

ICRA Lanka Assigns [SL]AA- with stable outlook to the proposed Senior Unsecured Redeemable Debentures of Hayleys PLC

April 1, 2016

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]AA-(Stable); outstanding
Senior Unsecured Listed Redeemable Debenture (issued on July 9, 2013)	2,000	[SL]AA-(Stable); outstanding
Senior Unsecured Listed Redeemable Debenture (issued on March 6, 2015)	2,000	[SL]AA-(Stable); outstanding
Proposed: Senior Unsecured Listed Redeemable Debenture	2,000	[SL]AA-(Stable); assigned

ICRA Lanka Limited, subsidiary of ICRA Limited, A Moody's Investors Service Company has assigned a rating of [SL]AA- (pronounced S L double A minus¹) for the proposed Senior Unsecured Listed Redeemable debenture programmes of Hayleys PLC ("Hayleys"/ "the Company) totaling LKR 2,000 Mn. The outlook on the rating is stable. ICRA Lanka also has ratings of [SL]AA-/Stable outstanding on the issuer and its existing two LKR 2,000 Mn listed senior unsecured redeemable debentures.

The rating takes into account Hayleys position as the holding company of one of Sri Lanka's largest manufacturing conglomerates which is into diverse sectors such as purification products, hand protection, plantations, transportation and logistics, leisure, agriculture, industrial inputs, power, construction materials, textiles, fibre and consumer products. The rating draws comfort from the fact that several of Hayleys group entities hold leading market shares in Sri Lanka as well as the global markets. Over the years, the group has also diversified its revenue streams with none of its 16 sectors contributing to more than 15% of revenues (except the fast expanding logistics division). 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. Cumulatively these factors have enabled the Group to record healthy growth rates in the past largely through prudent organic growth.

The rating also takes into account the substantial market buffer over the book value of Hayleys investments in publicly listed subsidiaries, Hayleys strong relationship with financial institutions, easy access to capital markets, Hayleys cash balances of over LKR 1bn, besides the Company's access to undrawn sanctioned lines which provide comfort on the overall liquidity position. The strategic importance of the group to the promoters and their past track record of divesting / diluting stake in group entities provide incremental comfort on the group's ability to raise capital for meeting growth and repayment needs. Hayleys financial profile (standalone and consolidated) is also sound with stable profitability levels, relatively comfortable capital structure, healthy cash flows and more than adequate debt protection metrics.

With no independent operations, Hayleys is almost exclusively dependent on dividend income from group entities to generate cash flows for meeting administrative expenses as well as debt repayment obligations. Any decline in dividend inflows on account of underperformance of subsidiaries could impact Hayleys' standalone cash flows, although strong financial flexibility and access to capital markets is expected to augment liquidity and mitigate refinancing risk to a large extent.

¹For complete ratings scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

In arriving at the ratings, ICRA Lanka also takes note of the underperformance of the Group's plantation sector and hand protection sector (albeit better than the industry) which is partially negating the positive growth in other business segments and impacting the overall profitability of the Group. The Group's leisure division is also undertaking a large debt funded expansion over the medium term on a project which may require funding support from Hayleys in the construction and ramping up phase. Moreover, one of the Group's recently setup businesses (Global Beverages) also has sizeable debt repayment obligations which may require financing support from Hayleys. Although, the Group has restrictions on inter-company lending – with each division being solely responsible for meeting its capex needs and debt obligations – Hayleys is likely to extend financial support to the aforementioned entities till they stabilize. This could moderately impact Hayleys' standalone financial profile, as the funding would have to be substituted by debt on Hayleys' balance sheet in the absence of any independent cash flow generation.

Going forward, turnaround in the performance of the plantations and hand protection sectors and ability to manage the proposed large project would be key sensitivities to the rating. ICRA Lanka will continue to monitor the developments in these segments and assess their impact on Hayleys credit profile on a case-to-case basis. Overall, however, ICRA Lanka does not anticipate any major stress on Hayleys (standalone and consolidated) cash flows and expects the Group's debt servicing ability to be fairly robust.

Company Profile

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 Fibre, rubber glove manufacturing, Leisure, Transportation & Logistics, FMCG, Purification products (activated carbon), power, plantations, agricultural inputs, BPO, textiles and construction materials. The Company's consolidated revenues are well diversified with no sector (barring transportation and logistics) 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 55% of revenues.

On a consolidated basis, for the nine months ended December 31, 2015, Hayleys reported a net profit (concern share) of LKR 1,685.9 Million on an operating income of LKR 67,625.5 Million, as against a net profit (concern share) of LKR 1,694.1 Million on an operating income of LKR 68,479.8 Million for a similar period ended December 31, 2014. For the year ended March 31, 2015, Hayleys reported a net profit (concern share) of LKR 2,581.3 Million on an operating income of LKR 92,561.9 Million.

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