

ICRA Lanka reaffirms the long term ratings of Hayleys PLC; Revises outlook from Stable to Negative

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Instrument	Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]AA- reaffirmed; Outlook revised to Negative from Stable
Senior Unsecured Listed Redeemable Debenture (issued on May 31, 2016)	2,000	[SL]AA- reaffirmed; Outlook revised to Negative from Stable
Senior Unsecured Listed Redeemable Debenture (issued on March 06, 2015)	2,000	[SL]AA- reaffirmed; Outlook revised to Negative from Stable

ICRA Lanka Limited, subsidiary of ICRA Limited, Group company of Moody's Investors Service has reaffirmed the Issuer rating of [SL]AA- (pronounced SL double A minus¹) for Hayleys PLC ("Hayleys" / "the Company"), while revising the outlook on the rating from Stable to Negative. ICRA Lanka has also reaffirmed the issue ratings of [SL]AA- (pronounced SL double A minus) for the Company's two Senior Unsecured Listed Redeemable debenture programmes amounting to LKR 2,000 Mn each. The outlook on these two ratings have also been revised from Stable to Negative.

In September 2017, the Hayleys group acquired a 61.73% stake in Singer (Sri Lanka) PLC (Singer) for a total consideration of LKR 10.9 billion. Hayleys PLC on its own has acquired a majority stake of 56.06%, while the balance was acquired by the group's two subsidiaries - Volanka (Pvt) Ltd and Carbotels (Pvt) Ltd. The acquisition has also triggered a Mandatory Offer under the Company Takeovers & Mergers Code of 1995 (as amended) and therefore, the Group is obliged to purchase additional shares from the other minority shareholders; however, if the offer is accepted, majority of the shares will be purchased by the group's subsidiaries and its nominees. Hayleys PLC has funded this acquisition through term debts from local lenders. The company intends to raise additional LKR 5-6 Bn through realignment and divestiture of some identified assets in the short to medium term and settle portion of the debts taken up for the acquisition.

Post the current acquisition, Singer would become the largest subsidiary of the Hayleys Group (based on revenue contribution) and the management has plans to further diversify Singer's operations by leveraging the synergies of both Groups. Singer, being a leading retailer in the consumer durable market with a moderately strong financial profile, would be able to largely fund the operational and capex requirements. Therefore, limited financial support is expected from Hayleys PLC, post the acquisition.

The revision of the outlook for the ratings from 'Stable' to 'Negative' is on account of deterioration in capital structure and projected coverage indicators of the company on account of increased debt levels in the aftermath of the Singer acquisition; the adjusted gearing* of Hayleys PLC is expected to increase from 0.8(x) as on FYE March 2017 to ~1.5-1.7(x) as on projected FYE March 2018. Nevertheless, as mentioned earlier, the company has plans to monetize some of its physical / financial assets in the near term to reduce the debt levels and ICRA Lanka will continuously monitor the same.

With no independent operations, Hayleys PLC is almost exclusively dependent on dividend income from the group entities/subsidiaries to generate cash flows for meeting administrative expenses as well as debt repayment obligations. In the post Singer acquisition, the Company further intends to upstream

¹For complete ratings scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications
*-adjusted gearing computation excludes the revaluation reserves from the total net worth

high dividend from the group's key subsidiaries (including Singer which has been maintaining a high dividend payout of ~60%) to support the servicing of the increased debt levels.

The reaffirmed ratings take 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, fiber and consumer products. 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 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 reaffirmed 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.

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/is likely to extend financial support to a few entities. One of the Group's recently setup businesses (Global Beverages) also has sizeable debt repayment obligations, which may require financing support from Hayleys for a limited period.

ICRA Lanka takes note of the under-performance of the group's agriculture, hand protection, purification, construction, leisure and textile sectors in Q1FY18 which have partially negated the positive growth in other business segments (including plantations, transport & logistics and power sectors during this period), which has impacted the overall profitability of the Group during Q1FY18.

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 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 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 three months ended June 30, 2017, Hayleys reported a net profit of LKR 61.4 LKR Mn on an operating income of LKR 29,158.6 Mn. For the year ended March 31, 2017, Hayleys reported a net profit of LKR 5,048.3 Mn on an operating income of LKR 111,383 Mn as against a net profit of LKR 5,195.0 Mn on an operating income of LKR 92,274.6 Mn in March 31, 2016.

On a standalone basis, for the three months ended June 30, 2017, Hayleys reported a net profit of LKR 49.8 Mn on an operating income of LKR 299.3 Mn. For the year ended March 31, 2017, Hayleys reported a net profit of LKR 938.3 Mn on an operating income of LKR 1,925.1 Mn as against a net profit of LKR 867.7 Mn on an operating income of LKR 1,797.4 Mn in March 31, 2016.

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