Lanka Rating Agency

Rating Report

Laxapana PLC

Report Contents

Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
08-Aug-2024	BB+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Laxapana PLC ("the Company" or "Laxapana") is a limited liability company principally involved in import and trading of LED and CFL bulbs, dry-cell batteries, rechargeable torches, industrial lighting and hardware products in Sri Lanka. The Company pioneered manufacturing of dry-cell batteries of AA and AAA in Sri Lanka in the past. The rating reflects the Company's strong brand name (Laxapana) and market position, growing supplementary income and robust distribution network for consumer products. Laxapana enjoys synergies being part of E. B. Creasy Group in the consumer and retail segments. The Company has diversified its product range though trading in hardware products and solar power for group companies. In terms of its relative positioning, the Company is among top players accounting for ~25% market share in dry-cell batteries and ~15% of the market share in LED bulbs in FY24. The core business segments of the Company has healthy margins but they have decreased on YoY basis due to lower margin in LED bulbs and demand drop as price points have increased for its products recently. Laxapana is exposed to currency risk, being import dependent, and has seen its working capital requirements increase as well due to increasing costs and higher receivables days. E. B. Creasy and Company PLC is the parent company with a shareholding of ~68.28% whereas the ultimate parent company is the Colombo Fort Land and Building PLC. The gross profit margin of the Company has decreased to ~27.32% in FY24 (FY:23 ~40.10%) resulting in operating loss from core segments. The profitability of the Company is supported by supplementary income from Solar power solutions and other income. The Company has also invested in group real estate assets and acquired a steel company. The leveraging of the Company is low (~26.9%) but has increased during FY24 compared to FY23 due to bank borrowings for the acquisition of subsidiary Bluescope Lysaght Lanka Private Limited. Going forward, the Company expects to expand its production capacity of LED bulbs assembly function and intends to focus on hardware products to augment profitability.

The rating is dependent on the management's ability to improve margins and sustain profitability from its core operations. Continued support from group in terms of distribution and other synergies is important. Meanwhile, effective management of working capital requirements and prudent financial management is critical.

Disclosure

Name of Rated Entity	Laxapana PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22)
Related Research	Sector Study | Household Appliances(Jul-24)
Rating Analysts	Gayani Randima Ariyawansa | gayani@lra.com.lk | +94 114 500099

Profile

Legal Structure Laxapana PLC ("Laxapana" or "the Company") is a listed public limited company incorporated and domiciled in Sri Lanka since 1956. The Company was listed on the Colombo Stock Exchange in 1982.

Background Laxapana was formerly known as Elephant Lite Corporation Limited. In August 2005, the name of the Company was changed to Laxapana Batteries Limited and subsequently registered as Laxapana Batteries PLC. The name of the Company "Laxapana Batteries PLC", was changed to "Laxapana PLC" under Section 8 of the Companies Act No. 07 of 2007 on 01st April 2024.

Operations The Company is principally involved in importing and trading of LED and CFL bulbs, dry-cell batteries and industrial lighting products in the local market. Laxapana ceased manufacturing dry-cell batteries locally and moved to direct importation and trading of dry-cell batteries in 2012. The LED bulbs are manufactured through a process where components are imported directly from China and assembled locally at the Laxapana factory. In FY21, the Company ventured into the business of investing in solar power and renewable energy projects to generate, supply, and sell electricity to the national grid through the Ceylon Electricity Board.

Ownership

Ownership Structure Laxapana is majorly (~68.28%) owned by E.B. Creasy and Company, which is ultimately owned by The Colombo Fort Land and Building PLC ("CFLB").

Stability The Company draws stability from its ultimate parent company CFLB. CFLB has been in operations since 1895, and the strong structure of the group brings stability to the Company, invested in multiple sectors such as consumer products, industrial products, leisure, plantations, and other investments, which reduces the concentration risk as well.

Business Acumen The decision makers at CFLB, i.e., the Board of Directors (BoD) have experiences and qualifications in various sectors to provide CFLB with a unique position to guide the companies under it.

Financial Strength The financial strength of the CFLB comes from being in operation for more than 120 years. It holds a consolidated asset and equity position of LKR~69.2bn and LKR~12.5bn respectively for FY24. CFLB earned consolidated net profits of LKR~483.4mln in FY24 compared to LKR~4.6bn in FY23. E B Creasy and Co. PLC earned a consolidated profit of LKR~352mln in FY24, compared to LKR~1.5bn in FY23.

Governance

Board Structure The BoD consists of nine Non-Executive Directors (NED), of whom three are Independent Directors. The Chairman of the Board, Mr. S. D.R. Arudpragasam is a Non-Independent, Non-Executive Director. Laxapana does not have a Chief Executive Officer or Managing Director position for the Company.

Members' Profile The Board of Directors have decades of experience in their respective fields and provides a balance of skills and experience. The Chairman of the Board Mr. S.D.R. Arudpragasam joined the Board in 1997 and was appointed the Chairman in 2011. He is a fellow of the Chartered Institute of Management Accountants UK.

Board Effectiveness Laxapana has formed four Board committees, namely the Nominations Committee ("NC"), Audit Committee ("AC"), Remuneration Committee ("RC"), and Related Party Transactions Review Committee ("RPTRC").

Financial Transparency KPMG, the external auditors of the Company, have given an unqualified audit opinion for the financial statements of FY23.

Management

Organizational Structure There are three main departments in Laxapana, namely, Finance, Sales and Marketing, and Operations. The Company is headed by the group Managing Director and the group Chief Financial Officer reports to the group Managing Director and Chairman. The Marketing and Sales Manager directly reports to the COO, while the Finance Manager directly reports to the group Chief Financial Officer.

Management Team The management team is headed by Mr. S. Gunawardene, a Director of E.B. Creasy and Company PLC, who directly reports to the Chairman of the E.B. Creasy and Company PLC group. Laxapana has a team of seven senior managers with decades of experience in their respective careers.

Effectiveness There are no formal management committees in place, but monthly meetings address production, KPIs, and overall management, fostering collaboration among the team.

MIS The Company does not prepare MIS packs separately for the Board and only management accounts circulate among the BOD. In February 2024, the Company shifted the entire SAP landscape to Azure Cloud using the Shit and Lift method.

Control Environment The Company's internal control measures, including health and safety measures, risk management, human resource risk management, and operational risk measures, are aligned with the applicable standards.

Business Risk

Industry Dynamics At present, there are 4 companies largely involved in the trading of dry-cell batteries, and 7 companies are involved in the trading of LED bulbs, most of them are private companies. The estimated size of the dry-cell market in FY24 is around ~25.6mln, and that of the LED bulb is around ~2.1mln. The rising awareness about energy efficiency has increased the demand among consumers for LED lights, which have a longer life span than conventional light sources. In the local market, dry-cell batteries have a declining demand for AA batteries, while there is an increasing demand for AAA batteries. The trend in Sri Lanka is moving towards rechargeable batteries. The local market for LED bulbs has stagnated demand for LED-Eco bulbs, LED-Hp bulbs, while there is an increase in demand for LED-Industry and LED panels. The trend in the LED bulb market is moving towards additional functional batteries.

Relative Position The Company is currently the second largest supplier of domestic dry-cell batteries with a share of ~25%. In terms of LED Bulbs, the Company is currently among the second largest suppliers, with a share of ~15%.

Revenues Laxapana's revenue contracted by ~6.2% YoY to LKR~858.6mln in FY24 from LKR~915.6mln in FY23. This reduction was reflected in a reduction in supply of LED bulbs due to market conditions, certain pricing manipulations in the LED bulb market in FY23, and changes in VAT in FY24.

Margins The gross profit margin of Laxapana stood at ~27.6% in FY24, which declined from ~40.1% in FY23. This is due to the decrease in sales revenue and the increase in cost of sales as a result of the economic downturn during FY24. The net profit margin of Laxapana stood at ~21.4% in FY24, which is an increase from ~14.6% in FY23. This increase is mainly due to a reduction in tax expenses for FY24.

Sustainability The Company is expecting to fully automate the labor-intensive LED bulb assembly functions within FY25/26. The current capacity of the factory is ~5,000 units per day, and is expected to expand to ~15,000 units per day through an automated machine. Laxapana further foresees expanding into a larger hardware product range rather than focusing on solely batteries and LEDs in the coming years.

Financial Risk

Working Capital The working capital of the Company is financed mainly through daily distribution collections. The Company's average production capacity is around ~5,000 LED bulbs per day. Laxapana's average net working capital days increased to ~165 days in FY24 (FY 23: ~98 days) due to increase in receivable and inventory turnover days (higher inventory levels), and a decrease in payable days from suppliers.

Coverages Laxapana's interest coverage ratio stood at ~6.5x in FY24 and ~3.7x in FY23, and EBITDA to finance cost of the Company also increased to ~9.6x from ~4.7x in FY24. However, as the Company acquired Bluescope in March 2024, the finance cost of the borrowings for acquisition has yet to fully materialize and will be reflected in FY25.

Capitalization The leveraging of the Company is low (~26.9%) but has increased during FY24 (FY23: ~8.4%) due to higher bank borrowings for the acquisition of subsidiary Bluescope Lysaght Lanka Private Limited.

LRA

Lanka Rating Agency Limited

Financial Summary
LKR mln

Laxapana PLC / **Corporate**	**Mar-24** 12M	**Mar-23** 12M	**Mar-22** 12M	**Mar-21** 12M
A BALANCE SHEET				
1 Non-Current Assets	344	357	151	102
2 Investments	608	575	559	333
3 Related Party Exposure	327	20	290	107
4 Current Assets	523	475	358	469
a Inventories	*231*	*188*	*106*	*169*
b Trade Receivables	*233*	*218*	*164*	*255*
5 Total Assets	1,802	1,427	1,358	1,012
6 Current Liabilities	229	251	247	293
a Trade Payables	*19*	*90*	*131*	*189*
7 Borrowings	384	88	56	42
8 Related Party Exposure	17	1	1	22
9 Non-Current Liabilities	130	126	94	6
10 Net Assets	1,043	960	959	648
11 Shareholders' Equity	1,043	960	959	648
B INCOME STATEMENT				
1 Sales	859	916	870	753
a Cost of Good Sold	*(621)*	*(548)*	*(619)*	*(519)*
2 Gross Profit	237	367	250	234
a Operating Expenses	(244)	(233)	(138)	(158)
3 Operating Profit	(6)	134	113	76
a Non Operating Income or (Expense)	*264*	*130*	*78*	*44*
4 Profit or (Loss) before Interest and Tax	257	264	191	120
a Total Finance Cost	*(25)*	*(51)*	*(60)*	*(8)*
b Taxation	*(49)*	*(79)*	*(31)*	*(27)*
6 Net Income Or (Loss)	183	134	100	85
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*104*	*175*	*134*	*107*
b Net Cash from Operating Activities before Working Capital Changes	*78*	*154*	*109*	*102*
c Changes in Working Capital	*(51)*	*124*	*(143)*	*(134)*
1 Net Cash provided by Operating Activities	27	278	(34)	(33)
2 Net Cash (Used in) or Available From Investing Activities	(11)	(220)	(45)	(291)
3 Net Cash (Used in) or Available From Financing Activities	(21)	(100)	98	348
4 Net Cash generated or (Used) during the period	(5)	(42)	19	25
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-6.2%	5.3%	15.5%	0.0%
b Gross Profit Margin	27.6%	40.1%	28.8%	31.1%
c Net Profit Margin	21.4%	14.6%	11.5%	11.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.2%	32.7%	-1.1%	-3.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	18.3%	14.0%	12.5%	13.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	185	135	146	206
b Net Working Capital (Average Days)	162	91	78	114
c Current Ratio (Current Assets / Current Liabilities)	2.3	1.9	1.4	1.6
3 Coverages				
a EBITDA / Finance Cost	9.6	4.5	2.7	17.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	1.8	2.0	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.8	0.7	0.8	0.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	26.9%	8.4%	5.6%	6.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	6.8%	66.1%	119.0%	17.4%

Credit Rating

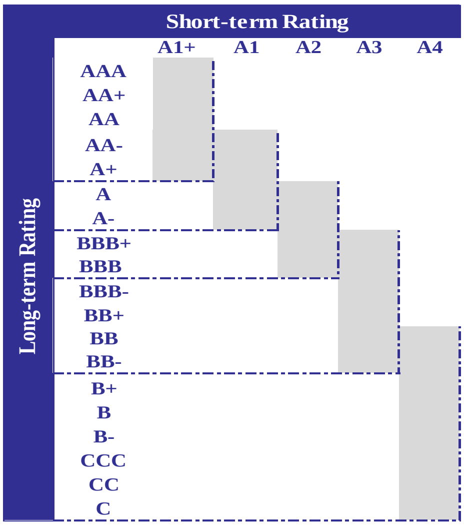
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
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 surveill 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

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