

ICRA Lanka revises the Issuer and Issue Ratings of Hayleys PLC to [SL] A+ (Stable) from [SL] AA- (Negative)

June 07, 2019

Instrument*	Current Rated Amount (LKR Mn)	Rating Action
Proposed Senior Unsecured Redeemable Debenture Programme to be listed	3,000	Issuer rating of [SL]A+ with Stable outlook assigned
Issuer Rating	N/A	Revised to [SL]A+ with Stable outlook from [SL]AA- with Negative outlook
Senior Unsecured Redeemable Debenture Programme (Issued on 8 th Aug, 2018)	3,527	Revised to [SL]A+ with Stable outlook from [SL]AA- with Negative outlook
Senior Unsecured Listed Redeemable Debenture (issued on May 31st, 2016)	2,000	Revised to [SL]A+ with Stable outlook from [SL]AA- with Negative outlook
Senior Unsecured Listed Redeemable Debenture (issued on March 6, 2015)	1,502	Revised to [SL]A+ with Stable outlook from [SL]AA- with Negative outlook
Senior Unsecured Listed Redeemable Debenture (issued on March 6, 2015)	498.0	Rating withdrawn
Senior Unsecured Redeemable Debenture Programme (Issued on 8th Aug, 2018)	473.0	Rating withdrawn

Rating action

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service, has assigned the issue rating of [SL]A+ (pronounced SL A plus¹) with Stable outlook for the proposed Senior Unsecured Redeemable debenture programme of Hayleys PLC ("Hayleys" / "the Company") amounting to LKR 3,000 Mn to be listed on the Colombo Stock Exchange. ICRA Lanka has revised the Issuer rating of the Company to [SL]A+ (pronounced SL A plus¹) with Stable outlook from [SL]AA- (pronounced SL double A minus¹) with Negative outlook. ICRA Lanka has also revised the issue ratings to [SL]A+ with Stable outlook from [SL]AA- with Negative outlook for the Company's three-Senior Unsecured Redeemable Debenture programmes, amounting to LKR 3,527 Mn, LKR 2,000 Mn, and LKR 1,502 Mn respectively. ICRA Lanka has also withdrawn the ratings outstanding for Senior Unsecured Listed Redeemable Debenture programmes amounting to LKR 498 Mn and LKR 473 Mn respectively, at the request of the Company as they have been redeemed.

Rationale

The rating revisions is on account of non-improvement of financial performance and capital structure and coverage indicators of the Company during FY19 and significant moderation in market buffer over the book value of Hayleys investments in publicly listed subsidiaries.

The gearing of Hayleys PLC has increased from 1.7(x) as on FY18 to ~2.0(x) as on FY19. The capital structure and coverage indicators of the Company were adversely impacted during FY2018 due to large debt funded acquisition of Singer (Sri Lanka) PLC, a major retailer in Sri Lanka. However, it was expected that the Company will partly deleverage by raising funds from asset monetization and sale of partial stake in Singer (keeping controlling stake with Haleys), but the same has been delayed due to the prevailing subdued market conditions. Further, the financial performance of Singer group also deteriorated, although the performance of other entities of the group has remained stable or witnessed moderate improvement, leading to weak financial performance of the consolidated group during FY19, which has impacted the Company's ability to upstream higher dividend incomes from its key subsidiaries, resulting in a reduction

in operating incomes and profitability/coverage indicators (compared to FY18). With no independent operations of its own, the Company is dependent on dividends from group entities/subsidiaries to generate cash flows for meeting administrative expenses as well as debt repayment obligations. Given, the current year's moderate financial performance of the group and high debt repayment obligations of Hayleys PLC, the Company is exposed to refinancing risks. However, the risk is mitigated due to Hayleys' track record with financial institutions and easy access to capital markets, and Company's access to undrawn sanctioned lines, which support overall liquidity position. The timely execution of fund raising plans to deleverage as well as improvement in financial performance of the group will be critical for improvement in credit profile and to avoid any further downward pressure on ratings. Conversely, if the Company demonstrates a healthy improvement in gearing and financial performance of the Group, leading to healthy dividend upstreaming to the Company, given the timely fund raising exercise as envisaged, there could be upward revisions in ratings.

ICRA Lanka also considers Hayleys position as the holding company of one of Sri Lanka's largest manufacturing conglomerates which is into diverse sectors such as consumer and retail, transportation and logistics, purification, hand protection, agriculture, plantations, textiles, leisure & aviation, fiber, construction materials, industry inputs, investment and services as well as power & energy. The ratings draw comfort from the fact that several of the Hayleys group entities hold leading market shares in Sri Lanka as well as in the global markets. Over the years, the group has also diversified its revenue streams with none of its 12 sectors contributing to more than 15% of revenues (except the Consumer & Retail and Logistic sectors). Unlike regional peers, the Group is also not entirely dependent on Sri Lanka, with over 55% of revenues being derived from exports to more than 70 countries (including deemed exports). ICRA Lanka also considers Hayleys' experienced management team, the Company's strong professional setup and its sound corporate governance practices as key positives, which have complemented its business strengths.

The Hayleys Group has restrictions on inter-company lending with each division being solely responsible for meeting its capex needs and debt obligations; however, Hayleys PLC has extended financial support to some entities in past. Nonetheless, with some entities like Global Beverages, which had required support in the past, bringing in a financial partners; additional funding support from Hayleys PLC to group entities is not further envisaged and any such incremental support remains a rating sensitivity factor.

Key rating drivers

Credit Strengths

Holding company is one of the largest conglomerates in Sri Lanka with significant diversifications across several sectors of the economy; Hayleys is one of the most diversified groups in Sri Lanka with a presence spanning across 12 diverse sectors. The Group is also the largest listed manufacturing conglomerate in Sri Lanka. Starting initially with trading and Logistic & shipping operations, over the years the Group has expanded its operations to sectors such as consumer and retail, transportation and logistics, purification, hand protection, agriculture, plantations, textiles, leisure and aviation, fiber, construction materials, industry inputs, investment and services as well as power and energy. In line with the group's policy, no division (barring Transport & Logistics and consumer sectors, after the acquisition of Singer) contributes in excess of 15% of group turnover. Further, Group's revenues are also well spread across several geographies. This lends significant diversity to revenue streams and insulates the revenues from risk of concentration/high dependence on any one sector.

Leading market positions of several of the group companies in both local and global markets (including the recently acquired-Singer Sri Lanka PLC); the Group companies have market leadership (both global and local) in their respective industries/sectors. For instance, Haycarb is a global leader in charcoal based activated carbon, DPL is among the top players in the global rubber gloves industry, Hayleys Plantations, logistics and construction materials businesses are also the market leaders in their respective fields in Sri Lanka. Hayleys Agro equipment is the market leader in Sri Lanka and Hayley's Pickle products command a 60% market share in Japan. Singer (Sri Lanka) Plc, which was acquired in Sep 2017, is the market leader in several segments such as sewing machines, refrigerators, smart phones and consumer durable segments. Generally, consumer durable industry is expected to perform well when the disposable income levels in a country increases. Moreover, Sri Lanka now being a middle income country and progressing towards upper middle income status, will result in increased business potential in the consumer durable market in the future. Therefore, Singer (Sri Lanka) being the market leader in the consumer durable market in Sri Lanka, would help the group to leverage on this potential going forward. Therefore, the favourable growth outlook for these sectors provide increased revenue visibility over the medium/long term and consequently increased dividend income for the group.

Experienced Management team with access to financing options; The Company's experienced management team, strong professional setup and its sound corporate governance practices are key positives and has helped the Company to access financial institutions as well as capital markets. The Company's access to undrawn sanctioned lines, provide comfort on the overall liquidity position.

Credit challenges

High repayment obligations following increased leverage and weakening of performance of group entities, exposes the Company to refinancing risks: Hayleys on a standalone level does not have any operations of its own and as an investment holding company derives nearly 80% of its revenue as dividend income from investee companies. However, during FY19, the Company has been able to upstream only limited dividend income compared to the previous year and this is largely attributable to the moderation in the group's profitability levels during FY19. While the consolidated group had witnessed ~35% YOY revenue growth during FY19, driven largely by revenue growth in consumer retail (with the full consolidation of Singer Sri Lanka PLC) as well as Transportation & Logistics segment, the operating margin witnessed moderation to 9.5% in FY19 and FY18 from 11.3% in FY17 mainly due to lower operating profit margins of Singer (Sri Lanka) PLC. The net margin was further weakened to 1.2% in FY19 compared to 2.0% in FY2018 and 4.5% in FY2017 due to high interest expenses on the back of increase in leverage levels of the consolidated entity. The adjusted gearing for the group has increased to 1.93(x) as on March 31, 2019 and 1.63(x) as on March 31, 2018 compared to 0.85(x) as on March 31, 2017 and coverage indicators have also considerably weakened.

As mentioned earlier, the Company still intends to settle part of the debts through monetizing some of its physical/financial assets in the near/medium term. The healthy track record with financial institutions and access to capital markets also mitigates the risk. Timely completion of fund raising plans for deleveraging remains a sensitivity factor.

The Hayleys Group has restrictions on inter-company lending with each division being solely responsible for meeting its capex needs and debt obligations; however, Hayleys PLC has extended financial support to some entities in the past. Nonetheless, with some of the entities like Global Beverages, which had required support in the past, bringing in a financial partners; additional funding support from Hayleys PLC to group entities is not envisaged and any such incremental support therefore, remains as a rating sensitivity factor.

Company's and Group's exposure to foreign currency and other macroeconomic volatility; Since Hayleys's consolidated revenue accounts for more than 1% of Sri Lanka's GDP, the macro economic conditions such as increasing interest rate, depreciation of Sri Lankan rupee and other policy directives of other sectors would likely have an impact on the overall performance of the group. However, given that over 45% of revenues are derived from outside of Sri Lanka, largely the risks in relation to the market conditions, are mitigated to an extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria: www.icralanka.com/images/pdf/Corporate%20Rating%20Methodology.pdf

About the Company:

Hayleys PLC ("Hayleys"/"the Company") is one of Sri Lanka's largest multinational business conglomerates with a history spanning 135 years. Initially commencing commercial operations in 1878 as Chas. P. Hayley and Company, the entity was incorporated as Hayleys Limited in 1952 and subsequently converted to a PLC. Hayleys acts as a holding company and does not have any significant operations on its own. However, through over 160 direct and step down subsidiaries as well as associates, the Company controls businesses spanning across Transportation & Logistics, Agricultural Inputs, Construction Materials, Power, Fiber, Rubber Glove Manufacturing, Leisure, FMCG, Purification products (activated carbon), Power, Plantations, Textiles and BPO. The Company's consolidated revenues are well diversified with no sector (barring transportation & logistics and consumer) contributing to more than 15% of total revenues. Group's operations are also well spread geographically, with export revenues (Asia, Europe, Americas and indirect deemed exports) contributing to over 45% of revenues. During FY2018, the group has acquired the controlling stake of Singer (Sri Lanka) PLC, the market leader in the consumer durable market in Sri Lanka.

Key standalone financial indicators (audited)

<i>Revenue and profitability indicators-Figs are in LKR Mn</i>	FY14	FY15	FY16	FY17	FY18	FY19*
Operating Income	1,276.8	1,601.1	1,797.5	1,925.1	2,251.3	1,984.6
OPBDITA	1047.1	1331.2	1524.2	1682.4	2,062.4	1,768.4
PAT	537.5	754.4	867.8	938.4	1,459.5	53.5
ROCE (%)	10.13%	8.86%	8.92%	9.53%	12.3%	8.4%
Total Debt	6,523	6,920	6,586	7,832	19,806	23,666
Networth	8,269	10,522	10,999	11,570	11,849	11,451
Gearing (x)	0.79	0.66	0.60	0.68	1.67	2.07
OPBDITA/Interest & Finance Charges(x)	1.2	2.0	2.3	2.1	1.2	0.6
Total Debt/OPBDITA (x)	6.23	5.20	4.32	4.65	9.60	13.38

*-Unaudited Financials, Note; the net worth in FYE 2017, FYE 2018 and FYE2018 was adjusted for the revaluation of lands

Rating history for last three years:

Instrument	Amount Rated (LKR Mn)	Current Rating (FY20) Date & Rating in May 2019	Chronology of Rating History for the past 3 years				
			Date & Rating in FY2019 May 2018	Date & Rating in FY 2018 Oct 2017	Date & Rating in FY 2017 Mar 2017	Date & Rating in FY 2017 Apr 2016	Date & Rating in FY 2016 Mar 2016
Issuer rating	N/A	[SL]A+ (Stable)	[SL]AA- (Negative)	[SL]AA- (Negative)	[SL]AA- (Stable)	[SL]AA- (Stable)	[SL]AA- (Stable)
Proposed Senior Unsecured Listed Redeemable Debenture	3,000	[SL]A+ (Stable)	N/A	N/A	N/A	N/A	N/A
Senior Unsecured Redeemable Debenture Programme	3,527	[SL]A+ (Stable)	[SL]AA- (Negative)	N/A	N/A	N/A	N/A
Senior Unsecured Listed Redeemable Debenture	2,000	[SL]A+ (Stable)	[SL]AA- (Negative)	[SL]AA- (Negative)	[SL]AA- (Stable)	[SL]AA- (Stable)	[SL]AA- (Stable)
Senior Unsecured Listed Redeemable Debenture	1,502	[SL]A+ (Stable)	[SL]AA- (Negative)	[SL]AA- (Negative)	[SL]AA- (Stable)	[SL]AA- (Stable)	[SL]AA- (Stable)
Redeemable Debenture Programme	498	Ratings withdrawn					
Senior Unsecured Listed Redeemable Debenture	473	Ratings withdrawn					

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