

FOR IMMEDIATE RELEASE

November 21, 2017

**ICRA Lanka assigns the Issuer Rating of [SL]BBB
with Stable outlook to Rainco (Pvt) Limited**

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service, has assigned the Issuer rating of [SL]BBB (pronounced S L triple B¹) with stable outlook to Rainco (Pvt) Ltd ("Rainco" / "the company").

The assigned rating primarily factors in the company's dominant market position in the Sri Lankan umbrella industry as well as the growing weather protection/care product categories. Owing to the strong brand name in the Sri Lankan market, high duty structure for imports and unique climatology of the island-requiring special umbrella design to withstand the local weather conditions- Rainco has the highest market share despite heavy competition from incumbent players, new entrants and imports. ICRA Lanka also takes into account the experience of the promoters, the company's strong track record and reputation in the industry which have enabled the company to enjoy steady access to funding from financial institutions.

Though Rainco was initially set up as a family-run partnership for manufacture of umbrellas, presently it has become a group of operating businesses. Moreover, the group is currently being restructured, with the aim of further improving the operational efficiencies and corporatize the Rainco operations. According to the restructuring programme, a new investment holding company-Avarna Ventures Pvt Ltd will own all other subsidiaries going forward. This will reduce Rainco's direct financial commitments to its sister companies. Moreover, during August CY2017, Sri Lanka Umbrella Industries, the umbrella manufacturing arm of the Rainco group was amalgamated into Rainco Pvt Ltd. Therefore, Rainco Pvt Ltd is now engaged in the manufacturing, marketing, trading of umbrellas and other product categories in Sri Lanka; and, would benefit from the proposed asset capitalization, and proposed new governance initiatives.

The rating positively considers the company's recent diversification into new product categories such as new umbrella categories, raincoats, socks, bed nets and trading of international baby care products, etc, which have been posting strong volume growth. With these initiatives, the revenue contribution from the umbrella segment of the group has declined over the past few years to ~ 35% in FY17, notwithstanding the identification of the umbrella segment as the core business of the Group. The revenue volatility owing to the adverse weather conditions has also reduced to an extent in the recent past as umbrellas are currently marketed as a fashion/accessory item as well. ICRA Lanka also takes note of the company's diversification into export markets, through its sister company - Rainco Industries Pvt Ltd - with the management identifying Bangladesh, Myanmar and Indonesia as growth markets.

Financials;

ICRA Lanka has analyzed the consolidated financial statements of Rainco Pvt Ltd and Sri Lanka Umbrella Industries Pvt Ltd given the recent amalgamation of the two entities.

The company, had recorded a GAGR in consolidated revenue of 7.1% from FYE March 14 to FYE March 17, due to increasing demand for umbrellas. However, the growth momentum declined in FYE March 17 due to adverse weather conditions that prevailed during this period. Notwithstanding the decline in

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

global raw material prices (except in early FY17), the company's OPBDITA and PAT margins have gradually declined from FYE March 15 to FYE March 17 (PAT margin FYE March 14- 4.4%, FYE March 15- 4.3%, FYE March 16- 3.2% and FYE March 17- 3.6%) due to increasing overhead cost structure.

The company's working capital position has remained elevated due to high debtor levels. The receivables have increased over the past few years owing to the growing nature of the business as well as adverse weather conditions that Sri Lanka witnessed in FY15/16. Given the industry practices and the expansion of the business, ICRA Lanka expects the company's receivable levels to remain elevated in the medium term and the ability of the company to manage its increasing working capital requirements would be the key rating sensitivity going forward.

Notwithstanding the moderate capital expenditure levels and high working capital position in FY17, the company has limited its reliance on external debt, mainly due to relatively strong cash accruals from operations. The Company's debt profile is largely skewed towards short term loans to fund the inventories and the working capital requirements, which are refinanced on a regular basis. The company's capital structure has remained relatively strong with gearing (total debt/net worth) of 0.6x in FY17(FYE March 16 - 0.8x). The company's coverage and key debt metrics have also improved given the relatively lower debt levels on the books, coupled with improving operating results.

Group Profile

Rainco is a manufacturing, marketing and distribution company with a growing global presence in the weather protection, care and lifestyle product industries. Rainco is a household name in the Sri Lankan umbrella market and the group's business portfolio has expanded to include mosquito nets, raincoats, baby care products, socks and shoe polish. Currently, the company runs a streamlined and backward-integrated operation from its headquarters in Colombo, a workforce of over 1200, a dealer network of over 12,000, and exporting to countries such as Maldives, Sweden, France and Africa.

Rainco is the premier brand, face and distribution-arm of the business and now handles the umbrella manufacturing operations as well after the recent merger of Sri Lanka Umbrella Industries with itself. In the recent past, the group, with Avarna holding company, has diversified their business into new business segments, including , outdoor and indoor furniture solutions, outdoor shades, window blinds, home accessories, tea packaging products, Indoor and outdoor flooring, wall facades, watches & accessories (including the exclusive rights for Casio Watch), and other related businesses.

On a consolidated basis, Rainco has reported a net profit of LKR 54.9Mn on a total income of LKR 1,475.8Mn in FYE March 17, compared to a net profit of LKR 53.5Mn reported on a total income of LKR 1,635.8Mn in FYE March 16.

November 2017

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