

FOR IMMEDIATE RELEASE

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ICRA Lanka revises the Issuer rating of EAP Broadcasting Company Limited to [SL]BBB-(Stable) from [SL]BBB(Stable)

ICRA Lanka Limited, Subsidiary of ICRA Limited, Group Company of Moody's Investors Service has revised the Issuer rating from [SL] BBB (pronounced S L triple B) to [SL] BBB- (pronounced S L triple B minus1) for EAP Broadcasting Company Limited ("EBC" / "the Company"). The outlook on the rating is stable.

The rating revision is on the back of decline in financial profile of the Company in FYE 2015-16 and in the current fiscal, reflected by decline in revenue and profitability. While, the decline in FYE 2015-16 revenue can be partly attributed to some reduction in the corporate advertisement spend during an election year, when the advertisement rates witness increase on account of mandatory higher pricing for election related advertisement spends; the decline in corporate advertisement spend has continued in the current fiscal also. Moreover, the revenue decline in current fiscal has also been on account of loss of revenue from election advertisements, which tend to be non-recurring in nature. The profit margin have also witnessed steep decline during this period, mainly on account of sharp increase in expenses for shared group services like centralized treasury function, director's remuneration and other shared resources. While, ICRA draws comfort from the extensive experience of the Company's management in the media industry and the positioning of some of EBC's Television (TV) and radio channels and its reputed customer base comprising of prominent domestic and multinational companies; it notes that there have been moderation in viewership of the flagship TV channel - Swarnavahini during 2015 and 2016, which accounts for major share of revenue for the Company. Although, the Company is trying to improve the viewership by focusing on content improvement; rationalization of cost structure by linking payment for third party content to viewership and adoption of automated billing system which allows for dynamic pricing and changes in management team by bringing in experienced people for both TV and radio business; the translation of these efforts into improvement in financial performance remains to be seen and remains a key rating sensitivity factor. The rating continues to draw comfort from company's healthy capital structure and the strong entry barriers in Sri Lanka's media industry owing to significant capital investments required to build technical competence, curb on new media license issuances and strong linkages of incumbent market leaders with leading corporate houses which cumulatively bestow existing players with competitive advantages. However, the positives are tempered by increasing competitive intensity among existing players necessitating aggressive pricing and high marketing spends and regulatory risks given stringent annual review of media licenses.

ICRA also takes note of the significant inter-Group (EBC is part of the EAP Group) balances due to and from EBC, although the Company has now implemented measures to restrict such advances and the risks are managed through the centralized treasury at the group level and inter group advances is done on arms length basis, the outstanding advances expose EBC to the business/financial risks of Group's firms which are engaged in non-related businesses. ICRA also notes that the flagship financial entities of the group, which had witnessed significant write-downs in the past, are currently undergoing restructuring under the supervision of the Central Bank and is overseen by the experienced professionals recruited by the group to strengthen strategy formulation and improve corporate governance of the group. As part of the restructuring process, EBC's subsidiary - Galaxy Landmark Limited was expected to buy out several properties worth over LKR 1.5 billion from ETI Finance as a part of recapitalization efforts, the funding for which would have been in the form of debt and equity from EBC to Galaxy, which in turn would have been funded through EBC's internal accruals and

external borrowings. The redevelopment of the project was expected to be funded by additional external borrowings by Galaxy. However, the plans have been changed and the investment from EBC into Galaxy has not happened till date and any potential investment into the project is expected to be much lower than earlier estimates, although the plans are still in incipient stage and not finalized. Early completion of the group restructuring process and finalization of plans for any potential exposure of EBC to real estate projects remains crucial with regards to mitigation of risks arising from exposure to the group and ICRA will continue to monitor the developments on this front and re assess any impact on EBC's cash flows on a case to case basis.

Company Profile

EBC is a part of the EAP group of companies which has wide spread business interests across sectors such as financial services, jewellery retailing, cinema distribution, real estate and hotels. EBC is one of the flagship entities of the group and is engaged in the production, sourcing and broadcasting of content over television. It has two free-to-air (FTA) channels - ETV and Swarnawahini. Swarnawahini is considered to be a leading TV Channel in several Sinhala based programmes . ETV on the other hand focuses on English channels. EBC also produces and broadcasts content over three radio channels (E FM, Ran FM and Shree FM) for which licenses are held by EBC's subsidiary Colombo Communications Limited (CCL).

According to audited results, on a consolidated basis, for the FYE Mar-16, EBC reported a net profit of LKR 243.1 Million on a total income of LKR 2,514.0 Million compared to a net profit of LKR 434.0 Million reported on a total income of LKR 2,565.5 Million in FYE Mar-15.

On a standalone basis, for the FYE Mar-16, EBC reported a net profit of LKR 205.3 Million on a total income of LKR 2,514.0 Million compared to a net profit of LKR 442.4 Million reported on a total income of LKR 2,565.5 Million in FYE Mar-15.

During the six months ended FYE Mar-17, according to un-audited results, on a consolidated basis, EBC reported a net loss of LKR 118.9 Million on a total income of LKR 923.7 Million compared to a net profit of LKR 312.14 Million reported on a total income of LKR 1,207.5 Million in the same period of FYE Mar-16.

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For further details please contact:

Analyst Contacts:

Mr. Sai Krishna (Tel. No. +91- 44 45964304)
[*sai.krishna@icraindia.com*](mailto:sai.krishna@icraindia.com)

Mr. Danushka Perera, (Tel. No. +94-77-4781591)
[*danushka@icralanka.com*](mailto:danushka@icralanka.com)

Relationship Contacts:
Mr. W Don Barnabas, (Tel. No. +94-11-4339907)
[*wdbarnabas@icralanka.com*](mailto:wdbarnabas@icralanka.com)



Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka

Tel: +94 11 4339907; Fax: +94 11 2333307

Email: info@icralanka.com; Website: www.icralanka.com

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