



Lanka Rating Agency

Rating Report

CIC Holdings PLC

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
20-Dec-2022	A	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects CIC Holdings PLC (the Company) strong business profile as the Company operates both as an operating company and as a holding company. The Company has a presence in five distinct verticals namely i) Crop solutions, ii) Agri Produce, iii) Industrial Solutions, iv) Health and Personal Care, and v) Livestock Solutions with the majority considered essential items. Pharmaceuticals, Medical Devices, Industrial Chemicals, and Agro-Chemicals businesses are operated through the Company and it has substantial strategic investments in other essential business avenues such as animal nutrition, packaging, plant nutrition and protection etc. The Company, being a predominant importer of its products, has exhibited greater resiliency in these difficult times evidenced by the revenue, margins, and profitability, which have increased despite a very difficult operating environment. However, the Company remains vulnerable to import restrictions, foreign currency availability, and exchange rate fluctuations. CIC Holdings receives dividend income from its subsidiaries (mainly Akzo Nobel), which bodes well with cash flows. Consequently, coverages remained adequate over the period, though it declined recently (1HFY23: 1.5x, FY22: 4.2x) due to significant increases in interest rates and higher short-term borrowing to meet working capital requirements. The Company has a moderately leveraged capital structure, with short-term borrowings only. Association of the Company with sponsoring family (Captain Family) and the financial strength and acumen of sponsors, bodes well for the Company.

The rating is dependent on the management's ability to prudently manage its working capital and borrowings in this high interest rate environment. Meanwhile, sustaining margins and profitability, resulting in stable cashflows, is critical. A substantial increase in borrowings resulting in deterioration in coverages would be considered credit negatives.

Disclosure

Name of Rated Entity	CIC Holdings 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(Oct-22)
Rating Analysts	Savindri Hansamala Kuruppu savindri@lra.com.lk +94 114 500099



Profile

Background CIC Holdings PLC was established in 1964 and was previously known as Chemical Industries Colombo Ltd which was initially part of Imperial Chemical Industries U.K. It is a limited liability company incorporated and domiciled in Sri Lanka under Companies Act No. 07 of 2007. In 2011 the Company changed its name from Chemical Industries Colombo PLC to CIC Holdings PLC.

Structural Analysis Paints & General Industries Ltd is the largest stakeholder holding 53.31% of CIC Holdings PLC and CIC Holdings PLC is the main investor for its subsidiaries. The holding company is into Pharmaceuticals, Medical Devices, Industrial Chemicals, and Agro Chemicals. Business operations of the subsidiaries are directed via five clusters predominantly Agri Produce, Livestock Solutions, Healthcare & Personnel Care, Industrial Solutions, and Crop Solutions.

Ownership

Ownership Structure The majority of the shares are held by Paints & General Industries Limited (53.31%). The rest are divided among small investors and the general public. Management control rests with Paints & General Industries Limited. There hasn't been any change in the shareholding structure recently.

Stability The parent company of the CIC, Paints & General Industries Limited, is owned by the Captain family. They are veterans in the manufacturing industry and employs experts in the respective fields to head the different subsidiaries ensuring overall stability. At the group level, there is a formal written succession plan in the Captain family. The ownership structure also does not show any major changes in the recent past which provides stability.

Business Acumen Mr. R. S. Captain is an entrepreneur and as an investor, he possesses over 15 years of experience in areas such as paints, garments, industrial gloves, cutting and polishing diamonds, plastics, and other packing materials. Moreover, he holds top management positions in 15 different companies.

Financial Strength Paints & General Industries Limited are a financially stable family-owned private company. Apart from Paints & General Industries Limited, the Captain family has numerous companies with good financial strength. Although the Captain family or Paints & General Industries Limited have not given any written guarantee, they can provide financial assistance to the Company whenever needed.

Governance

Board Structure CIC Holding PLC's Board comprises 7 members of which all 7 members are Non-Executive directors. Five members are independent directors and two are considered non-independent.

Members' Profile The Board members have highly diversified experience ranging from financial services, manufacturing, agriculture, regulatory, and law. Chairman of the Board Mr. S. H. Amarasekera has decades of experience and has been chairing the Board since 2014. All board members have a presence on boards of many other companies which brings experience and diversity to the Board.

Board Effectiveness The Board ensures the effectiveness of the Company operations via 4 board sub-committees, namely the Audit Committee, Nomination Committee, Related Party Transactions Review Committee, and Human Capital and Compensation Committee.

Transparency KPMG Sri Lanka conducts external audits for CIC Holding PLC as the external auditors. The Company has outsourced the internal audit functions to three external audit firms namely BDO chartered accountants, PWC chartered accountants, and Jayasinghe & Company.

Management

Organizational Structure CIC Holdings PLC has a functional organizational structure that helps the organization to streamline the business process and there is a clear chain of command which flows from senior management to general management. Moreover, financial and human resources functions are centralized while the rest of the structure is segregated as a mix of clusters and subsidiaries.

Management Team The Company has an experienced and qualified management team. Mr. P. A. Seresinhe operates as the Group CEO since December 2021. Prior to CIC Holdings PLC, he held the positions of GM – Agri Sector in Watawala Plantations and Manager – Projects and Business Development in PT Agro Harapan Lestari (Indonesia). The other management team is also well-experienced and qualified to handle the company affairs.

Management Effectiveness The Management ensures its effectiveness through efficient coordination between its SBUs by conducting meetings at different intervals.

Control Environment The Company maintains a robust control environment by forming a proper management reporting structure and line of duties to ensure a better control environment internal audit has been outsourced to reputed audit firms.

Investment Strategy

Investment Decision-Making The Company has an internal team to do the required evaluations when investment opportunities are identified. With the discussions with top management and the relevant senior management personnel, the hurdles rates are identified. Then it proceeds to further discussions with the entire board and checks for more detailed feasibility. In the next stage, an outside audit firm will be hired to carry out due diligence that looks after financial, commercial, and legal aspects.

Investment Policy A formal investment policy is not in place. But the management after evaluation consults with the Board and undertakes investments. A documented investment policy will be considered a positive step toward the investment process.

Investment Committee Effectiveness The Company does not have a formal investment committee in place to look after investment operations at the moment. Board members provide their input as well as the management when a viable investment opportunity is identified.

Business Risk

Diversification The Company board oversees investments in its five clusters when it comes to subsidiary investments. As a diversified organization, the group's investment book is evaluated in comparison to other listed entities. CIC Holding Company is in agro chemicals, industrial chemicals, medical devices, and pharmaceuticals

Portfolio Assessment The Company has a solid subsidiary portfolio that pays dividends for the Company. The main functioning subsidiaries under CIC Holdings are Chemanex PLC, Link Natural Products (Pvt) Ltd, CIC Crop Guard (Pvt) Ltd, CISO Specialty Packaging (Pvt) Ltd, CIC Lifesciences Ltd, CIC Feeds (Pvt) Ltd and CIC Agri Businesses (Pvt) Ltd. With the volatile conditions, CIC Holdings PLC has decided to discontinue operations for Chemanex Export (Pvt) Ltd, Chemcel (Private) Ltd, and Cropwiz (Pvt) Ltd. Moreover, CIC Crop Management Services (Pvt) Ltd, Precision Agricultural Technologies Pvt Ltd, Colombo Industrial Agencies Limited, and CIC Properties (Pvt) Ltd operations are dormant at the moment. Apart from these, the Company has investments in stocks which includes Akzo Nobel Paints Lanka (49% shareholding).

Income Assessment The Company's revenue from its business stood at LKR ~ 6.6Bn as of 1HFY23(FY22: LKR ~9.9Bn). In terms of investment performance, the Company received a dividend income of LKR 1,076Mn in FY22 from its investments (FY21: LKR 570Mn). In 1HFY23 the dividend income was recorded as LKR 291Mn. The main contributors are Akzo Nobel Paints Lanka (56%). The Company's net profit stood at LKR 898Bn (FY22: LKR ~1.7Bn).

Financial Risk

Coverages Interest coverage of the Company demonstrates a slight decline within the period from FY21 (4.7x) to FY22 (4.2x) and it has gone down considerably to 1.5x in 1HFY23 due to a rise in funding cost and decrease in the TCF 1HFY23 to LKR 1,136Mn from LKR 1,231Mn in FY22.

Capital Structure CIC Holdings PLC's Leverage ratio declined in FY22 to 36.2% (FY21: 42.1%) but it increased in 1HFY23 to 45.2% due to a significant increase in the short-term borrowing (1HFY23: LKR 5,323Mn, FY22: LKR 3,342Mn). The Company is planning for additional funding lines as per seasonal requirements for working capital mainly for Crop Solutions and Agri sectors to purchase stocks for the upcoming season.

Consolidated Position At the consolidated level, leverage increased slightly to 35.6% in 1HFY21 (FY22: 34.2% and FY21: 36.4%). FCFO/Fin cost has declined to 2.5x as at 1HFY22 (FY22: 3.8x, FY21: 8.3x). The net margin has gone up considerably in 1HFY23 to 18% (FY22: 11%, FY21: 10.6%).



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LKR mln

CIC Holdings PLC Holding Company	Sep-22 6M Audited	Mar-22 12M Audited	Mar-21 12M Audited	Mar-20 12M Audited
A BALANCE SHEET				
1 Investments	2,099	1,252	281	219
2 Related Party Investments	1,853	1,711	1,711	1,580
3 Non-Current Assets	2,643	2,482	2,204	2,112
4 Current Assets	11,512	8,045	7,344	7,457
5 Total Assets	18,108	13,489	11,538	11,369
6 Current Liabilities	5,573	3,471	2,476	1,830
7 Borrowings	5,402	3,421	3,600	4,968
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	595	563	498	460
10 Net Assets	6,538	6,034	4,964	4,112
11 Shareholders' Equity	6,538	6,034	4,964	4,112
B INCOME STATEMENT				
1 Total Investment Income	303	1,099	592	391
a Cost of Investments	(702)	(238)	(263)	(562)
2 Net Investment Income	(399)	861	329	(171)
a Other Income	41	42	56	46
b Operating Expenses	(1,159)	(1,663)	(1,657)	(1,599)
4 Profit or (Loss) before Interest and Tax	1,205	2,060	1,351	645
a Taxation	(306)	(298)	(307)	(262)
6 Net Income Or (Loss)	898	1,761	1,044	383
C CASH FLOW STATEMENT				
a Total Cash Flow	1,136	1,231	1,373	1,057
b Net Cash from Operating Activities before Working Capital Changes	386	564	1,070	483
c Changes in Working Capital	(3,681)	929	543	(128)
1 Net Cash (Used in) or Available From Investing Activities	(3,294)	1,493	1,613	355
2 Net increase (decrease) in long term borrowings	(915)	(274)	(134)	333
3 Net Cash (Used in) or Available From Financing Activities	4,223	(1,081)	(1,811)	4,660
4 Net Cash generated or (Used) during the period	14	137	(332)	5,348
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of	21.5%	21.5%	23.6%	30.8%
b Core Investments / Market Value of Equity Investments	37.0%	36.9%	39.1%	37.9%
c Marketable Investments / Total Investments at Market Value	9.8%	5.8%	1.9%	2.2%
2 Coverages				
a TCF / Finance Cost	1.5	4.2	4.7	1.9
b TCF / Finance Cost + CMLTB	1.5	4.2	4.7	1.8
c Loan to Value (Funding / Market Value of Equity Investments)	0.3	0.2	0.2	0.5
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	45.2%	36.2%	42.0%	54.7%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	82.6%	56.7%	72.5%	120.8%

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	
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.

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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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/index.php/credit-rating-agency/>)

2) Conflict of Interest

i. LRA shall 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 33- Draft Rules Credit Rating Agency - 2021)

Restrictions

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22- Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

Conduct of Business

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

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 does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency -2021)

Monitoring and review

(10) For purposes of transparency, LRA publishes 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 are also be disclosed. (Section 42- Draft Rules Credit Rating Agency -2021) LRA monitors below factors specifically, (a) all internal records to support our credit rating opinions; (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA 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 51 - Draft Rules Credit Rating Agency - 2021).

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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