

# RAM

## CREDIT RATING RATIONALE

November 2011

VIDULLANKA PLC

- Corporate Credit Ratings

RAM Ratings (Lanka) Ltd

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RATINGS



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# CREDIT RATING RATIONALE

## CORPORATE RATINGS

OCTOBER 2011

### Analysts:

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### Principal Activity:

Independent power  
producer

### Rating:

Long-term: A- [Reaffirmed]  
Short-term: P2 [Reaffirmed]

### Rating Outlook:

Stable

## VIDULLANKA PLC

### – Rating review

#### ■ Summary

RAM Ratings Lanka has reaffirmed Vidullanka PLC's ("Vidullanka" or "the Group") respective long- and short-term corporate credit ratings at A- and P2; the long-term rating has a stable outlook. Vidullanka owns and operates mini-hydro power plants ("MHPPs") that supply electricity to the Ceylon Electricity Board ("CEB" or "the Utility").

The ratings reflect the following strengths:

- ***Favorable contract terms***  
Under the relevant power purchase agreements ("PPAs") between Vidullanka and the CEB, the Utility is obliged to purchase all the electricity generated by the MHPPs throughout the tenures of their respective contracts; these profitable PPAs have tenures of 15 years each. Supported by favourable tariffs and increased energy production, Vidullanka's margin on operating profit before depreciation, interest and tax ("OPBDIT") broadened to 57.52% in FYE 31 March 2011 ("FY Mar 2011") (FY Mar 2010: 52.22%). This improved further to 62.70% in 1Q FY Mar 2012, backed by seasonal rainfall. However, the margin was lower than 68.95% in 1Q FY Mar 2011 due to the low levels of rainfall observed during 1Q FY Mar 2012 in comparison to 1Q FY Mar 2011. The Group's OPBDIT margins are better than those of its corporate counterparts, and in line with those of its peers in the power industry. Meanwhile, the CEB has traditionally been prompt when meeting its obligations under the PPAs. Nonetheless, renegotiation risk cannot be entirely discounted.
- ***Low leverage and strong debt-protection measures under conservative financial policy***  
Vidullanka's gearing ratios have been lower than those of the corporates rated by RAM Ratings Lanka; it stood at 0.23 times as at end-FY Mar 2011 (end-FY Mar 2010: 0.24 times). Despite the increase in its debt level to LKR 210.65 million as at end-FY Mar 2011, its gearing ratio remained

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relatively unchanged owing to a LKR 274.41 million rights issue which strengthened its capitalisation. Despite the Group's increased borrowings, its fund from operations ("FFO") debt coverage ratio has stayed strong, albeit having eased slightly to 1.10 times as at end-FY Mar 2011 (end-FY Mar 2010: 1.29 times). We note that Vidullanka maintains a conservative financial policy with regard to new projects; the Group aims to fund its new investments with a 60:40 mix between debt and equity.

- ***Good liquidity***

Vidullanka's liquidity is viewed to be good. As at end-FY Mar 2011, it held LKR 214.57 million of cash and cash equivalents ("CCE") compared to LKR 32.16 million of short-term borrowings. Its CCE expanded in fiscal 2011 following its rights issue, thus improving its CCE to short-term debt coverage level to 6.67 times. While the cash from the rights issue had subsequently been used to fund new investments, its CCE to short-term debt coverage remained strong at 1.38 times as at end-June 2011.

- ***Positive outlook on power industry***

Sri Lanka has been posting strong economic growth since the cessation of the ethnic conflicts in its northern and eastern regions. Demand for power has been rising at a steady 5%-8% per annum. Prospectively, we expect demand to increase further on the back of the government's objective of electrifying all households in the country by 2012, coupled with more power consumption amid economic growth. On this note, independent power producers ("IPPs") accounted for 40% of total power generated as at end-December 2010, in comparison to 15.19% a decade earlier.

The preceding positives are, however, moderated by the following factors:

- ***Small player in IPP sector***

As at end-December 2010, the fragmented IPP industry contributed 172 MWs to the national grid - through 87 power plants. Vidullanka remains a small player with an effective generation capacity of 5.8 MW. Since 2 of its plants collectively contribute about 80% of its revenue, any operational hiccup at one would have a substantial impact on the Group's financial performance. In this regard, the management has taken steps to increase the Group's investments in MHPPs, either on its own or through joint ventures ("JVs").

- ***PPA renewal risk***

The Group faces renewal risk, with its first PPA expiring in 2016. Nonetheless, the management has made efforts to diversify Vidullanka's revenue through investments in other power projects, which are expected to be commissioned in fiscal 2012.

**Existing combined effective capacity of 5.8 MW**

**Invested in JVs and associates**

- **Revenue depends on weather patterns**

Although the CEB is obliged to purchase all the power generated by Vidullanka, electricity generation and revenue depend solely on rainfall in the catchment areas. Moreover, Vidullanka's plants are of the run-of-river variety, which operates without a dam and increases the seasonality of its revenue flow. As such, the current dry spell in Sri Lanka is expected to affect the Group's revenue in fiscal 2012.

- **Construction risk**

As 3 of Vidullanka's MHPPs are still under construction, any delay in completion would affect the Group's cashflow. Furthermore, Vidullanka may encounter cost overruns. Historically, there has been no delay with regards to construction; the project management and design have been and are undertaken by its subsidiary, Vidul Engineering Ltd ("VEL").

## ■ Company Background

Incorporated in 1997, Vidullanka commenced operations as an IPP in 2001. Its first power plant, Bambarabatuoya ("BBO"), was commissioned in 2001 in Ratnapura, with a capacity of 3.2 MW. The second plant, Batathota ("BTO"), also situated in the Ratnapura district, has a capacity of 2 MW. Both power plants have 15 year PPAs with the CEB. These 2 plants and Vidullanka's 50%-interest in the MHPP JV with Hirdaramani (Pvt) Ltd – the 1.2-MW Ganthuna plant - gives the Group an effective generation capacity of 5.8 MW. In fiscal 2011, Vidullanka started constructing another 100% owned power plant, Wembiyagoda ("WBO"), which has a capacity of 1.3 MW and is scheduled for commissioning in fiscal 2012.

In addition, the Group invested in a few more JVs and associates (accounted for as investments) in fiscal 2011 (refer to Table 1); the JVs are proportionately consolidated in the Group's financials. Besides MHPPs, Vidullanka has also invested a wind-power project, which is currently under construction.

**Table 1: Snapshot of Vidullanka's power projects**

| Name                     | Capacity | Ownership | Commissioning date | Partner                      | PPA tenure (years) | District  |
|--------------------------|----------|-----------|--------------------|------------------------------|--------------------|-----------|
| BBO                      | 3.2 MW   | 100%      | 2001               | N/A                          | 15                 | Ratnapura |
| BTO                      | 2 MW     | 100%      | 2007               | N/A                          | 15                 | Ratnapura |
| WBO                      | 1.3 MW   | 100%      | 2012 (expected)    | N/A                          | 20                 | Ratnapura |
| Ganthuna mini hydro      | 1.2 MW   | 50%       | 2010               | Hirdaramani                  | 20                 | Kegalle   |
| Ethamala Ella mini hydro | 2 MW     | 26%       | 2011 (expected)    | Individual investors         | 20                 | Matara    |
| Haloya mini hydro        | 0.8 MW   | 50%       | 2012 (expected)    | Vanguard Industries          | 20                 | Badulla   |
| Ambewella wind project   | 1.1 MW   | 33.33%    | 2012 (expected)    | Vergent SA and Eco-F Limited | 20                 | Hatton    |

Source: Vidullanka

**VEL involved in MHPPs' design and construction**

Meanwhile, VEL, Vidullanka's subsidiary specialises in the design and construction of MHPPs as well as project management. VEL, whose revenue mainly stems from Vidullanka's in-house and JV projects, is currently a loss-making concern.

## ■ Industry and Business Assessment

**Power sector dominated by state-owned CEB**

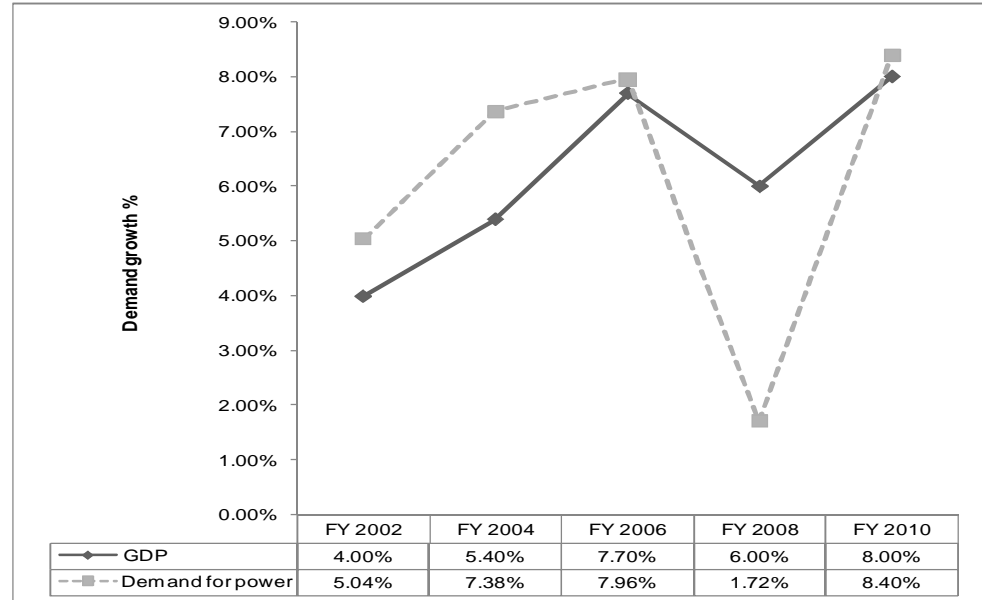
The local power sector is presently dominated by state-owned CEB - the sole vertically integrated entity with the right to generate, transmit and distribute power in Sri Lanka. The government is likely to retain its control over this sector pursuant to the Sri Lanka Electricity Act of 2009 ("the Act"), under which controls have been put in place with regard to power production, sales and output. The CEB is virtually a monopoly when it comes to power transmission and distribution in Sri Lanka; the IPP industry supplements the Utility's capacity.

**Demand for power to increase further**

Following the cessation of the ethnic conflict in the northern and eastern regions, Sri Lanka has been posting robust economic growth. Against this backdrop, demand for power increased to 8.4% in fiscal 2010 (refer to Chart 1). In fiscal 2008, however, there was relatively weak demand for power (1.72% against 7.96% in fiscal 2007) amid slower economic growth and higher tariffs. Prospectively, we expect demand to strengthen further due to the government's objective of providing electricity to all households in Sri Lanka (the current electrification rate stands at 88%, according to the Central Bank of Sri Lanka) and the country's projected economic growth. In this regard, the CEB will continue relying on IPPs to supply the required power. IPPs accounted for 40% of the nation's total power generation as at end-December 2010, compared to

just 15.19% a decade earlier. According to the Act, any plant that has more than 25 MW of capacity will be under the control of the Government. According to the Public Utilities Commission of Sri Lanka, the nation's installed capacity needs to be augmented to 5,465 MW by 2019 (2010: 2,644 MW) to maintain supply to the existing customers.

**Chart 1: Correlation between GDP and demand for power**



Source: CEB

**Energy mix gradually shifting towards thermal**

Over the past 15 years, the country has been gradually shifting its energy mix from hydro to thermal power as the former cannot meet the increasing demand for power, apart from its vulnerability to fluctuations in rainfall. Going forward, the nation will continue to mainly rely on thermal sources, favouring coal rather than other types of fossil fuel. Meanwhile, non-conventional renewable energy sources (“NCRES”) - such as biomass, wind and solar energy - are expected to support the country's power requirements. If these are successfully executed, dependence on hydroelectricity is likely to recede by 2022 as Sri Lanka's large reserves of hydro power have already been exhausted. That said, the government still places importance on hydro power as it is a cheaper option than thermal. At present, there are 87 mini hydro-power projects, with an installed capacity of 172 MW as at end-December 2010.

**PPA stipulates Vidullanka's MHPPs are a “must run facility”**

All of Vidullanka's hydro power plants have PPAs that stipulate they are “must-run facilities”, which means that the CEB is obliged to purchase all the energy produced and delivered by the IPPs. While the earlier agreements span 15 years, the latest ones have tenures of 20 years. Nonetheless, the CEB has the option of rejecting an IPP's output under the following circumstances:

**Vidullanka required to submit non-binding annual forecasts of output; must also report scheduled outages**

**Price calculated based on “avoided cost” concept for initial projects**

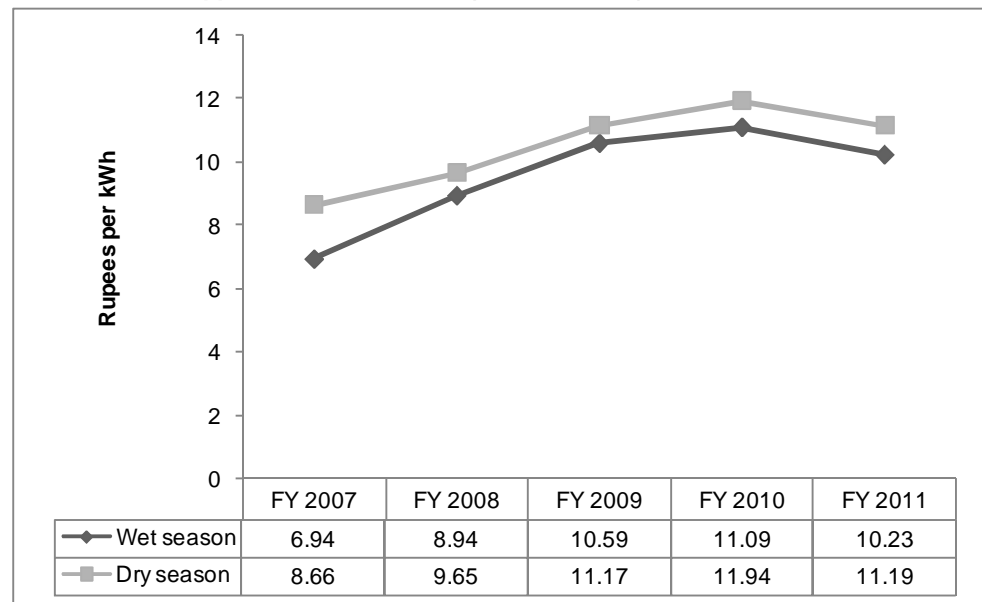
- 1) If the CEB, at its discretion, deems it necessary to interrupt, reduce or refuse to purchase all or a portion of the energy output during emergencies and under prudent utility practices.
- 2) If the IPP does not operate the plant in a manner consistent with prudent utility practices.
- 3) If the quality of the energy produced is inconsistent with the standards agreed upon.

That said, we note that the CEB has never refused to purchase the Group’s output as Vidullanka has maintained the commendable operational track records of its power plants.

According to the PPAs, Vidullanka must submit an annual forecast of electricity generation by each MHPP to the CEB, by 1 December each year. In addition, the Group is required to inform the CEB a month in advance of any scheduled outage. The CEB must also be notified of unscheduled outages as soon as possible. Nonetheless, these estimates and forecasts are non-binding.

Under the earlier PPAs, the price at which the CEB will purchase energy output is determined annually. The calculation of the price is based on the “avoided cost” principle, where costs reflect the costs the utility would incur to provide the same amount of electricity. Despite being pre-determined at the beginning of the year, Vidullanka benefits from this structure as the CEB’s main source for electricity generation is thermal energy, which is much more expensive than hydro power. The PPAs also stipulate that the tariff in any given year must not be less than 90% of the first year’s (refer to Chart 2), thus setting a minimum level.

**Chart 2: Tariffs applicable to Vidullanka (BBO and BTO)**



Source: Vidullanka

**Latest projects follow 3-tier tariff system**

**Good payment track record sole counterparty CEB**

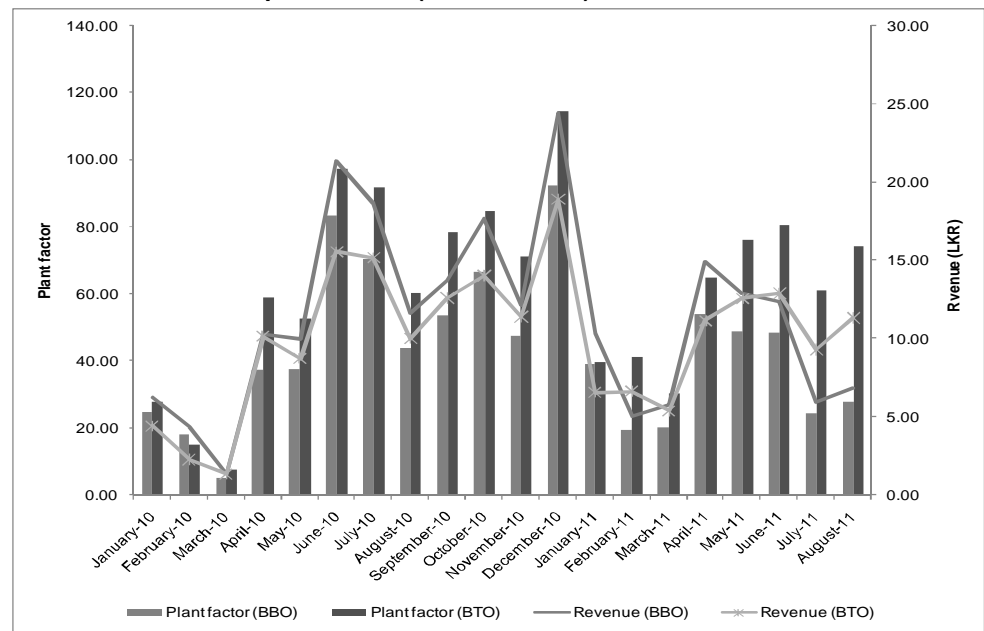
**Revenues correlate with rainfall**

Notably, the latest projects follow a 3-tier tariff system throughout their 20-year spans; these are fixed upfront. Under these PPAs, the CEB factors in the cost of financing, construction, maintenance and expected profits when arriving at tariff levels. The tariff structure is segmented into 3 stages: the highest tariffs are applicable during the initial 1–8 years, after which they are reduced in the next stage (9–15 years); the lowest tariff is paid during the later phase of the project (16–20 years).

According to the PPAs, Vidullanka must supply energy exclusively to the CEB, unless the IPP obtains prior written approval to do otherwise. Regardless of the CEB’s weak historical financials, counterparty risk is deemed low as the Utility is a strategically important state-owned entity, entrusted with the generation, transmission and distribution of power in Sri Lanka. As such, we expect the government to support the CEB if required. Moreover, the CEB has been promptly meeting its obligations despite its financial losses. Nonetheless, PPA renegotiation risk cannot be entirely discounted given the relatively short 15-year history of the IPP industry in Sri Lanka.

Apart from the annual tariffs determined by the CEB, Vidullanka’s revenue also correlates with the rainfall in the respective plant’s catchment area. This is reflected in the monthly fluctuations in plant factors, depending on the amount of rainfall. While rainfall in the last 2 fiscal years has followed predictable seasonal trends (refer to Chart 3), the recent dry spell is expected to affect Vidullanka’s top line in fiscal 2012. Despite compensation from the CEB for the drop in rainfall via “dry season” rates, which are normally higher than those during the wet season, overall revenue is still cyclical.

**Chart 3: Revenue and plant factors (BBO and BTO)**



Source: Vidullanka

**Renewal risk of old PPAs somewhat mitigated by new investments**

**Exposed to construction risk**

**Higher tariffs and energy output pushed up revenue**

The Group also faces renewal risk as its first PPA will expire in fiscal 2016. In this respect, the management has taken steps to diversify the Group's revenue base through investments in other power projects. On this note, the Ganthuna MHPP JV has already started contributing revenue although not profit as it is still in its gestation period. In addition, Vidullanka has also invested in 2 additional 50:50 JVs apart from the fully owned MHPP (WBO), which are expected to be commissioned in fiscal 2012-2013.

On another note, since 3 of Vidullanka's MHPPs are still under construction, any delay in project completion would dent the Group's cashflow. Furthermore, Vidullanka may encounter cost overruns. Nonetheless, we note that there has been no delay in the construction projects managed by the Group's subsidiary, VEL. That said, we acknowledge that the commissioning of the Ethamala Ella MHPP has been held up by a legal case that has yet to be resolved.

## ■ Financial Assessment

**Table 2: Key financial indicators**

| <b>FY Mar</b>                        | <b>2010</b> | <b>2011</b> | <b>1Q 2012</b> |
|--------------------------------------|-------------|-------------|----------------|
| <b>Absolute (LKR million)</b>        |             |             |                |
| Revenue                              | 324.88      | 362.85      | 78.94          |
| OPBDIT                               | 169.67      | 208.70      | 49.50          |
| Pre-tax profit                       | 121.95      | 167.74      | 39.25          |
| Total debts                          | 134.87      | 210.65      | 209.46         |
| <b>Profitability (%)</b>             |             |             |                |
| OPBDIT margin                        | 52.22       | 57.52       | 62.70          |
| Return on capital employed           | 21.04       | 16.25       | 15.48          |
| <b>Capitalisation (times)</b>        |             |             |                |
| Gearing ratio                        | 0.24        | 0.23        | 0.22           |
| Debt-capital ratio                   | 0.19        | 0.18        | 0.18           |
| <b>Debt-service coverage (times)</b> |             |             |                |
| Interest coverage ratio              | 6.27        | 11.20       | 10.13          |
| FFO debt coverage ratio              | 1.29        | 1.10        | 1.00           |
| OCF debt coverage ratio              | 1.46        | 1.02        | 0.39           |

*OPBDIT = operating profit before depreciation, interest and tax*

*FFO = funds from operations*

*OCF = operating cashflow*

The Group's revenue expanded 11.69% year-on-year ("y-o-y") to LKR 362.85 million in FY Mar 2011 (fiscal 2010: LKR 324.88 million). The growth was supported by increased tariffs and higher levels of energy output on the back of heavier rainfall. We note that Vidullanka's revenue largely depends on its 2 main plants, BBO and BTO, which contributed a respective 43.30% and 43.54% of the Group's revenue in 1Q FY Mar 2012. Nonetheless, the Group's revenue contracted 12.98% y-o-y in 1Q FY Mar 2012 as a result of less rainfall. Going forward, Vidullanka's revenue growth is anticipated to be supported by its new JVs, which will be proportionately consolidated based on its ownership.

**Broader OPBDIT margin**

Along with stronger revenue, the Group's margins have been widening due to its fixed operating costs. Vidullanka's OPBDIT margin expanded from 52.22% to 57.52% y-o-y in FY Mar 2011, before broadening further to 62.70% in 1Q FY Mar 2012. We note that this is lower than the 68.95% of 1Q FY Mar 2011 due to lower rainfall in 1Q FY Mar 2012 in comparison to 1Q FY Mar 2011. Higher margins in the first quarter are typically due to the seasonal nature of its overheads, specifically maintenance.

**Borrowings increased but balance sheet still strong**

In line with its investment in new projects, the Group's debt load added LKR 75.78 million to LKR 210.65 million as at end-FY Mar 2011. Following its recent LKR 276.41 million rights issue, however, its gearing ratio remained unchanged at 0.23 times as at end-FY Mar 2011 - better than most corporates'. On a related note, the Group adopts a conservative funding policy with regard to investments, aiming to finance only up to 60% of its total cost through debt. Based on the Group's planned investments, we expect its gearing levels to remain rather unchanged.

**Strong coverage levels**

Meanwhile, Vidullanka's debt-protection metrics are considered strong despite its FFO debt coverage having dipped slightly to 1.10 times as at end-FY Mar 2011 (end-FY Mar 2010: 1.29 times). While the ratio had eased on the back of its heftier debt load to fund new projects, it remains better than most of its corporate peers. Simultaneously, Vidullanka's operating cashflow ("OCF") debt coverage ratio also declined from 1.46 times to 1.02 times y-o-y. In 1Q FY Mar 2012, its annualised FFO and OCF debt coverage levels dipped further to 1.00 times and 0.39 times, respectively - a result of weaker profitability amid seasonal rainfall and increased receivables. Based on confirmed projects in the pipeline, we expect the Group's FFO debt coverage to remain at around 1 time.

**■ Financial Flexibility and Liquidity**

**Table 3: Vidullanka's liquidity measures**

| As at end-                     | March 2010 | March 2011 | June 2011 |
|--------------------------------|------------|------------|-----------|
| Short-term debt-to total debt  | 36.64%     | 15.27%     | 14.33%    |
| CCE to short-term debt (times) | 0.25       | 6.67       | 1.38      |
| Current ratio (times)          | 0.93       | 10.67      | 6.63      |
| Quick ratio (times)            | 0.92       | 10.64      | 6.60      |

**Good liquidity position**

As at end-FY Mar 2011, Vidullanka had LKR 214.57 million of CCE against LKR 32.16 million of short-term borrowings. Its CCE had expanded following its rights issue, thus improving its CCE to short-term debt coverage to 6.67 times. While the cash proceeds from the rights issue had subsequently been used to fund new investments, Vidullanka's CCE to short-term debt coverage remained strong at

*Led by experienced  
management team*

*Conservative growth  
strategy*

1.38 times as at end-June 2011. We believe that the Group can tap bank borrowings if required, given its healthy financial position. In addition, Vidullanka derives financial flexibility from its listed status.

## ■ Management Assessment

The Group's management is spearheaded by Managing Director Riyaz Sangani, who is vastly experienced in his field of expertise. He is supported by a capable team of professionals.

Looking ahead, Vidullanka will continue focusing on renewable energy sources. The management intends to fund new projects with a relatively conservative 60:40 debt-to-equity ratio. Furthermore, the Group only invests in new projects that are expected to yield at least 20%-22% of returns. We note that its previous projects had brought in about 25% of returns. To achieve its targeted rate of return and also limit its risk exposure, the Group also invests in JVs. These new projects will reduce its dependence on its first 2 power plants. Moreover, Vidullanka is involved in the construction of multiple MHPPs, which are planned for commissioning by 2013.

## ■ Corporate Information – Vidullanka PLC

**Date of Incorporation:** 1997

**Commencement of Business:** 2000

**Major Shareholders (as at 31 March 2011):**

|                                   |        |
|-----------------------------------|--------|
| Dr Thirugnanasambadar Senthilverl | 22.23% |
| Belmont Agents Limited            | 16.86% |
| Wembley Spirit Limited            | 15.25% |
| Mrs Ren Lan Mather                | 5.28%  |
| Trustees to Employee share option | 4.76%  |
| ABC International Limited         | 4.21%  |

**Directors:**

Mr Osman Kassim  
 Mr Riyaz M Sangani  
 Mr Shahid M Sangani  
 Mr Rajan Mather  
 Dr AAM Haroon  
 Mr Hilal R Peiris  
 Mr Zulficar Ghouse  
 Dr T Senthilverl  
 Mrs B Roshini I Sangani  
 Mr Christian F Fuhrer

**Auditor:** Messrs Ernst & Young Chartered Accountants

**Listing:** Colombo Stock Exchange

**Key Management:**

|                    |                   |
|--------------------|-------------------|
| Mr Riyaz M Sangani | Managing Director |
| Mr PHM Suraweera   | General Manager   |
| Mr Mafaz Ansar     | Head of Finance   |

**Major Subsidiaries:** Vidul Engineering Ltd

**Capital History:**

| Year | Remarks                                       | Amount<br>(LKR million) | Cumulative Total<br>(LKR million) |
|------|---|-------------------------|-----------------------------------|
| 2003 | Paid up capital                               | 100.50                  |                                   |
|      | Issue of shares                               | 138.00                  | 238.50                            |
| 2005 | Issue of shares                               | 59.62                   | 298.12                            |
| 2006 | Issue of shares                               | 29.81                   | 327.93                            |
| 2007 | Conversion of share premium to stated capital | 30.18                   | 358.11                            |
|      | Issue of shares                               | 39.35                   | 397.47                            |
| 2010 | Rights issue                                  | 276.41                  | 673.89                            |

# FINANCIAL SUMMARY

## Vidullanka PLC – Group

|   | <i>unaudited</i> |               |               |                 |                 |
|---|------------------|---------------|---------------|-----------------|-----------------|
| STATEMENT OF FINANCIAL POSITION (LKR million)           | 31-Mar-08        | 31-Mar-09     | 31-Mar-10     | 31-Mar-11       | 30-Jun-11       |
| Property, Plant and Equipment                           | 576.16           | 584.21        | 662.42        | 722.59          | 754.89          |
| Investments in Associates/Jointly-Controlled Entities   | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Investment Property                                     | 0.00             | 0.00          | 0.00          | 80.12           | 186.17          |
| Land & Development Expenditure (Non-current)            | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Deferred Tax Assets                                     | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Other Investments/ Non-Current Assets                   | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Goodwill & Intangible Assets                            | 0.00             | 6.74          | 6.69          | 6.69            | 6.69            |
| <b>Total Non-Current Assets</b>                         | <b>576.16</b>    | <b>590.95</b> | <b>669.10</b> | <b>809.40</b>   | <b>947.75</b>   |
| Land & Development Expenditure (Current)                | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Property Held for Sale                                  | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Construction Work In Progress                           | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Inventory   | 5.39             | 1.77          | 0.73          | 0.86            | 0.91            |
| Trade Receivables                                       | 27.12            | 52.60         | 36.46         | 43.72           | 156.62          |
| Other Current Assets                                    | 23.78            | 14.81         | 38.04         | 83.80           | 0.00            |
| Amounts Due from Holding/Related Companies & Directors  | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Amounts Due from Associates/Jointly-Controlled Entities | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Cash & Bank Balances                                    | 20.89            | 7.54          | 12.28         | 214.57          | 41.41           |
| Money Market Instruments                                | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| <b>Total Current Assets</b>                             | <b>77.17</b>     | <b>76.72</b>  | <b>87.51</b>  | <b>342.95</b>   | <b>198.93</b>   |
| <b>Total Assets</b>                                     | <b>653.33</b>    | <b>667.66</b> | <b>756.62</b> | <b>1,152.35</b> | <b>1,146.68</b> |
| Equity Share Capital                                    | 397.48           | 397.48        | 397.48        | 673.89          | 673.89          |
| Equity-Like Hybrid Capital                              | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Reserves  | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Retained Profits/(Accumulated Losses)                   | 43.31            | 93.67         | 175.81        | 262.17          | 257.20          |
| Non-Controlling Interests                               | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| <b>Total Equity</b>                                     | <b>440.79</b>    | <b>491.14</b> | <b>573.28</b> | <b>936.06</b>   | <b>931.08</b>   |
| Short-Term Private Debt Securities                      | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Amounts Due to Holding/Related Companies & Directors    | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Amounts Due to Associates/Jointly-Controlled Entities   | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Other Short-Term Debts                                  | 61.48            | 59.48         | 49.42         | 32.16           | 30.01           |
| Trade Payables  | 2.38             | 1.54          | 4.22          | 0.00            | 0.00            |
| Taxation  | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Dividends Payable                                       | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Other Current Liabilities                               | 12.76            | 14.12         | 40.81         | 0.00            | 0.00            |
| <b>Total Current Liabilities</b>                        | <b>76.62</b>     | <b>75.13</b>  | <b>94.45</b>  | <b>32.16</b>    | <b>30.01</b>    |
| Long-Term Liabilities                                   | 1.70             | 1.69          | 3.43          | 5.64            | 6.13            |
| Debt-Like Hybrid Capital                                | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Long-Term Private Debt Securities                       | 0.00             | 0.00          | 0.00          | 0.00            | 0.00            |
| Other Long-Term Debts                                   | 134.22           | 99.70         | 85.45         | 178.50          | 179.45          |
| <b>Total Non-Current Liabilities</b>                    | <b>135.92</b>    | <b>101.39</b> | <b>88.88</b>  | <b>184.14</b>   | <b>185.58</b>   |
| <b>Total Liabilities</b>                                | <b>212.55</b>    | <b>176.52</b> | <b>183.33</b> | <b>216.30</b>   | <b>215.59</b>   |
| <b>Total Equity + Total Liabilities</b>                 | <b>653.33</b>    | <b>667.66</b> | <b>756.62</b> | <b>1,152.35</b> | <b>1,146.68</b> |

# FINANCIAL SUMMARY

## Vidullanka PLC - Group

|  | <i>unaudited</i> |           |           |           |           |
|--|------------------|-----------|-----------|-----------|-----------|
| STATEMENT OF COMPREHENSIVE INCOME (LKR million)                  | 31-Mar-08        | 31-Mar-09 | 31-Mar-10 | 31-Mar-11 | 30-Jun-11 |
| Revenue  | 194.90           | 230.27    | 324.88    | 362.85    | 78.94     |
| Operating Profit/(Loss) before Depreciation, Interest & Tax      | 100.70           | 113.91    | 169.67    | 208.70    | 49.50     |
| Depreciation & Amortisation                                      | (16.15)          | (19.22)   | (21.57)   | (26.80)   | (7.79)    |
| Operating Profit/(Loss) before Interest & Tax                    | 84.55            | 94.69     | 148.10    | 181.90    | 41.71     |
| Finance Costs  | (39.55)          | (33.62)   | (27.05)   | (18.64)   | (4.89)    |
| Debt-Related Foreign Exchange Gain/(Loss)                        | 0.00             | 0.00      | 0.00      | 0.00      | 0.00      |
| Operating Profit/(Loss) before Tax                               | 45.00            | 61.06     | 121.04    | 163.26    | 36.82     |
| Other Income/(Loss)  | 2.47             | 7.42      | 0.91      | 4.48      | 2.43      |
| Non-Recurring Items  | 0.00             | 0.00      | 0.00      | 0.00      | 0.00      |
| Share of Associates/Jointly-Controlled Entities Profits/(Losses) | 0.00             | 0.00      | 0.00      | 0.00      | 0.00      |
| Pre-Tax Profit/(Loss)  | 47.48            | 68.48     | 121.95    | 167.74    | 39.25     |
| Taxation   | (0.77)           | (0.09)    | (0.13)    | (1.37)    | (0.94)    |
| Net Profit/(Loss)  | 46.70            | 68.39     | 121.82    | 166.36    | 38.31     |
| Other Comprehensive Income/(Loss)                                | 0.00             | 0.00      | 0.00      | 0.00      | 0.00      |
| Total Comprehensive Income/(Loss)                                | 46.70            | 68.39     | 121.82    | 166.36    | 38.31     |
| Additional Disclosure:   |                  |           |           |           |           |
| Net Profit Attributable to Non-Controlling Interests             | 0.00             | 0.00      | 0.00      | 0.00      | 0.00      |
| Dividends - Ordinary Shares & Preference Shares                  | 0.00             | 18.04     | 39.68     | 81.16     | 0.00      |

|  | <i>unaudited</i> |           |           |           |           |
|--|------------------|-----------|-----------|-----------|-----------|
| STATEMENT OF CASHFLOW (LKR million)                    | 31-Mar-08        | 31-Mar-09 | 31-Mar-10 | 31-Mar-11 | 30-Jun-11 |
| Pre-Tax Profit/(Loss)                                  | 47.48            | 68.48     | 121.95    | 167.74    | 39.25     |
| Adjustments  | 56.89            | 47.64     | 51.64     | 63.55     | 13.16     |
| Operating Profit/(Loss) before Working Capital Changes | 104.37           | 116.12    | 173.59    | 231.29    | 52.42     |
| Tax Paid   | 0.00             | (0.13)    | (0.00)    | (0.00)    | (0.00)    |
| Funds from Operations                                  | 104.37           | 115.99    | 173.59    | 231.28    | 52.41     |
| Changes in Working Capital                             | (16.17)          | (13.69)   | 23.32     | (16.41)   | (31.87)   |
| Other Income/(Expenses)                                | (0.08)           | (0.30)    | 0.00      | (0.13)    | 0.00      |
| Net Cashflow from Operating Activities                 | 88.12            | 102.00    | 196.91    | 214.74    | 20.55     |
| Capital Expenditure                                    | (28.78)          | (22.23)   | (98.86)   | (92.62)   | (37.45)   |
| Free Operating Cashflow                                | 59.34            | 79.77     | 98.05     | 122.13    | (16.91)   |
| Other Investing Outflows                               | 0.00             | (14.92)   | 0.00      | (80.12)   | (106.05)  |
| Investing Inflows                                      | 4.40             | 8.44      | 1.00      | 0.00      | 0.00      |
| Pre-Financing Cashflow                                 | 63.73            | 73.29     | 99.05     | 42.00     | (122.95)  |
| Interest Payments                                      | (39.55)          | (32.07)   | (26.93)   | (15.68)   | (4.07)    |
| Net Changes in Borrowings                              | (5.65)           | (36.52)   | (28.15)   | 41.14     | 27.38     |
| Dividend Payments                                      | 0.00             | (18.04)   | (39.68)   | (81.16)   | (43.29)   |
| Other Financing Inflows/(Outflows)                     | 0.00             | (0.00)    | (0.00)    | 216.44    | 0.00      |
| Net Increase/(Decrease) in Cash & Cash Equivalents     | 18.53            | (13.34)   | 4.29      | 202.74    | (142.93)  |
| Opening Cash Balance                                   | 2.35             | 20.89     | 7.54      | 11.83     | 214.57    |
| Closing Cash Balance                                   | 20.89            | 7.54      | 11.83     | 214.57    | 71.64     |

# FINANCIAL RATIOS

## Vidullanka PLC - Group

unaudited

| KEY RATIOS                                    | 31-Mar-08 | 31-Mar-09 | 31-Mar-10 | 31-Mar-11 | 30-Jun-11 |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>PROFITABILITY (%):</b>                     |           |           |           |           |           |
| OPBDIT Margin                                 | 51.67%    | 49.47%    | 52.22%    | 57.52%    | 62.70%    |
| OPBIT Margin                                  | 43.38%    | 41.12%    | 45.59%    | 50.13%    | 52.83%    |
| Pre-Tax Profit Margin                         | 24.36%    | 29.74%    | 37.54%    | 46.23%    | 49.73%    |
| Net Profit Margin                             | 23.96%    | 29.70%    | 37.50%    | 45.85%    | 48.53%    |
| Return on Capital Employed                    | 13.67%    | 15.70%    | 21.04%    | 16.25%    | 15.48%    |
| <b>CAPITALISATION (TIMES):</b>                |           |           |           |           |           |
| Gearing Ratio                                 | 0.44      | 0.32      | 0.24      | 0.23      | 0.22      |
| Net Gearing Ratio                             | 0.40      | 0.31      | 0.21      | (0.00)    | 0.18      |
| Debt-Capital Ratio                            | 0.31      | 0.24      | 0.19      | 0.18      | 0.18      |
| <b>DEBT COVERAGE (TIMES):</b>                 |           |           |           |           |           |
| Interest Coverage Ratio                       | 2.55      | 3.39      | 6.27      | 11.20     | 10.13     |
| OPBDIT Debt Coverage Ratio                    | 0.51      | 0.72      | 1.26      | 0.99      | 0.95      |
| Funds from Operations Debt Coverage Ratio     | 0.53      | 0.73      | 1.29      | 1.10      | 1.00      |
| Operating Cashflow Debt Coverage Ratio        | 0.45      | 0.64      | 1.46      | 1.02      | 0.39      |
| Free Operating Cashflow Debt Coverage Ratio   | 0.30      | 0.50      | 0.73      | 0.58      | (0.32)    |
| <b>LIQUIDITY (TIMES):</b>                     |           |           |           |           |           |
| Current Ratio                                 | 1.01      | 1.02      | 0.93      | 10.67     | 6.63      |
| Quick Ratio                                   | 0.94      | 1.00      | 0.92      | 10.64     | 6.60      |
| Cash and Cash Equivalents to Short-Term Debts | 0.34      | 0.13      | 0.25      | 6.67      | 1.38      |
| Short-Term Debts to Total Debts (%)           | 31.42%    | 37.37%    | 36.64%    | 15.27%    | 14.33%    |
| <b>CASH CYCLE (DAYS)</b>                      |           |           |           |           |           |
| Receivables Cycle                             | 50.80     | 83.38     | 40.96     | 43.97     | 181.03    |
| Payables Cycle                                | 13.82     | 7.40      | 15.30     | 0.00      | 0.00      |
| Inventory Cycle                               | 31.24     | 8.49      | 2.65      | 3.95      | 6.19      |
| Operating Cash Cycle                          | 68.22     | 84.48     | 28.31     | 47.92     | 187.22    |

# FINANCIAL RATIOS

## Vidullanka PLC - Group

| KEY FINANCIAL RATIOS                          | FORMULAE  |
|---|---|
| <b>PROFITABILITY (%):</b>                     |   |
| OPBDIT Margin                                 | OPBDIT / Revenue  |
| OPBIT Margin                                  | OPBIT / Revenue   |
| Pre-Tax Profit Margin                         | Pre-Tax Profit / Revenue  |
| Net Profit Margin                             | Net Profit / Revenue  |
| After-Tax Return on Equity                    | Net Profit / Total Equity   |
| Return on Capital Employed                    | $(\text{Pre-Tax Profit} + \text{Finance Costs}^* + \text{Debt-Related Foreign Exchange Loss}/(\text{Profit})) / (\text{Total Debts} + \text{Total Equity})$<br>$\text{Debt-Related Foreign Exchange Loss}/(\text{Profit}) / (\text{Total Adjusted Debts} + \text{Total Equity})$  |
| Dividend-Payout Ratio                         | Ordinary Share Dividends / Net Profit   |
| Effective Tax Rate                            | Taxation / Pre-Tax Profit   |
| <b>CAPITALISATION (TIMES):</b>                |   |
| Gearing Ratio                                 | Total Debts / Total Equity  |
| Net Gearing Ratio                             | $(\text{Total Debts} - \text{Cash \& Bank Balances}) / \text{Total Equity}$   |
| Debt-Capital Ratio                            | Total Debts / (Total Equity + Total Debts)  |
| Long-Term Gearing Ratio                       | Total Long-Term Debts / Total Equity  |
| Short-Term Gearing Ratio                      | Total Short-Term Debts / Total Equity   |
| <b>DEBT COVERAGE (TIMES):</b>                 |   |
| Interest Coverage Ratio                       | $\text{OPBDIT} / (\text{Finance Costs}^* + \text{Preference Share Dividends} + \text{Interest Capitalised} + \text{Realised Debt-Related Foreign Exchange Loss}/(\text{Gain}))$<br>$(\text{Operating Lease \& Capacity Payment-Adjusted Finance Costs}^* + \text{Preference Share Dividends} + \text{Interest Capitalised} + \text{Realised Debt-Related Foreign Exchange Loss}/(\text{Gain}))$ |
| Operating Cashflow Interest Coverage Ratio    | $\text{Net Operating Cashflow} / (\text{Interest Paid}^* + \text{Preference Share Dividends Paid} + \text{Realised Debt-Related Foreign Exchange Loss}/(\text{Gain}))$<br>$(\text{Operating Lease \& Capacity Payment-Adjusted Interest Paid}^* + \text{Preference Share Dividends Paid} + \text{Realised Debt-Related Foreign Exchange Loss}/(\text{Gain}))$                                   |
| OPBDIT Debt Coverage Ratio                    | OPBDIT / Total Debts  |
| Funds from Operations Debt Coverage Ratio     | Funds from Operations / Total Debts   |
| Operating Cashflow Debt Coverage Ratio        | Net Operating Cashflow / Total Debts  |
| Free Operating Cashflow Debt Coverage Ratio   | Free Operating Cashflow / Total Debts   |
| Pre-Financing Cashflow Debt Coverage Ratio    | Pre-Financing Cashflow / Total Debts  |
| <b>LIQUIDITY (TIMES):</b>                     |   |
| Current Ratio                                 | $(\text{Current Assets} - \text{Amounts Due from Related Parties}) / (\text{Current Liabilities} - \text{Amounts Due to Related Parties})$  |
| Quick Ratio                                   | $(\text{Current Assets} - \text{Amounts Due from Related Parties} - \text{Inventory}) / (\text{Current Liabilities} - \text{Amounts Due to Related Parties})$   |
| Cash and Cash Equivalents to Short-Term Debts | $(\text{Cash \& Bank Balances} + \text{Money Market Instruments}) / \text{Short-Term Debts}$  |
| Short-Term Debts to Total Debts (%)           | Short-Term Debts / Total Debts  |
| <b>CASH CYCLE (DAYS)</b>                      |   |
| Receivables Cycle                             | Net Trade Receivables / Revenue x 365   |
| Payables Cycle                                | Trade Payables / Cost of Sales x 365  |
| Inventory Cycle                               | Total Inventory / Cost of Sales x 365   |
| Operating Cash Cycle                          | Receivables Cycle - Payables Cycle + Inventory Cycle  |

Adjusted ratios take into consideration non-cancellable operating leases and/or capacity payment obligations and/or other liabilities excluded from statement of financial position, where applicable.

\*Include on-going, non-discretionary payments on hybrid securities, if any.

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest & Tax

# CREDIT RATING DEFINITIONS

## Corporate Credit Ratings

A Corporate Credit Rating (“CCR”) is RAM Ratings Lanka’s current opinion on the overall capacity of an entity to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take into account the expressed terms and conditions of any specific financial obligation.

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### Long-Term Ratings

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|            |   |
|------------|---|
| <b>AAA</b> | An entity rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term CCR assigned by RAM Ratings Lanka.   |
| <b>AA</b>  | An entity rated AA has a strong capacity to meet its financial obligations. The entity is resilient against adverse changes in circumstances, economic conditions and/or operating environments.  |
| <b>A</b>   | An entity rated A has an adequate capacity to meet its financial obligations. The entity is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.  |
| <b>BBB</b> | An entity rated BBB has a moderate capacity to meet its financial obligations. The entity is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.               |
| <b>BB</b>  | An entity rated BB has a weak capacity to meet its financial obligations. The entity is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.   |
| <b>B</b>   | An entity rated B has a very weak capacity to meet its financial obligations. The entity has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.  |
| <b>C</b>   | An entity rated C has a high likelihood of defaulting on its financial obligations. The entity is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.                |
| <b>D</b>   | An entity rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardise the payment of financial obligations. |

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### Short-Term Ratings

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|           |   |
|-----------|---|
| <b>P1</b> | An entity rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term CCR assigned by RAM Ratings Lanka   |
| <b>P2</b> | An entity rated P2 has an adequate capacity to meet its short-term financial obligations. The entity is more susceptible to the effects of deteriorating circumstances than those in the highest-rated category.  |
| <b>P3</b> | An entity rated P3 has a moderate capacity to meet its short-term financial obligations. The entity is more likely to be weakened by the effects of deteriorating circumstances than those in higher-rated categories. This is the lowest investment-grade category.  |
| <b>NP</b> | An entity rated NP has a doubtful capacity to meet its short-term financial obligations. The entity faces major uncertainties that could compromise its capacity for payment of financial obligations.  |
| <b>D</b>  | An entity rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardise the payment of financial obligations. |

*For long-term ratings, RAM Ratings Lanka applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the entity ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the entity ranks at the lower end of its generic rating category.*

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