Fitch Downgrades 3 Non-Financial Corporates, Upgrades 1 on Sri Lanka National Rating Scale Revision

Fitch Ratings-London-15 February 2019:
Fitch Ratings has taken rating action on non-financial corporates following the recalibration of its Sri Lankan National Rating scale to reflect changes in the relative creditworthiness among the country's issuers following the downgrade of the sovereign rating to 'B' from 'B+' on 3 December 2018. For details, see https://www.fitchratings.com/site/pr/10061317 Fitch Ratings: Recalibration of Sri Lanka National Rating Scale, dated 4 February 2019.

National scale ratings are a risk ranking of issuers in a particular market designed to help local investors differentiate risk. Sri Lanka's national scale ratings are denoted by the unique identifier '(lka)'. Fitch adds this identifier to reflect the unique nature of the Sri Lankan national scale. National scales are not comparable with Fitch's international ratings scales or with other countries' national rating scales.

Key Rating Drivers
SRI LANKA TELECOM PLC:
Sovereign Downgrade: The downgrade of SLT's National Long-Term Rating to 'AA+(lka)' from 'AAA(lka)' reflects the downgrade of the sovereign's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B' from 'B+' with a Stable Outlook. Simultaneously, Fitch has downgraded the national rating on SLT's LKR7 billion senior unsecured debt programme to 'AA+(lka)' from 'AAA(lka)'.

SLT's ratings are constrained by the sovereign as per Fitch's Parent and Subsidiary Rating Linkage criteria. We assess the relationship between the sovereign and SLT as one of a weaker parent and stronger subsidiary with strong operational and strategic linkages. The state holds a majority stake in SLT directly and indirectly, and exercises significant influence on its operating and financial profile. SLT's second-biggest shareholder, Malaysia's Usaha Tegas Sdn Bhd at 44.9%, has no special provisions in its shareholder agreement to dilute the government's significant influence over SLT.

High Capex, Negative FCF: We expect SLT to have negative free cash flow (FCF) during 2019-2020 (estimated 2018 negative FCF of LK2 billion-3 billion) as cash flow from operations could be insufficient to fund capex requirements to expand the fibre infrastructure and 4G mobile networks. We expect SLT's 2019 capex to remain high, at around 28%-30% of group revenue (2018 estimated: 30%), as it aims to complete its 4G population coverage to around 95% by end-2019. However, management expects its capex/revenue to decline to around 18%-20% in 2019.

We expect SLT to continue to invest in expanding fibre coverage as it aims to connect about 1 million homes by 2020-2021, from the 70,000 homes currently enabled. SLT would typically need to lay fibre for at least 2 million homes for half of the households to be connected. We expect SLT's fibre investments to have low returns due to the country's low broadband tariffs. Dividends are likely to remain around LKR1.6 billion-1.8 billion in the next two to three years.

Data-Driven Growth: We expect revenue to grow by a mid-single-digit percentage during 2019-2020 (barring any tax shocks), driven by data and fixed-broadband growth. We expect 4G smartphone penetration to improve from the current 25% with the proliferation of cheaper Chinese phones. Revenue rose strongly by 6.5% in the first nine months of 2018, driven by fixed-broadband and mobile usage after a temporary usage slump in 2017 due to higher taxes on voice and data. We expect the government's recent announcement on the removal of floor rates for voice call charges to have only a limited impact on growth.

Industry Consolidation: We believe the recently announced merger between Hutchison Telecommunications Lanka (Private) Ltd and Etisalat Lanka (Private) Ltd is likely to relieve some competitive pressures that have undermined telecom companies' revenue and EBITDA growth in recent years. The merger is pending regulatory approval. Industry consolidation is likely to provide some relief from pricing pressure, especially in the data segment where telcos have not been able to fully capture the strong growth in data traffic.

Stable Sector Outlook: Fitch's outlook for the Sri Lankan telco sector is stable as we expect the mean net leverage for SLT and mobile market leader, Dialog Axiata PLC (AAA(lka)/Stable), to remain stable at around 1.4x in 2019. We expect the sector's cash generation to improve, driven by higher mobile and broadband data usage, which will be insufficient, however, to fund the large capex requirement, leading to negative FCF. We also expect average operating EBITDAR margins to remain stable at around 34% (2018 estimate: 34%), driven by improving economies of scale in the data and home broadband segment, offsetting the negative impact of the changing revenue mix.

CEYLON ELECTRICITY BOARD

Rating Equalised With Sovereign: CEB's National Long-Term Rating downgrade considers the Sri Lankan sovereign's weaker ability to extend support, reflected in the downgrade of the sovereign's ratings. We view the relationship between CEB and the sovereign as one of a stronger parent and weaker subsidiary and CEB's rating is equalised with that of the sovereign, reflecting strong linkages with the parent, in line with Fitch's Parent and Subsidiary Rating Linkage criteria. The equalisation takes into consideration CEB's strategic importance to Sri Lanka in ensuring power security and supply of affordable electricity to the public as the monopoly electricity transmitter and distributor in the country. CEB also accounts for around 70% of the power generation in the country.

Strong State Linkages: Fitch assesses the linkages between CEB and the state as strong, reflecting high ownership and management control, explicit guarantees and financial support through equity infusions and debt funding. The government also implicitly guarantees CEB's project loans (about 80% of outstanding debt), which are extended by bilateral and multilateral agencies and routed through the government for development of power infrastructure. CEB provides electricity at subsidised rates, fulfilling an essential service for the government. CEB has almost full network connectivity and accounted for more than 70% of Sri Lanka's generation capacity at end-2017.

We do not expect CEB's linkages with its parent to weaken in the medium term as the government's need to provide electricity at subsidised rates can be carried out only by a state entity such as CEB, as private companies would not be willing to incur losses. Fitch views CEB's standalone credit profile as much weaker than its support-driven rating and believes providing a notch-specific standalone credit view of CEB is meaningless due to poor margin visibility and the need for continued state support to sustain operations.

Tariff Increases Unlikely: We do not expect the government to increase electricity tariffs in the foreseeable future to levels that adequately cover CEB's generation, distribution and transmission costs. The government sets tariffs based on its socio-economic objectives and has not revised tariffs for almost three years despite rising generation costs. CEB's average cost of supplying a unit of electricity to customers in 2017 was around 20% higher than the average tariff. We do not expect the government to raise electricity tariffs or implement a cost-reflective pricing formula as it faces elections in the next 24 months amid rising living costs due to higher fuel costs and local-currency depreciation,

Rising Generation Costs: We expect generation costs to remain high in the next couple of years amid rising oil prices and volatile contribution from low-cost hydropower. We expect the share of hydropower in the generation mix to remain below historical levels due to declining load factors and very little new capacity additions. We expect CEB to turn to high-cost oil-based sources to meet the shortfall.

In addition, CEB and independent power producers have been compelled to purchase fuel at market prices since mid-2018, after the government introduced a pricing formula, compared with subsidised prices offered previously. We do not expect the liquefied natural gas projects proposed under CEB's generation expansion plan for 2018-2037 to contribute significantly to the generation mix in the next two to three years.

Weak Balance Sheet: CEB's balance sheet continues to weaken due to persistent losses and significant investments. It is unable to recover operating costs under the current tariff structure, and has to borrow to sustain its day-to-day operations. Further CEB, as government's main investment arm in the power sector, is likely to have large capex to improve country's power generation and transmission and distribution network. As such we do not expect CEB's balance sheet to recover in the medium term unless the government reduces its debt by converting some of it to equity.

DSI SAMSON GROUP (PRIVATE) LIMITED

The rating downgrade reflects Fitch's expectations that DSG's net leverage - defined as lease-adjusted debt net of cash/operating EBITDAR - is likely to remain above 4.5x over the medium term. The elevated leverage is due to the weakening domestic sales of pneumatic tyres to original equipment manufacturers (OEMs) and significant competitive pressures in the footwear retail segment. We expect operating cash flow from the company's solid tyre exports and value-added footwear businesses to improve in the medium term, but this is unlikely to be sufficient to reduce leverage below the level commensurate with a higher rating.

DSG's rating continues to reflect its leading positions in domestically sold pneumatic tyres to the replacement market and footwear, which are supported by its well-known brand and widespread distribution network.

Higher Financial Risk: DSG's net leverage increased to 5.2x in the financial year ended March 2018 (FY18) from 4.4x a year earlier due to the weaker operating performance in several of its key domestic segments. Leverage has since fallen to 5.0x by 31 December 2018 due to an improvement in exports and domestic sales of value-added footwear. We expect net leverage to drop to 4.9x in FY19 and 4.6x through FY21, buoyed by the company's efforts to further improve cash flow contributions from exports and domestic sales of value-added footwear. Fitch believes the pressure on free cash flow from high interest costs and notable working capital outflows as well as growth capex will keep net leverage above 4.5x in the medium term.

We expect DSG's FFO fixed-charge coverage to improve to 1.5x in the medium term, compared with an estimated 1.4x at end-December 2018 and a low of 1.1x at FYE18, supported by a recovery in profitability. However, coverage will likely remain below the three-year historical average of 2.2x due to weaker domestic demand and continued pressure from high interest costs.

Lower EBITDA Margins: Fitch expects DSG's EBITDA margins to recover to 8.5% in FY19, from 7.7% in FY18, after they were diluted by lower domestic footwear and tyre sales volumes, higher crude oil and rubber prices as well as the company's efforts to liquidate some of its footwear inventory at discounted prices. The recovery in margins will be supported by greater contribution from high-margin solid tyre exports and higher-value-added footwear. However, we expect rising cost pressures due to the depreciating Sri Lankan rupee and intense price competition in the domestic market to keep EBITDA margins below the three-year historical average of 9.0%.

Falling Domestic Sales: We expect domestic sales of tyres to remain under pressure due to the weakening demand for bicycle tyres in Sri Lanka and the tightening of three-wheeler financing regulations in 2017. The regulator lowered the upper band of loan-to-value ratios associated with three-wheeler leases to 25% from 70% to curb vehicle imports, which continues to impede volume growth mainly from the OEM market. However, DSG's significant exposure to the replacement market mitigates this risk to some extent.

Domestic footwear volumes declined by around 4% in FY18 on rising competition from small-scale producers in the lower-end of the market. DSG counterbalances this risk by selling value-added footwear as the competition is less intense. DSG also compensates for the lost sales to some extent by supplying raw materials such as rubber sheets and soles to its competitors in the footwear market.

Leading Market Position: DSG has leading market positions in the domestic footwear market and the bicycle, motorcycle and three-wheeler tyre industries, supported by its established brand, and a widespread distribution network. Nevertheless, we expect the intensifying competition in the footwear industry from small-scale domestic producers and importers that are circumventing the current tariff structure on imports to be a key long-term risk. Domestic sales of motorcycle and three-wheeler tyres also face rising competition from other well-known brands and imported products.

Limited Structural Subordination Risk: DSG is a holding company that depends on dividends paid by its subsidiaries to service its own obligations. However, the structural subordination of holding-company creditors is mitigated by DSG's strong control over its operating subsidiaries that accounted for over 80% of consolidated EBITDA in FY18. This supports a high degree of cash fungibility within the group and enables the holding company to service its own obligations.

LION BREWERY (CEYLON) PLC:
The upgrade of Lion's National Long-Term Rating reflects the recalibration of the Sri Lankan national scale ratings as well as our view that Lion will maintain its leverage - net adjusted debt / EBITDAR - in line with a 'AA-(lka)' rating. Lion's cash flows have improved, helped by a recovery in sales, which was supported by a reversion in the excise duty regime to tax drinks with lower alcohol content at reduced rates compared with spirits. The increased penetration of beer per capita also supports stronger sales. At end-September 2018, Lion's latest trailing 12-month net leverage was 1.0x. Lion's business risk profile has also benefitted from the management's efforts to mitigate the flood risk at its main production facility.

Fitch rates Lion on its standalone strength due to weak linkages between Lion and its stronger ultimate parent, Carson Cumberbatch PLC, as defined in Fitch's Parent and Subsidiary Rating Linkage criteria. Lion's rating reflects its leading market position in the domestic beer industry, which is protected by stringent regulation, its well-established brand and extensive retail coverage. However, the domestic excise tax regime on alcoholic beverage sales changes frequently, which inhibits the industry's profitability.

Recovery in Sales Volume: Fitch expects Lion's sales to improve in the medium term after excise duties were revised to tax manufacturers of spirits at higher rates than beer and wine makers. The government taxes a litre of strong beer at LKR2,455 compared with LKR3,300 for spirits, effective from 10 November 2017. The current tax regime is more consistent with the practice that prevailed before November 2015, when drinks with lower alcohol content such as beer were taxed at lower rates than spirits. Lion's sales volumes were depressed from November 2015 to October 2017 when a litre of strong beer was taxed at LKR3,580, higher than spirits' LKR3,246. Fitch expects the current regime, with lower taxes on beer than spirits, to prevail over the medium term.

Balance Sheet to Strengthen: We believe Lion's net leverage will remain below 1.5x in the medium term, mainly due to healthy profitability and a likely reduction in capex compared with past years. The company has sufficient brewing capacity for the next few years following the expansion in its production capacity, which drove the high capex from FY14-FY16.

Improving EBITDAR Margin: Fitch expects Lion's EBITDAR margins to stabilise at around 29% from FY20, from 27% in FY18, supported by better sales and operating conditions. Lion's EBITDAR margin recovered significantly to around 38% by 1H19 from a low of 19.5% in FY17 when manufacturing was halted temporarily due to floods and Lion had to import inventory at a higher cost. The margin recovery was driven by the company's efforts to recoup some of the lost sales volumes and operational efficiencies that reduced costs.

Market Leadership: Lion is the largest beer manufacturer in Sri Lanka, with significant market share in the domestic beer market. Lion consolidated its market leadership in FY18 by regaining the shelf space it lost in FY17 due to the temporary halt in production following floods in May 2016. Lion's strong market share is supported by its entrenched brand and widespread retail coverage, with access to 2,800 retail outlets around Sri Lanka. The company's market position is protected to some extent by regulations in the form of stringent restrictions on advertising and limited issuance of new retail licenses.

High Regulatory Risk: Domestic alcoholic beverage producers face frequent revisions to excise duties, which cause significant operating cash flow volatility. In 2015, the government increased the excise duties on alcohol twice, which led to tax on strong beer overtaking the tax on hard liquor on an equivalent-alcohol basis. The situation was reversed after 24 months, which resulted in hard liquor being taxed at 34% more than strong and mild beer on an equivalent-alcohol basis. We believe any further tax increases will be gradual, considering the importance of the industry to government coffers. Excise duties from alcoholic-beverage makers made up 7% of government tax revenue in 2017.

For the key rating drivers, derivation summaries, rating sensitivities and liquidity analysis of Dialog, DIST, Melstacorp, Singer, Sunshine, Abans, and Kotagala, please refer to the previous rating action commentaries via the following links:

Fitch Affirms Sri Lanka's Dialog Axiata at 'AAA(lka)'/Stable

Fitch Removes RWN on Sri Lanka's Distilleries Company; Affirms at 'AAA(lka)'

Fitch Assigns Melstacorp PLC First-Time 'AAA(lka)' Rating; Outlook Stable

Fitch Affirms Singer (Sri Lanka) at 'A-(lka)'; Outlook Stable

Fitch Affirms Sunshine Holdings at 'A-(lka)'; Outlook Stable

Fitch Affirms Abans PLC at 'BBB+(lka)': Outlook Stable

Fitch Affirms Kotagala Plantations at 'CC(lka)'

For the key rating drivers, derivation summaries, and liquidity analysis of Hemas, RICH and Sierra, please refer to the previous rating action commentaries via the links below. Fitch has revised the rating sensitivities applicable to these issuers as a result of the recalibration of the Sri Lankan National Ratings scale. The revised sensitivities for these issuers can be found in the relevant section below.

Fitch Affirms Hemas Holdings at 'AA-(lka)'; Outlook Stable

Fitch Affirms Richard Pieris & Company at 'A(lka)'; Outlook Stable

Fitch Affirms Sierra Cables at 'BB+(lka)'; Outlook Stable

Derivation Summary

Sri Lanka Telecom PLC: SLT's unconstrained standalone credit profile is stronger than that of the government of Sri Lanka, reflecting the company's market leadership in fixed-line services and second-largest position in mobile, along with its ownership of an extensive optical-fibre network. The standalone profile is also underpinned by its mid-single-digit percentage growth prospects, moderate estimated 2018 FFO adjusted net leverage of 1.7x and stable operating EBITDAR margin.

SLT has lower exposure to the crowded mobile market and more diverse service platforms than mobile-market leader Dialog. However, Dialog has a larger revenue base, better operating EBITDAR margins, lower forecast FFO adjusted net leverage and a better FCF profile than SLT.

Ceylon Electricity Board: Fitch has rated CEB at the same level as the sovereign due to the strong linkages with its parent. The equalisation reflects CEB's full ownership by the state and track record of financial support through explicit guarantees, equity infusions and subsidised debt funding. CEB provides electricity at subsidised rates, fulfilling an essential service for the sovereign. CEB has almost full network connectivity and accounted for more than 70% of Sri Lanka's generation capacity at end-2017.

Our assessment of CEB's linkages with the sovereign can be compared with other Sri Lankan government-related entities such as SLT, which we also view as having strong operational and strategic linkages with the sovereign. However, CEB is weaker than the sovereign and its rating is equalised due to strong linkages with the state, while SLT is stronger than the sovereign but its rating is constrained by its strong linkages with the state.

DSI Samson Group (Private) Limited: DSG's rating reflect its leading positions in domestically sold pneumatic tyres to the replacement market and footwear, which are supported by its well-known brand and widespread distribution network. Singer and Abans have better business risk profiles than DSG, as these two companies dominate the consumer durables retail market in Sri Lanka with robust market positions, while DSG's footwear and pneumatic tyre sales face increasing competition in the local market, causing its volumes to decline. At the same time, DSG's local tyre business is under pressure due to the lower sales of three-wheelers following the tightening of three-wheeler financing regulations in 2017.

We rate Singer two notches higher than DSG to reflect it stronger business and financial risk profile, while Abans is rated one notch above DSG because of Abans' better business risk profile and similar financial risk profile.

Lion Brewery (Ceylon) PLC: Lion is rated three notches below DIST - the country's biggest spirits manufacturer - reflecting DIST's considerably larger operating scale and dominant market position in spirits, which is more widely consumed domestically than beer and has about 80% share of the alcoholic-beverage market. DIST has also historically been less sensitive to changes in tax regulations than Lion.

Lion is rated at the same level as domestic conglomerate Hemas. Lion has a leading market share in the local beer industry amid high entry barriers and low leverage while Hemas is a well-diversified conglomerate with exposure to defensive pharmaceuticals and fast-moving consumer goods. Hemas also has similar leverage as Lion.

RICH is rated two notches below Lion, reflecting its weaker business risk profile due to significant exposure to the volatile agriculture segment, lower EBITDA margins and higher leverage.

Key Assumptions
Fitch's Key Assumptions Within Our Rating Case for the Issuers

Sri Lanka Telecom PLC:
- Revenue to grow by a mid-single-digit percentage, driven by fixed-broadband and mobile-data services in 2018-2019.

- Capex/revenue to remain high at around 28%-30% as SLT expands its fibre and 4G network.
- Operating EBITDAR margin to remain stable at around 29%-30%.
- Effective tax rate of 28%.
- Dividend payout of LKR1.6 billion-1.8 billion per year.

Ceylon Electricity Board:
- Electricity consumption in Sri Lanka to increase by 5% per annum over 2018-2021
- No material electricity tariff increases in the next two years
- Generation mix to broadly remain at 30% coal, 30% fuel, 30% hydropower and 10% others.
- Capex of LKR120 billion in 2018 and moderating to LKR60 billion per annum from 2019, mainly for generation, transmission and distribution

DSI Samson Group (Private) Limited:
- Revenue to grow by mid-single-digit rate on average over the next three years.
- EBITDA margin to improve by 80bp to 8.5% in FY19, and gradually grow to reach around 9.0% in the next three years.
- Capex to average LKR1.1 billion per annum for the next three years compared with an average of LKR2.1 billion in the past three years.
- Dividend payout to shareholders to remain at around 50% of holding company's dividend income.

Lion Brewery (Ceylon) PLC
- Revenue to recover with a 43% increase in FY19; growth to moderate to a mid-single-digit rate on average over the next three years.
- EBITDAR margin to modestly improve to 36% in FY19 and to stabilise at around 29.0% in the next three years.
- Excise duty on strong and mild beer to remain unchanged till end-FY20 and increase by around 5%-7% during FY21 to FY22.
- Capex at around 6% of net revenue in FY19 and FY20 and falling to 4.0% on average over the next two years.
- Dividend of LKR300 million per annum to shareholders in line with historical levels.

RATING SENSITIVITIES

Sri Lanka Telecom PLC:

Developments that May, Individually or Collectively, Lead to Positive Rating Action
- An upgrade in the Sri Lankan sovereign's Long-Term IDR would result in an upgrade on SLT's National Long-Term Rating

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- A downgrade in the Sri Lankan sovereign's Long-Term IDR would result in a downgrade on SLT's National Long-Term Rating

Ceylon Electricity Board:

Developments that May, Individually or Collectively, Lead to Positive Rating Action
- An upgrade of the Sri Lankan sovereign's Long-Term IDRs would result in corresponding action on CEB's National Long-Term Rating

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- A significant weakening of the strong linkages between the sovereign and CEB
- A downgrade of the Sri Lankan sovereign's Long-Term IDR would result in corresponding action on CEB's National Long-Term Rating

DSI Samson Group (Private) Limited:

Developments that May, Individually or Collectively, Lead to Positive Rating Action
- Sustained improvement in DSG's adjusted net debt/EBITDAR to less than 4.5x and gross adjusted debt/EBITDAR to less than 5.0x

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- Sustained weakening of net adjusted debt/EBITDAR to more than 5.5x and gross adjusted debt/EBITDAR to more than 6.0x
- A sustained weakening of fund flows from operations fixed-charge cover to less than 1.2x
- A significant increase in the structural subordination of DSG's holding-company creditors.

Lion Brewery (Ceylon) PLC:
Developments that May, Individually or Collectively, Lead to Positive Rating Action
- No positive rating action is expected over the next two years, unless the company is able to materially improve its business risk profile and scale of operations while maintaining the current financial profile.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- An increase in Lion's lease-adjusted debt net of cash/EBITDAR to over 3.0x for a sustained period

Hemas Holdings PLC
Developments that May, Individually or Collectively, Lead to Positive Rating Action
- Improvement in business risk profile while maintaining the current financial profile.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- Group net adjusted debt/EBITDAR rising above 3.0x on a sustained basis
- Any significant integration issues or deviation from the company's conservative approach to new investment.

Richard Pieris & Company PLC
Developments that May, Individually or Collectively, Lead to Positive Rating Action
- A sustained improvement in RICH's adjusted net debt/EBITDAR (adjusted for finance subsidiary) to below 2.0x.
- A sustained improvement in the holding company's net debt/EBITDAR to below 3.0x.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- A sustained increase in RICH's adjusted net debt/EBITDAR (adjusted for finance subsidiary) to over 3.5x.
- RICH's adjusted EBITDAR coverage of gross interest and rent (adjusted for finance subsidiary) falling below 2.5x on a sustained basis.
- Significant investment in non-core business activities, which could adversely impact the profitability or cash flow generation of the group.

Sierra Cables PLC
Developments that May, Individually or Collectively, Lead to Positive Rating Action
- An upgrade is not anticipated in the short-to-medium term until there is an improvement in the company's size and scale of operations while maintaining the current financial profile.

Developments that May, Individually or Collectively, Lead to Negative Rating Action
- Adjusted net debt/EBITDAR, excluding cash flow from overseas operations, of over 3.5x for a sustained period.
- EBITDAR coverage - measured by EBITDAR, excluding cash flow from overseas operations/gross interest plus rent - falling below 2.0x for a sustained period.
- Delays or disruptions in its planned overseas expansion, which could result in additional capital calls or lower profitability.

Liquidity and Debt Structure
Sri Lanka Telecom PLC:
Strong Access to Local Banks: At end-September 2018, SLT's liquidity - cash of LKR12 billion and committed undrawn bank lines of LKR13.5 billion - was sufficient to fund its short-term debt of LKR13.5 billion. We expect SLT to refinance its short-term debt in light of its access to local banks. It has demonstrated a solid track record of accessing capital from local banks and capital markets.

Ceylon Electricity Board:
Tight but Manageable Liquidity Position: As at end-2017, CEB had LKR54.0 billion of unrestricted cash and unutilised credit facilities to meet LKR20.1 billion of debt falling due in the next 12 months. We do not expect free cash flow to turn positive in 2018 amid continued operating losses and capex of around LKR120 billion. However, we believe the government will step in and provide liquidity support if required, based on past actions.

DSI Samson Group (Private) Limited:
Tight Liquidity: DSG had LKR874 million of unrestricted cash and LKR8.1 billion in unutilised credit facilities at end-FY18 to meet LKR8.3 billion of debt repayment falling due through FY19. This places the company in a tight liquidity position. Nevertheless, we expect the banks to roll over the short-term working capital lines, which account for more than 70% of the debt maturities in the next 12 months, in the normal course of business.

Lion Brewery (Ceylon) PLC:
Comfortable Liquidity Position: Lion had unrestricted cash and cash equivalents of LKR8.1 billion and unutilised credit lines of LKR7.8 billion at end-March 2018 to meet LKR8.9 billion of debt maturing in the next 12 months. Lion's relatively defensive cash flows and consistent access to bank funding as one of Sri Lanka's largest listed corporates further supports liquidity.

Abans PLC; National Long Term Rating; Affirmed; BBB+(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; BBB+(lka)
----senior unsecured; National Short Term Rating; Affirmed; F2(lka)
Ceylon Electricity Board; National Long Term Rating; Downgrade; AA+(lka); RO:Sta
Distilleries Company of Sri Lanka PLC; National Long Term Rating; Affirmed; AAA(lka); RO:Sta
DSI Samson Group (Private) Limited; National Long Term Rating; Downgrade; BBB(lka); RO:Sta
Hemas Holdings PLC; National Long Term Rating; Affirmed; AA-(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; AA-(lka)
Kotagala Plantations PLC; National Long Term Rating; Affirmed; CC(lka)
----senior secured; National Long Term Rating; Affirmed; CC
Lion Brewery (Ceylon) PLC; National Long Term Rating; Upgrade; AA-(lka); RO:Sta
----senior unsecured; National Long Term Rating; Upgrade; AA-
Melstacorp PLC; National Long Term Rating; Affirmed; AAA(lka); RO:Sta
Richard Pieris & Company PLC; National Long Term Rating; Affirmed; A(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; A
Sierra Cables PLC; National Long Term Rating; Affirmed; BB+(lka); RO:Sta
Singer (Sri Lanka) PLC; National Long Term Rating; Affirmed; A-(lka); RO:Sta
----senior unsecured; National Long Term Rating; Affirmed; A-
----senior unsecured; National Short Term Rating; Affirmed; F2(lka)
Sunshine Holdings PLC; National Long Term Rating; Affirmed; A-(lka); RO:Sta
Dialog Axiata PLC; National Long Term Rating; Affirmed; AAA(lka); RO:Sta
Sri Lanka Telecom PLC; National Long Term Rating; Downgrade; AA+(lka); RO:Sta
----senior unsecured; National Long Term Rating; Downgrade; AA+(lka)

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Additional information is available on www.fitchratings.com

Applicable Criteria
National Scale Ratings Criteria (pub. 18 Jul 2018)
Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018)
Corporate Rating Criteria (pub. 23 Mar 2018)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

Additional Disclosures
Solicitation Status
Endorsement Policy

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