



## Fitch Assigns Lion's Debt Final 'AA-(lka)'; Affirms Ratings

Fitch Ratings-Colombo-28 May 2013: Fitch Ratings has assigned Sri Lanka-based Lion Brewery (Ceylon) PLC's (Lion) listed unsecured redeemable debentures of LKR3bn a final 'AA-(lka)' rating. The LKR3bn includes an additional LKR500m which will be raised in the event of an oversubscription. The agency has also affirmed Lion's National Long-Term rating at 'AA-(lka)' with a Stable Outlook, and affirmed the company's senior unsecured rating at 'AA-(lka)'.  
Rating Action Rationale

The assignment of the final rating to Lion's listed unsecured debentures follows the receipt of final documents which conform to information previously received. The final rating is at the same level as the expected rating assigned on 25 March 2013 (see "Fitch Publishes Sri Lanka's Lion Brewery's 'AA-(lka)' Rating; Rates Proposed Debt 'AA-(lka)(EXP)'" at [www.fitchratings.com](http://www.fitchratings.com))

The debentures are rated in line with Lion's National Long-Term Rating of 'AA-(lka)', as they rank equally with the company's unsecured creditors. Lion expects to use the debenture proceeds to fund the upgrade and modernisation of its plant over FY13-FY14 (financial year ends March).

The affirmation of Lion's ratings reflects Fitch's view that the increase in leverage (lease-adjusted debt net of cash/EBITDAR) to 1.85x in FY13 from an annualized 1.09x in 9MFY13, is a temporary feature, and that it does not signify a structural weakening in the company's risk profile. Fitch currently expects Lion's leverage to increase further in 2013 due to continued high capex for its plant upgrade and modernisation project, before falling below the 1.5x trigger by FYE15.

### Key Rating Drivers

**Strong market position:** Lion's ratings reflect its leading market share of the domestic beer industry and its strong operating cash flow generation. Lion's market position and in turn its credit profile is supported by its entrenched domestic brands, and limited substitution of products given the high technical competence required for brewing beer.

**High regulatory risk:** The company's credit strengths are partly offset by the high regulatory risk affecting domestic alcohol beverage manufacturers, in the form of high excise duties and taxes which are frequently increased. These levies put legitimate alcoholic beverages outside the reach of a large portion of the population, promote illicit alcohol and stifle growth of licit products.

**High entry barriers:** At the same time however regulatory restrictions on advertising and the limited issuance of new retail licenses creates high entry-barriers and benefit entrenched operators such as Lion. The continued increase in excise duties and levies on alcoholic beverage producers could become a rating risk if profitability is materially impacted over the longterm.

**Better profits from 2014:** Lion's EBITDAR margin fell to 18.7% at FYE13 from 27.9% at FYE12 - due largely to higher taxes paid on imported sales, and partly also due to two excise duty increases imposed in FY13. Fitch expects EBITDAR margins to improve substantially in 2014 as the company will no longer have to import finished goods to meet local sales demand once its plant-upgrade is completed by end-2013.

**Stronger balance-sheet from 2014:** Fitch expects Lion's capex to reduce - at most - to the mid-single digits as a percentage of projected revenue from 2014 (FY13: over 40%). The agency

notes that the company's leverage should improve in 2014 on sharply lower capex, and better profit margins.

#### Rating Sensitivities

Negative: Future Developments that may individually, or collectively, lead to negative rating action include

-The inability to reverse the rising trajectory for leverage from 2014 as per Fitch's expectations, or the company's inability to bring leverage below 1.5x by FYE15.

Positive: Future developments that may individually, or collectively, lead to a positive rating action include

-Lion's rating is constrained at the current level over the medium-term due to the limited breadth and depth of the domestic beer industry. However, this may change over the longer term if the growth in the domestic beer industry outpaces the growth in spirits.

Further details on Lion are available on [www.fitchratings.com](http://www.fitchratings.com) and [www.fitchratings.lk](http://www.fitchratings.lk)

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Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(lka)' for National ratings in Sri Lanka. Specific letter grades are not therefore internationally comparable.

Applicable criteria, 'Corporate Rating Methodology, dated 8 August 2012, and 'National Ratings Criteria', dated 19 January 2011, are available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:  
Corporate Rating Methodology  
National Ratings Criteria

Additional Disclosure  
Solicitation Status

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