Lanka Rating Agency

Rating Report

George Steuart & Company Ltd - Guaranteed Redeemable Zero Coupon 3 Year Debenture - Maximum LKR 01Bn Face Value

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Rating History				
Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
11-Oct-2024	A	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

George Steuart & Company Limited ("GSCL" or "the Company"), founded in 1835 by Mr. James Steuart, is the holding company of the George Steuart (GS) Group. The Group has significant presence in seven key sectors: tea exports, healthcare, travel, leisure, financial services, industrial solutions and FMCG. GS Group has reported revenue of LKR~30.3bln in FY24 (FY23: LKR~25.1bln) and profit of LKR~177.2mln in FY24 (FY23: -LKR~408mln). GS Healthcare and GS Tea segments have performed well, while GS Consumer, Citrus Leisure and HVA Foods reported losses in FY24. GSCL intends to issue a 3-year, zero-coupon debenture (Up to maximum of LKR~700mln Face Value) to support its subsidiaries/associates in leisure segment that have incurred losses. The rating reflects GSCL's established track record, strong brand name and diverse business profile. The rating incorporates full face value guarantee provided by George Steuart Health Private Limited (GSHPL) at maturity, in case GSCL is not able to repay. GSHPL has agreed to comply with covenants to ensure enough cushion in its cashflow to meet its guaranteed obligations. These include, (i) Leverage Ratio not exceeding 40.0% (ii) Interest Coverage Ratio maintained at 6.0x (iii) Debt Coverage Ratio maintained at 2.0x. GSHPL has reported revenue of LKR~2,997mln and net income of LKR~258mln in 3MFY25.
GSHPL, rated "A", operates in the pharmaceutical industry in Sri Lanka, primarily engaged in import and distribution of pharmaceutical products and equipment 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 rating depends on the Company's ability to ensure sound financial management, sustainable leveraging and debt coverages. Similarly, it is critical for GSHPL to comply with agreed covenants and maintain its rating. Any change in GSHPL's (guarantor) rating will directly reflect in debenture rating.

Disclosure	
Name of Rated Entity	George Steuart & Company Ltd - Guaranteed Redeemable Zero Coupon 3 Year Debenture - Maximum LKR 01Bn Face Value
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Aug-24)
Related Research	Sector Study | Holding Company(Mar-24)
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Issuer Profile

Profile George Steuart & Company Limited ("GSCL" or "the Company"), founded in 1835 by Mr. James Steuart, is the holding company of the George Steuart Group. GSCL 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. George Steuart 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). GSHPL is a subsidiary of GSCL. 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 GSCL holds a majority stake of ~99.58% of GSHPL. GSCL is ~93.95% owned by Divasa Equity (Pvt.) Limited. The ownership of Divasa is with eight (8) shareholders, Ms. Varuni Amunugama ~35.19%, Mr. Dilith Jayaweera ~35.19%, Mr. S. A. Ameresekere ~17.17%, and the remaining have ~12.44%. Mr. S. A. Ameresekere is the Chairman of the George Steuart Group, and he holds several key positions within the group. 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. George Steuart Group has reported revenue of LKR~30.3bln in FY24 (FY23: LKR~25.1bln) and profit of LKR~177.2mln in FY24 (FY23: -LKR~408mln). The Group has an asset base of LKR~30.2bln in FY24 (FY23: LKR~26.4bln), equity of LKR~10.2bln in FY24 (FY23: LKR~8.1bln), and debt (Long + Short Term) of LKR~11.9bln in FY24 (FY23: LKR~10.8bln).

Governance GSCL is governed by a Board of Directors, that provide the overall strategic direction and oversight at Group level. GSCL has a formal Board structure comprising of 2 Executive Directors, 3 Non-Independent Non-Executive Directors, and 3 Independent Non-Executive Directors. Mr. Ameresekere is the currently the Executive Chairman of George Steuart Group. He holds directorships in the key entities within the group. The Executive Directors and Management of each sector drive the operations of their respective verticals. 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 Essential centralized support services including group financial control, corporate finance, corporate affairs, human resource management, IT and administration are managed by George Steuart & Co., together with few of its fully owned subsidiaries. This enables centralized control and better synergies leading to the smooth functioning of the group. The company is defined by its unique sense of cooperation, flat hierarchy and inclusivity. The senior management represents industry stalwarts and leaders who independently drive each of their sectors towards excellence and market leadership. These experts that lead each of their teams have demonstrated not just business acumen but also a genuine commitment to building people to become their greatest asset. The Company currently has a limited internal audit function and is exploring outsourcing internal audit services from a third party.

Business Risk As GSHPL is providing the Corporate Guarantee in favor of GSCL (Debenture issuing entity), it is necessary to take into consideration GSHPL's business and financial risk. 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, China, Thailand, Korea, and remains susceptible to supply chain risk and currency fluctuation as seen during the recent times. However, Company continued to show great resilience and continued to grow during times of external volatilities faced by the Country. GSHPL has ~54 products out of a total basket of ~380 products that are under price control mechanism. Only 10% - 15% of revenue is generated from price-controlled products. 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. In 3MFY25, Revenue was reported at LKR~2997mln (FY24: LKR~9,992mln, FY23: LKR~7,908mln). Of this, LKR~2,065mln was generated through pharmaceuticals (FY24: LKR~6,885mln, FY23: LKR~5,338mln) and non-pharmaceutical products contributed LKR~932mln (FY24: LKR~3,107mln, FY23: LKR~2,570mln). The Company has healthy profit margins. The gross profit margin has remained stagnant in 3MFY25 as compared to FY24, and the net profit margin has shown a decline of ~1.8% in 3MFY25 as compared to FY24. The outcome of the new pricing and transfer mechanism by NMRA may have an impact on the margins of price-controlled products, going forward. 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.

Financial Risk 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 ~104 days in 3MFY25 from FY24's ~75 days due to an increase in receivable turnover days and decrease in payable turnover days. The Company's credit policy allows for ~60 days of credit sales, and the Company receives a credit purchase of ~120 days. GSHPL has very strong interest and debt coverages due to its low debt levels and healthy cashflows. The interest coverage ratio stood at ~26.1x in 3MFY25 as compared to 23.0x in FY24 (FY23: ~6.2x), while debt coverage ratio improved to ~22.4x in 3MFY25 (FY24: ~1.5x, FY23: 1.2x). The Company has a low leveraged capital structure. In 3MFY25, the Company's debt leverage ratio stood at ~23.9% (FY24: ~23.3%, FY23: ~15.8%).

Instrument Rating Considerations

About The Instrument GSCL intends to issue a 3-year, zero-coupon debenture (Up to maximum of LKR~700mln Face Value). The discount rate will be determined based on Sri Lankan Government Security (3-year Bond) Rate + Premium. GSHPL is providing the full Corporate Guarantee in favor of the debenture, which will cover the entire face value.

Relative Seniority/Subordination Of Instrument The claims of the debenture holders, in the event of the winding up of the company, shall be covered by the Corporate Guarantee from GSHPL. This guarantee will cover the entire face value.

Credit Enhancement It is a secured debt instrument, and the debenture is underwritten. The face value will be entirely paid at the end of the tenor and is fully secured by GSHPL.

Lanka Rating Agency Limited

George Steuart Health (Pvt) Ltd Pharmaceuticals	Jun-24 3M	Mar-24 12M	Mar-23 12M	Mar-22 12M	Mar-21 12M
A BALANCE SHEET					
1 Non-Current Assets	1,225	1,326	1,553	1,125	1,100
2 Investments	-	-	-	-	-
3 Related Party Exposure	933	591	21	31	93
4 Current Assets	6,305	6,216	4,592	4,748	3,136
a Inventories	*2,100*	*2,536*	*1,864*	*1,163*	*1,045*
b Trade Receivables	*3,549*	*2,794*	*1,576*	*2,240*	*1,547*
5 Total Assets	8,464	8,133	6,167	5,903	4,329
6 Current Liabilities	2,925	2,847	2,344	2,471	1,614
a Trade Payables	*1,427*	*2,478*	*2,038*	*2,245*	*1,540*
7 Borrowings	1,267	1,146	547	743	649
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	242	372	366	342	310
10 Net Assets	4,030	3,769	2,911	2,347	1,756
11 Shareholders' Equity	4,030	3,769	2,911	2,347	1,756
B INCOME STATEMENT					
1 Sales	3,105	10,413	8,561	11,446	5,935
2 Profit or (Loss) before Interest and Tax	528	1,716	1,472	1,146	508
a Total Finance Cost	*(105)*	*(71)*	*(202)*	*(40)*	*(37)*
b Taxation	*(165)*	*(596)*	*(394)*	*(315)*	*(147)*
3 Net Income Or (Loss)	258	1,050	876	790	325
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*398*	*1,061*	*887*	*974*	*397*
b Net Cash from Operating Activities before Working Capital Changes	*380*	*1,061*	*887*	*974*	*397*
c Changes in Working Capital	*(805)*	*(2,052)*	*(581)*	*135*	*(387)*
1 Net Cash provided by Operating Activities	(424)	(991)	306	1,109	10
2 Net Cash (Used in) or Available From Investing Activities	(68)	148	71	(34)	(92)
3 Net Cash (Used in) or Available From Financing Activities	473	407	(508)	(105)	147
4 Net Cash generated or (Used) during the period	(19)	(436)	(131)	970	66
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	19.3%	21.6%	-25.2%	92.9%	0.0%
b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-13.1%	-9.5%	3.6%	9.7%	0.2%
*c Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	26.5%	31.4%	33.3%	38.5%	18.5%
2 Working Capital Management					
a Gross Working Capital (Average Days)	161	154	146	96	159
b Net Working Capital (Average Days)	104	75	55	35	65
c Current Ratio (Current Assets / Current Liabilities)	2.2	2.2	2.0	1.9	1.9
3 Coverages					
a EBITDA / Finance Cost	26.1	23.0	6.2	28.3	14.1
b FCFO / Finance Cost+CMLTB+Excess STB	22.4	1.5	1.2	1.6	1.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	1.2	0.8	0.7	1.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.9%	23.3%	15.8%	24.1%	27.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	10.2%	12.8%	31.3%	5.8%	6.4%

Credit Rating

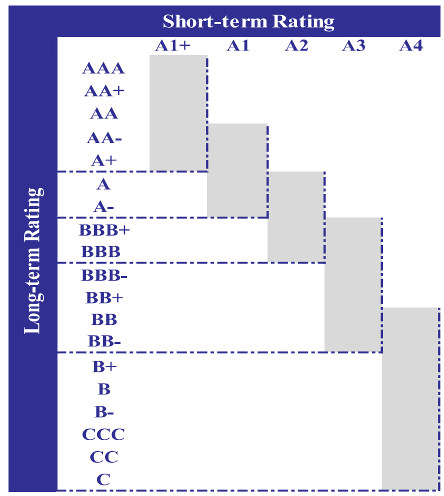
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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