

SIERRA CABLES PLC

ANNOUNCEMENT TO COLOMBO STOCK EXCHANGE

COVID-19 IMPACT

The impact of COVID-19 pandemic on the business/operations of Sierra Cables PLC (the Company)

We decided to temporarily close down the factory on 17th March 2020 and along with that our sales operation too was temporarily halted.

Sierra Cables PLC set a target to surpass Rs. 5 Billion turnover as a group, for the financial year ended 31st March 2020 and was able to exceed the target before the end of the financial year and record a Rs. 5.59 Billion turnover by 17th March 2020, due to our accelerated performance in the preceding three quarters and the early part of the fourth quarter of the FY 2019/20. Accordingly, we ended the FY 2019/20 with a group turnover of more than Rs. 5 Billion, which is the highest ever group turnover achieved by the Company.

As for the collection from the Ceylon Electricity Board (CEB), with the new developments the cumulative outstanding as at date to be collected from the CEB will get delayed beyond the existing two months credit period extended to them.

This COVID-19 pandemic will affect our Subsidiary Company Sierra Industries (Pvt) Ltd, that is engaged in the manufacturing of uPVC pipes, in the immediate run as the potential orders that were being negotiated with the contractors by Sierra Industries, are likely to get delayed. There will also be a delay in the settlement of dues by Sierra Industries' customers and will possibly request for an extension of the usual credit period.

A large upcoming order under Sierra Cables East Africa Ltd, which is another Subsidiary Company, is on hold with the Rural Electrification Authority, where we have cable quantities valued at close to USD 2 Million, which is the highest we have ever achieved. This includes 1 EPC tender and 2 other tenders which are on direct manufacturing basis to the utility company.

Although we targeted a 10% hike in the group turnover in the FY 2020/21, as against the previous FY 2019/20, with the improvement of production and marketing capacity utilization achieved in the previous FY 2019/20, due to the Covid-19 pandemic issue, we are compelled to revise our group turnover targets to revolve around Rs. 4.5 Billion in the FY 2020/21.

Sierra Cables PLC's response to the impact of the COVID – 19 pandemic

Although we closed the factory on 17th March 2020, we decided to recommence the factory operations in stages and accordingly on 20th April 2020, we recommenced factory operations with about 20 factory workers living in close proximity to the factory having obtained the necessary approvals and having taken all necessary preventive measures.

In all the Districts except for Colombo, Gampaha, Kalutara, Puttalam and Kandy Districts where curfew is still in force, we started our Dealer Sales operation immediately upon lifting of the curfew, having arranged all necessary precautionary measures for the sales staff. We see that more than 50% of the daily sales under normal circumstances have been reported within this period and we have taken immediate steps to replenish our sub stores in many parts of the country with the required stocks to facilitate the sales without having to face stock shortages. As we have already commenced the factory operations in a small scale, we can be ready with the required finished good stocks without much of a problem.

With the Cabinet decision made on 18th March 2020, in response to a series of communications and discussions by major local cable manufacturers had with the respective authorities, with regard to the importation of Cables and Conductors by the CEB and the threat it poses on the local manufacturers, we now have an immense opportunity in the area of the CEB tenders to supply Cables and Conductors. Accordingly, subsequent to the aforesaid Cabinet Decision, we now stand a great chance of being awarded one major tender of CEB for 1500 KM Aerial Bundled Conductors (ABC), as we are the lowest bidder locally in that particular tender and the order value is about Rs. 850 Million. In addition to, that in our Project Market we have already secured two major orders to supply cables to Keels City Water Front Project (Cinnamon Life) and Havelock City Project, both together adding about Rs. 450 Million to the revenue in the FY 2020/21.

The government has also introduced restrictions to discourage importation of non-essential items, that include Cables and accordingly an opportunity has been created for us to tap new markets which we could not have served before and we will exert all our efforts to exploit this opportunity.

As for collections from CEB, we have already spoken to the respective officials at CEB to arrange a payment plan, mutually comfortable for both parties, in order to ease any possible cash flow issues.

We proactively resorted to arrange forward bookings, for a majority of our import facilities that are maturing during March and April, in anticipation of a probable depreciation of the Rupee, in light of the COVID-19 and its allied economic impacts in the import and export sectors and through this we could reduce exchange losses significantly.

Sierra Cables PLC's expectation of the future impact of COVID – 19 on the Company's future operations and the financial condition

We might have a challenging period in the next three months primarily due to the delay in receivables from the CEB, Project Clients and Dealer Network Customers. However, we have requested moratoriums for our existing import facilities, term loans and the banks have agreed to extend existing maturities, initially for three months and to reconsider for another three months at the expiration of first three months. Since we have had a credible track record with banks, in terms of servicing of loans, the banks have agreed in principle to enhance some overdraft facilities and even to provide fresh term loans and the processing of them is expected to commence in the month of May, having referred to their credit committees for approvals. With these, we will be able to bridge our cash flow shortages being caused by the delays in receivables. Sizable amount is to be collected as of date from the CEB and as mentioned above we exert the effort to collect this money at least in installments so that we can ease the cash flow shortages in the next three months.

Deliveries pertaining to the two major orders to of Keels City Water Front Project (Cinnamon Life) and Havelock City Project are most likely to be commenced in the first few months of the commencement of operations after the curfew.

As mentioned above, the CEB tender to supply 1500 KM Aerial Bundled Conductors (ABC), of which the total value is approximately Rs. 850 Million, is most likely to be finalized in our favor as we are the lowest bidder locally, immediately the situation gets back to normalcy. With all these, we can be optimistic of having a sizeable amount of sales even in the first quarter of the FY 2020/21.

Upon lifting of the curfew in Colombo, Gampaha, Kalutara, Puttalam and Kandy Districts we will start Dealer Network sales in those Districts too , so that starting from May we can record a reasonable amount of sales in the Dealer Network.

Sierra Industries (Pvt) Ltd secured a major order to supply uPVC pipes for the construction of Gampaha, Attanagalla, Minuwangoda Integrated WSS in 2018, but to date only 70% has been supplied and invoiced and the balance 30% is expected to be supplied in the FY 2020/21 and this will contribute approximately Rs. 250 Million to the Company revenue in FY 2020/21. In addition, as of date another Rs. 570 Million worth orders are being negotiated with the contractors and these are likely to be awarded to us during the FY 2020/21 as our offer have become lowest in the respective tenders with the Water Board based on the prices quoted by us at the tender stage. Considering the above facts, we are optimistic that we can achieve a Rs. 500 Million turnover targets for Sierra Industries (Pvt) Ltd without much of a problem. In terms of receivables, as at today we are to receive Rs. 204 Million from the Contractors and these receivables are likely to delay beyond a reasonable period due to the Covid-19 impact on contractors.

Sierra Cables East Africa Ltd expects that after the initial lockdown period, the economy to open slowly despite the fact that the virus has been spreading fast in the region, as the Kenyan government is on the stance that the economy should be boosted to fight strongly against the COVID 19. Also rapid power down times due to lack of maintenance were noticed and hence once the people are back to work, there will be substantial amount of repairs /replacement work, including new power line Constructions.

The situation report given above clearly explains that Sierra Cables PLC and its subsidiaries should be able to ride through this difficult period without having any going concern issues, due to the Covid – 19 pandemic.



D.S.Panditha
CEO/Executive Director
Sierra Cables PLC

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