in FY24 as compared to FY23. The outcome of the new pricing and transfer mechanism by NMRA may have an impact on the margins, going forward.

Sustainability GSHPL plans to establish a manufacturing plant with ~60% funding from GSHPL and ~40% from Premium International, producing tablets, capsules, Glucometers, trips, and Ayurvedic medicines.

Financial Risk

Working Capital The Company relies on imports for the majority of its operations and provides credit terms to its customers and distributors. The net working capital days of the company jumped to around ~106 days from FY23’s ~55 days due to an increase in inventory and receivable turnover days. The Company’s credit policy allows for ~60 days of credit sales, and the Company receives a credit purchase of ~120 days.

Coverages GSHPL has very strong interest and debt coverages due to its low debt levels and healthy cashflows. The interest coverage ratio stood at ~25.2x in 9MFY24 as compared to ~6.2x times in FY23, while debt coverage ratio improved to ~9.4x in 9MFY24 (FY23: ~1.2x).

Capitalization The Company has a low leveraged capital structure. In 9MFY24, the Company’s debt leverage ratio stood at ~14.3% as compared to ~15.8% in FY23. The leveraging is expected to increase to ~25%, if the impact of the Corporate Guarantee for the parent company is accounted for.



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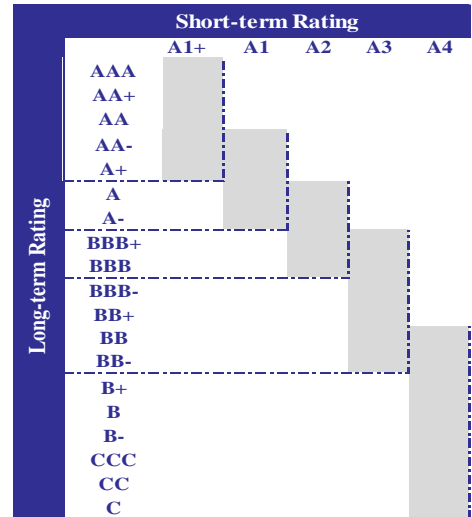
| George Steuart Health (Pvt) Ltd Pharmaceuticals | Dec-23 9M | Sep-23 6M | Jun-23 3M | Mar-23 12M | Mar-22 12M | Mar-21 12M |
|--|--------------|--------------|--------------|---------------|---------------|---------------|
| A BALANCE SHEET | | | | | | |
| 1 Non-Current Assets | 1,396 | 1,222 | 968 | 1,553 | 1,125 | 1,100 |
| 2 Investments | - | - | - | - | - | - |
| 3 Related Party Exposure | 437 | 160 | 472 | 21 | 31 | 93 |
| 4 Current Assets | 6,052 | 6,047 | 5,137 | 4,592 | 4,748 | 3,136 |
| <i>a Inventories</i> | 2,090 | 2,209 | 1,953 | 1,864 | 1,163 | 1,045 |
| <i>b Trade Receivables</i> | 3,030 | 2,684 | 2,310 | 1,576 | 2,240 | 1,547 |
| 5 Total Assets | 7,886 | 7,428 | 6,577 | 6,167 | 5,903 | 4,329 |
| 6 Current Liabilities | 3,018 | 3,150 | 3,074 | 2,344 | 2,471 | 1,614 |
| <i>a Trade Payables</i> | 2,150 | 2,338 | 2,113 | 2,038 | 2,245 | 1,540 |
| 7 Borrowings | 664 | 343 | 59 | 547 | 743 | 649 |
| 8 Related Party Exposure | - | - | - | - | - | - |
| 9 Non-Current Liabilities | 220 | 237 | 235 | 366 | 342 | 310 |
| 10 Net Assets | 3,984 | 3,698 | 3,209 | 2,911 | 2,347 | 1,756 |
| 11 Shareholders' Equity | 3,984 | 3,698 | 3,209 | 2,911 | 2,347 | 1,756 |
| B INCOME STATEMENT | | | | | | |
| 1 Sales | 8,379 | 5,535 | 2,761 | 8,561 | 11,446 | 5,935 |
| 2 Profit or (Loss) before Interest and Tax | 1,663 | 1,121 | 599 | 1,472 | 1,146 | 508 |
| <i>a Total Finance Cost</i> | (242) | (152) | (72) | (202) | (40) | (37) |
| <i>b Taxation</i> | (509) | (342) | (189) | (394) | (315) | (147) |
| 3 Net Income Or (Loss) | 912 | 626 | 338 | 876 | 790 | 325 |
| C CASH FLOW STATEMENT | | | | | | |
| <i>a Free Cash Flows from Operations (FCFO)</i> | 549 | 471 | 472 | 887 | 974 | 397 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 607 | 441 | 460 | 887 | 974 | 397 |
| <i>c Changes in Working Capital</i> | (907) | (912) | (202) | (581) | 135 | (387) |
| 1 Net Cash provided by Operating Activities | (300) | (471) | 257 | 306 | 1,109 | 10 |
| 2 Net Cash (Used in) or Available From Investing Activities | 365 | 346 | 422 | 71 | (34) | (92) |
| 3 Net Cash (Used in) or Available From Financing Activities | (267) | 377 | (949) | (508) | (105) | 147 |
| 4 Net Cash generated or (Used) during the period | (202) | 252 | (270) | (131) | 970 | 66 |
| D RATIO ANALYSIS | | | | | | |
| 1 Performance | | | | | | |
| <i>a Sales Growth (for the period)</i> | 30.5% | 29.3% | 29.0% | -25.2% | 92.9% | 0.0% |
| <i>b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i> | -4.3% | -8.0% | 9.8% | 3.6% | 9.7% | 0.2% |
| <i>c Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i> | 35.3% | 37.9% | 44.2% | 33.3% | 38.5% | 18.5% |
| 2 Working Capital Management | | | | | | |
| <i>a Gross Working Capital (Average Days)</i> | 140 | 137 | 127 | 146 | 96 | 159 |
| <i>b Net Working Capital (Average Days)</i> | 71 | 65 | 59 | 55 | 35 | 65 |
| <i>c Current Ratio (Current Assets / Current Liabilities)</i> | 2.0 | 1.9 | 1.7 | 2.0 | 1.9 | 1.9 |
| 3 Coverages | | | | | | |
| <i>a EBITDA / Finance Cost</i> | 25.2 | 32.4 | 40.7 | 6.2 | 28.3 | 14.1 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 9.4 | 15.7 | 37.8 | 1.2 | 1.6 | 1.0 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 0.4 | 0.0 | 0.0 | 0.8 | 0.7 | 1.1 |
| 4 Capital Structure | | | | | | |
| <i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i> | 14.3% | 8.5% | 1.8% | 15.8% | 24.1% | 27.0% |
| <i>b Interest or Markup Payable (Days)</i> | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>c Entity Average Borrowing Rate</i> | 19.2% | 19.0% | 16.5% | 31.3% | 5.8% | 6.4% |

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.

| Scale | Long-term Rating 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+ | |
| 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- | |
| 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 | |
| CC | 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. |
| C | |
| D | Obligations are currently in default. |

| Scale | Short-term Rating 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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