

## ICRA Lanka reaffirms the Issuer and Issue ratings of Hayleys PLC

March 31, 2017

Instrument	Amount (in LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]AA-(Stable) Reaffirmed
Senior Unsecured Listed Redeemable Debenture (issued on May 31 <sup>st</sup> , 2016)	2,000	[SL]AA-(Stable) Reaffirmed
Senior Unsecured Listed Redeemable Debenture (issued on March 6, 2015)	2,000	[SL]AA-(Stable) Reaffirmed

ICRA Lanka Limited, subsidiary of ICRA Limited, Group company of Moody's Investors Service, has reaffirmed the Issuer rating of [SL]AA- (pronounced S L double A minus<sup>1</sup>) for Hayleys PLC ("Hayleys" / "the Company"). ICRA Lanka has also reaffirmed the issue rating of [SL]AA- for the Company's two Senior Unsecured Listed Redeemable debenture programmes amounting to LKR 2,000 Mn each. The outlooks on the ratings are stable.

The rating reaffirmations take into account the position of Hayleys Group as one of Sri Lanka's largest conglomerates with operations in diverse sectors such as purification products, hand protection, plantations, transportation and logistics, leisure, agriculture, industrial inputs, power, construction materials, textiles, fiber and consumer products. The ratings draw comfort from the fact that several of 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 fast growing 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 ratings also take 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, 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 PLC is almost exclusively dependent on dividend income from group entities to generate cash flows for meeting administrative expenses as well as debt repayment obligations. Nevertheless, with an established track record of regular dividend up-streaming from key operating entities, which in turn enjoy a dominant market position, ICRA Lanka considers the quality of dividend income to be healthy, lending revenue visibility for the medium to long term.

<sup>1</sup>For complete ratings scale and definitions please refer to ICRA Lanka's Website [www.icralanka.com](http://www.icralanka.com) or other ICRA Rating Publications

ICRA Lanka takes note of the under-performance of the Group's plantation and textile sectors which are partially negating the positive growth in other business segments (including Agro Input, construction materials and power sectors) and impacting the overall profitability of the Group. The Group's leisure division has undertaken a large debt funded expansion during 9MFY17, on a project which may require further funding support. Moreover, one of the Group's recently setup businesses - Global Beverages- has sizeable debt repayment obligations which may require a close attention from Hayleys, as the commercial production at the company has not commenced. 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 turn self – sufficient with respect to debt servicing and meeting their capex needs. 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 textile sectors and ability to manage the ongoing large projects (such as Global Beverages and Kudara Amaya leisure 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 138 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 associates, the Company controls businesses spanning sectors like Transportation & Logistics, Agricultural Inputs, Construction Materials, Power, Eco Solutions, 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 and logistics) contributing to more than 15% of total revenues. The 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, 2016, Hayleys reported a net profit (concern share) of LKR 1,461.5 Million on an operating income of LKR 82,164.4 Million, as against a net profit (concern share) of LKR 1,685.9 Million on an operating income of LKR 67,625.4 Million for a similar period ended December 31, 2015. For the year ended March 31, 2016, Hayleys reported a net profit (concern share) of LKR 3,003.9 Million on an operating income of LKR 92,274.6 Million.

On a standalone basis, for the nine months ended December 31, 2016, Hayleys reported a net profit of LKR 493.3 Million on an operating income of LKR 1,212.4 Million, as against a net profit of LKR 229.8 Million on an operating income of LKR 1,044.8 Million for a similar period ended December 31, 2015. For the year ended March 31, 2016, Hayleys reported a net profit of LKR 867.7 Million on an operating income of LKR 1,797.4 Million.

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