



Lanka Rating Agency

Rating Report

EB Creasy & Co PLC

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Nov-2023	BBB	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects E.B. Creasy & Co. PLC's ("EBC" or "the Company") sustainable business profile and established position in Sri Lanka over the past 145 years. EBC operates both as an Operating Company and a Holding Company for the Group. Over the course of time, it has invested in 11 subsidiaries, dealing in multiple sectors. Through diversification, EBC has reduced its concentration risk by moving into Fast Moving Consumer Goods (FMCG), Healthcare, Food and Confectionary, Steel, Energy and Lighting, Solar & Rubber. Its dominant presence in the FMCG sector has enabled the Company to position itself well in the market. EBC has faced challenges in terms of profitability but its performance improved since FY21. The Company has shown resilience during the economic turbulence in the island to earn a Profit After Tax (PAT) of LKR~769mn and LKR~1.5bn at the Company level and Group level, respectively, during FY23. However, the performance of the first six months of FY24 lagged behind the same period of the previous financial year. EBC recorded a net loss of LKR~114mn in 1HFY24 (1HFY23: PAT of LKR~610mn). Meanwhile at the Group level, the PAT reduced by ~78% to clock in at LKR~243mn (1HFY23: LKR~1,122mn). The margins at gross and net levels were impacted by increased selling & distribution expenses and higher finance costs during the period under consideration. The Company focuses predominantly on the FMCG sector with prominent brands such as Amritha (joss sticks), BIC (razors), Denta (toothbrushes), Ninja (pest control) etc. In terms of capital structure, EBC's debt portion constituted ~38% of the Company's debt and equity mix (As at End-Sep'23). However, the mix of debt is inclined towards Short-term Borrowings due to which the funding cost of the Company had significantly risen during the outgoing fiscal year (FY23). The Group's Equity base was recorded at LKR~7.1bn as at End-Sep'23 (End-Mar'23: LKR~6.8bn) due to a growth in the retained earnings. EBC has managed to maintain its Company and Group's leverage at a moderate level, which is expected to remain under check. However, the debt coverages of the Company as well as the Group, have recently come under pressure due to lower profitability and rising finance cost.

The rating is dependent on the Company's ability to navigate its way through tough operating environment by improving its margins and improve profitability. It will be critical for the Group to maintain a balanced portfolio with sustained performance of its existing core and strategic investments. Any future rating action will be dependent on managing its costs, while sustaining margins and improved debt coverages to ensure sustainability.

Disclosure

Name of Rated Entity	EB Creasy & Co PLC
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Mar-23)
Rating Analysts	Savindri Hansamala Kuruppu savindri@lra.com.lk +92-42-35869504



Profile

Background E.B. Creasy & Company PLC ("EBC" or "the Company") is a Public Limited Company incorporated and domiciled in Sri Lanka. The Company was founded in 1878 by Mr. Edward Bennet Creasy. It was incorporated in 1929 as a Limited Liability Company and later listed in the Colombo Stock Exchange ("CSE") in 1968.

Structural Analysis EBC has expanded into over nine sectors, which includes, Fast Moving Consumer Goods ("FMCG"), healthcare, food and confectionary, steel wires, energy and lighting, solar and hardware and rubber. The Company has over 30 brands under its Group and currently has control over seven companies within the Group.

Ownership

Ownership Structure The major shareholder of the Company is The Colombo Fort Lands & Buildings PLC ("CFLB"), with an ownership of ~53%. The second and third largest shareholding is owned by Senthilvel Holdings (Pvt) Ltd and Union Investments (Private) Ltd at ~16.2% and ~6.6% respectively. The top five shareholders own ~86% of the Company and majorly comprises institutions.

Stability CFLB has been in operation since 1895 and the strong structure of the group brings stability to the Company.

Business Acumen CFLB is a diversified Group and has investments in industrial products, motors, consumer products, leisure, plantations and manufacturing. The experience gained through these various sectors provides CFLB a unique position to guide the companies under it.

Financial Strength The financial strength of CFLB comes from being in operation for more than 120 years. It holds a consolidated asset and equity position of LKR~63bn and LKR~12.5bn, respectively as at End-June'23. The Company, however, has not earned consolidated profits for the past nine years. It has earned LKR~228mn (3MFY23: LKR~999mn, FY23: LKR~4.5bn) in Profit After Tax (PAT) during 1QFY24 at the Group level, a decline of ~77% from the same period last year.

Governance

Board Structure The Board consists of 11 Board members, out of which five are Independent Non-Executive Directors. The rest are Executive Directors including Mr. Arudpragasam and Mr. Rajaratnam.

Members' Profile The Chairman of the Board - Mr. S D R Arudpragasam, is also the joint Managing Director ("MD") of the Company. He has been with the Board since 1988 and was made the Chairman in 2017. Mr. Arudpragasam also performs duties as the Chairman of CFLB. The rest of the members possess years of experience and qualifications to add valuable input to the Company.

Board Effectiveness The Company has formed three Board sub-committees, namely, i) Board Audit Committee ("BAC"), ii) Remuneration Committee, iii) Related Party Transactions Review Committee ("RPTRC"). Mr. Rasiyah heads the BAC with experience in finance and auditing.

Transparency The External Auditors of the Company, KPMG, issued an unqualified audit opinion pertaining to the annual financial statements for FY23.

Management

Organizational Structure The Head of the Company remains the Board of Directors. 11 divisions report to the MD through relevant department heads.

Management Team Mr. Arudpragasam and Mr. S Rajaratnam are the joint Managing Directors of the Company. Mr. Arudpragasam has remained the MD of EBC since 1989 and was appointed as the Chairman in 2017. He is a Fellow of the Chartered Institute of Management Accountants (UK). Mr. S Rajaratnam was appointed as the joint MD in 2018 and he is a member of the Institute of Chartered Accountants in Australia.

Management Effectiveness The Company does not have any formal management committees in place. However, the subsidiaries meet the senior management of EBC regularly to discuss performance, Key Performance Indicators ("KPI") and its future outlook. The subsidiaries have common directors as well.

Control Environment The internal audit department reports directly to the BAC. The BAC reviews the adequacy of the internal audit coverage for the Company and the Group. The internal audit department regularly reports on the adequacy and the effectiveness of the internal controls of the Group.

Investment Strategy

Investment Decision-Making The investment opportunities are evaluated case by case. The relevant departments will present the investment opportunities, which is overlooked by the relevant Executive Directors, with the assistance of the Finance Department for feasibility studies. If the investment is a merger/acquisition of a related party, it will take a Top-Down approach as it comes from the Chairman himself.

Investment Policy EBC does not have a documented investment policy in place.

Investment Committee Effectiveness The investment opportunities identified are approved by the Board of Directors. The investments in related parties are further approved by the RPTRC.

Business Risk

Diversification The Holding Company has investments in diversified sectors. It ranges from FMCG, healthcare, food and confectionary, energy and lighting, solar and hardware, steel wires and exportation of value-added latex.

Portfolio Assessment In the group structure of EBC, nine companies are unlisted while two are listed. It has identified the FMCG sector as its core investment. Laxapana Batteries PLC ("LBPLC") and Candy Delights Limited ("CDL") are distributed through Darley Butler & Co. Ltd ("DB") while the rest of the Companies use direct marketing channels through dealers. The healthcare sector earned a revenue of LKR~4.4bn (FY22: LKR~2.5bn) during FY23. The energy and lighting and food and confectionary sectors also improved its revenue to LKR~916mn (FY22: LKR~870mn) and LKR~4.2bn (FY22:~LKR 1.6bn) during FY23.

Income Assessment EBC earned a company level revenue of LKR~2.1bn (FY23: LKR~8.4bn; FY22: LKR~5.9bn), while earning a Group level revenue of LKR~5.7bn (FY23: LKR~23.3bn; FY22: LKR~17.5bn) during 1QFY24. EBC increased its PAT at the Company level by ~66% in FY23 to LKR~769mn compared to FY22. However, the performance has fallen behind as the PAT dropped by ~91% to LKR~16mn (1QFY23: LKR~173mn) during 1QFY24. At the Group level, EBC earned LKR~1.5bn and LKR~234mn PAT during FY23 and 1QFY24, respectively.

Financial Risk

Coverages The growth in the total operating cash flow also paved way to improve the debt coverage ratios during FY23. However, the operating cash flows dropped during 1QFY24 to earn a coverage ratio of 0.8x (FY23: 3.2x), due to lower profits and rising finance costs.

Capital Structure EBC has an equity base of LKR~6.8bn at the group level as at End-Mar'23, which has increased since FY22 due to increase in retained earnings. The Group recorded an equity base of LKR~6.9bn as at End-June'23.

Consolidated Position At the consolidated level, the Group indicates a leverage of ~40.2% (FY22: ~42%) during FY23, which slightly dropped in 1QFY24 to ~39.8%. The ratio has been dropping since FY22 as a result of the equity position rising at a larger rate compared to the external funding.



Lanka Rating Agency

E B Creasy & Company PLC Holding Company	Jun-23	Mar-23	Mar-22	Mar-21
	3M	12M	12M	12M
	Audited	Audited	Audited	Audited
A BALANCE SHEET				
1 Investments	1,177	1,277	497	1
2 Related Party Investments	4,158	3,246	4,218	4,060
3 Non-Current Assets	5,181	5,156	4,922	3,940
4 Current Assets	2,142	2,542	2,075	1,032
5 Total Assets	12,658	12,222	11,712	9,034
6 Current Liabilities	1,714	789	1,149	1,092
7 Borrowings	4,271	4,666	4,734	2,582
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,405	1,414	1,118	1,093
10 Net Assets	5,267	5,354	4,711	4,266
11 Shareholders' Equity	5,267	5,354	4,711	4,266

B INCOME STATEMENT

1 Total Investment Income	1	524	251	106
a Cost of Investments	(243)	(1,094)	(441)	(274)
2 Net Investment Income	(241)	(570)	(189)	(168)
a Other Income	4	39	8	6
b Operating Expenses	(339)	(1,126)	(958)	(1,008)
4 Profit or (Loss) before Interest and Tax	23	602	507	511
a Taxation	(7)	167	(45)	(90)
6 Net Income Or (Loss)	16	769	462	421

C CASH FLOW STATEMENT

a Total Cash Flow	295	1,418	805	880
b Net Cash from Operating Activities before Working Capital Changes	42	410	517	666
c Changes in Working Capital	284	(38)	(510)	(191)
1 Net Cash (Used in) or Available From Investing Activities	326	372	7	475
2 Net increase (decrease) in long term borrowings	(68)	(260)	(1,158)	(649)
3 Net Cash (Used in) or Available From Financing Activities	(272)	(541)	2,044	(28)
4 Net Cash generated or (Used) during the period	(14)	(429)	893	(202)

D RATIO ANALYSIS

1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	37.0%	37.0%	35.6%	37.7%
b Core Investments / Market Value of Equity Investments	41.1%	41.1%	39.6%	38.5%
c Marketable Investments / Total Investments at Market Value	20.8%	28.2%	7.5%	0.0%
2 Coverages				
a TCF / Finance Cost	1.2	1.3	1.8	3.2
b TCF / Finance Cost + CMLTB	1.0	1.0	1.1	2.2
c Loan to Value (Funding / Market Value of Equity Investments)	1.7	1.8	1.8	1.0
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	44.8%	46.6%	50.1%	37.7%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	81.1%	87.2%	135.9%	92.3%

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+	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.

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 can 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

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.