



Lanka Rating Agency

Rating Report

CIC Holdings PLC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Dec-2023	A	-	Stable	Maintain	-
20-Dec-2022	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects CIC Holdings PLC's (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) Livestock Solutions, iii) Industrial Solutions, iv) Health and Personal Care, and v) Agri Produce with the majority considered essential items. Pharmaceuticals, Surgical, Industrial Chemicals, and Crop Solutions businesses are operated through the Company. The Company's revenue, margins, and profitability, have increased despite a very difficult operating environment. However, the Company remains vulnerable to exchange rate fluctuations. CIC Holdings receives dividend income from its subsidiaries (mainly Akzo Nobel and Link Natural Products), which bodes well with cash flows. On the other hand, the coverages have declined over the periods even though it had improved marginally in 6MFY24 to 2.3x (FY23: 2.1x, FY22: 8.0x) due to significant increases in interest rates on higher short-term borrowing and lower operating cash flows. The Company's leverage has increased due to the short-term borrowings. These have been utilized to meet working capital requirements and to make strategic investments. Association of the Company with the 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 short-term borrowings. Meanwhile, sustaining margins and profitability, resulting in stable cash flows, 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(Mar-23)
Rating Analysts	Savindri Hansamala Kuruppu savindri@lra.com.lk +92-42-35869504



Profile

Background CIC Holdings PLC, previously known as Chemical Industries Colombo Ltd, was established in 1964 and is a limited liability company incorporated and domiciled in Sri Lanka under Companies Act No. 07 of 2007.

Structural Analysis Paints & General Industries Ltd is the largest stakeholder of the Company. The Company's operations are in pharmaceuticals, surgical, industrial chemicals, and agro-chemicals.

Ownership

Ownership Structure The majority of the shares are held by Paints & General Industries Limited (53.31%) which is the sole manufacturer of AkzoNobel Paints in Sri Lanka. The percentage held by the public in ordinary shares was 46.68%, and in non-voting shares was 96.50% as of 6MFY24. There were no major changes in the shareholding structure.

Stability Paints & General Industries Limited is owned by the Captain family. They are veterans in the manufacturing industry and employ experts in the respective fields to head the different subsidiaries ensuring overall stability.

Business Acumen Mr. R. S. Captain is an entrepreneur and as an investor, he possesses decades 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 is a financially stable family-owned private company. Apart from that, the Captain family has numerous companies with good financial strength.

Governance

Board Structure CIC Holding PLC's Board comprises eight members all of which are Non-Executive directors. Five members are independent directors.

Members' Profile The Board is chaired by Mr. S. H. Amarasekera since 2014. All board members have a presence on boards of many other companies which brings experience and diversity to the Board, from industries such as financial services, manufacturing, agriculture, regulation, and law. On 1st January 2023 Ms. K. S. Senewiratne, who is a seasoned diplomat, joined the Board.

Board Effectiveness The Board ensures the effectiveness of the Company operations via four board sub-committees namely: the Audit Committee, Nomination Committee, Related Party Transactions Review Committee, and Human Capital and Compensation Committee. During FY23 the Board has met four times with satisfactory attendance.

Transparency KPMG Sri Lanka conducts external audits for the Company and they have given an unqualified audit opinion for FY23. The Company has outsourced the internal audit functions to 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. The subsidiaries are segregated into a mix of clusters.

Management Team The management team is well experienced and qualified and is headed by Mr. P. A. Seresinhe, the group CEO.

Management Effectiveness The Group Operating Team ensures its effectiveness through efficient coordination between its SBUs and subsidiaries 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 When investment opportunities arise the management team checks for feasibility through a financial analysis and the Board takes the final decision on investments.

Investment Policy A formal investment policy is not in place. 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 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 is well-diversified and the core investments are in crop solutions, health and personal care, industrial chemicals, livestock solutions, and agri-produce.

Portfolio Assessment The Company has a solid portfolio of core and trading investments that pay dividends for the Company. Among the core investments, only one subsidiary is quoted. Link Natural, CISCO Speciality Packaging, CIC Feeds, and CIC CropGuard can be considered cash cows, while mainly CIC Properties, and Precision Agricultural Technologies are cash consumers. They have invested in Asiavet Lifesence (Pvt) Ltd and made further investments in Link Natural Products (Pvt) Ltd, Uni-Power (Private) Limited and John Keells Holdings PLC (JKH). The investments in core investments have gone up to LKR in 6MFY24 (FY23: LKR 3.4 Bn) while the trading investments have increased up to LKR 11.4 Bn from LKR 5.1 Bn in FY23 due to the investment in JKH up to 5.4% from 2.65% in FY23.

Income Assessment The Company's revenue from its investments stood at LKR 1.6 Bn as of 6MFY24 (FY23: LKR 697 Mn, FY22: LKR 1,076 Mn). The main contributors in 6MFY24 are Link Natural Products (Private) Limited (51.04%) and Akzo Nobel Paints Lanka (63%.41) in FY23. The Company's net profit stood at LKR 898Bn (FY22: LKR 1.7Bn). The revenue for the Company from its own operations was LKR 8,602 Mn in 6MFY24 while it was LKR 6,689 Mn in 6MFY23 (FY23: LKR 15,436 Mn, FY22: LKR 9,981 Mn). The Company's net profit has increased to LKR 1,355 Mn in 6MFY24 from LKR 898 Mn in last year (FY23: LKR 1,824 Mn, FY22: LKR 1,761 Mn). The crop solutions cluster has given the highest contribution.

Financial Risk

Coverages Interest coverage of the Company demonstrates a decline over the periods even though it had improved marginally in 6MFY24 to 2.3x (FY23: 2.1x, FY22: 8.0x) due to significant increases in interest rates on higher short-term borrowing and lower operating cash flows. The average borrowing cost is 22% in FY23 and it has gone down to 19% in 6MFY24.

Capital Structure CIC Holdings PLC's Leverage ratio has increased to 60% as of 6MFY24 from 57% in FY23 (FY22: 36%, FY21: 42%) due to a significant increase in the short-term borrowing which represents a greater volume of company borrowing (6MFY24: LKR 16,546 Mn, FY23: LKR 9,561 Mn, FY22: LKR 3,342Mn). Some of the short-term borrowings are uncovered as it has been utilized for investment in JKH highlighting the mismatch.

Consolidated Position At the consolidated level as of 6MFY24, leverage increased slightly to 34% which was 30.9% in FY23 and 34.2% in FY22. FCFO/Fin cost has declined to 2.8x as at 6MFY24 from 4.0x as at FY23 and it was 3.8x as at FY22. The consolidated revenue for the 6MFY24 is LKR 35 Bn and in FY23 it was LKR 68 Bn which has gone up from LKR 42 Bn in FY22. It is forecasted to increase to LKR 79 Bn in FY24, LKR 86 Mn in FY25, and LKR 92 Mn in FY26. The net margin has gone up considerably in FY23 to 14.6% from 11% in FY22 and it was 5.7% in 6MFY24. The 05-year Sustainability Road Map shows that they have plans to move into new business segments such as pet food, and water management solutions, and expand into international markets through exports.



Lanka Rating Agency

CIC Holdings PLC
Holding Company

	Sep-23	Mar-23	Mar-22	Mar-21
	6M	12M	12M	12M
	Management	Audited	Audited	Audited
A BALANCE SHEET				
1 Investments	14,555	5,173	1,252	281
2 Related Party Investments	4,202	3,979	1,711	1,711
3 Non-Current Assets	2,484	2,407	2,482	2,204
4 Current Assets	11,247	10,483	8,045	7,344
5 Total Assets	32,488	22,042	13,489	11,538
6 Current Liabilities	5,731	4,549	3,471	2,476
7 Borrowings	15,265	9,634	3,421	3,600
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	514	462	563	498
10 Net Assets	10,978	7,396	6,034	4,964
11 Shareholders' Equity	10,978	7,396	6,034	4,964

B INCOME STATEMENT

1 Total Investment Income	1,606	722	1,099	592
a Cost of Investments	(1,007)	(1,591)	(238)	(263)
2 Net Investment Income	599	(869)	861	329
a Other Income	34	148	42	56
b Operating Expenses	(1,611)	(2,745)	(1,663)	(1,669)
4 Profit or (Loss) before Interest and Tax	1,607	2,153	2,060	1,340
a Taxation	(253)	(329)	(298)	(296)
6 Net Income Or (Loss)	1,355	1,824	1,761	1,044

C CASH FLOW STATEMENT

a Total Cash Flow	2,701	3,899	2,363	1,993
b Net Cash from Operating Activities before Working Capital Changes	1,534	2,199	1,696	1,689
c Changes in Working Capital	(1,701)	(2,255)	929	543
1 Net Cash (Used in) or Available From Investing Activities	(5,721)	(6,025)	(1,406)	(754)
2 Net increase (decrease) in long term borrowings	(5)	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	6,035	5,826	(1,081)	(1,811)
4 Net Cash generated or (Used) during the period	147	(254)	137	(332)

D RATIO ANALYSIS

1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of .	44.3%	44.3%	25.4%	25.9%
b Core Investments / Market Value of Equity Investments	90.6%	95.0%	97.7%	97.7%
c Marketable Investments / Total Investments at Market Value	289.5%	115.7%	52.2%	11.6%
2 Coverages				
a TCF / Finance Cost	2.3	2.1	8.0	6.4
b TCF / Finance Cost + CMLTB	2.3	2.1	8.0	6.3
c Loan to Value (Funding / Market Value of Equity Investments)	3.5	2.5	1.5	1.5
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	58.2%	56.6%	36.2%	42.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	139.0%	130.3%	56.7%	72.5%

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 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

(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.