

## ICRA Lanka revises the Issuer Rating of Rainco (Pvt) Limited to [SL] D from [SL] BBB (Stable)

August 16, 2019

Instrument*	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	-	Revised to [SL]D from [SL]BBB- with Stable Outlook

### Rating action

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service, has revised the Issuer rating assigned to Rainco (Pvt) Ltd ("Rainco" / "the Company") to [SL] D (pronounced SL D<sup>1</sup>) from [SL]BBB (pronounced S L triple B<sup>1</sup>) with stable outlook.

### Rationale

The rating downgrade considers the delays in debt servicing by the Company on account of weakening profit margins and stretch in working capital cycle in the last one year, which coupled with seasonality in demand have resulted in cash flow mismatches. The moderation in the financial performance has been on account of the steep increase in imported raw material costs, amidst the price increases and SL rupee depreciation. Given the current weak macro-economic conditions that prevail in Sri Lanka, the pricing flexibility remains limited due to the nature of the product categories. Further, the Company has also increased its exposure to the retail segment, which has resulted in higher receivable days. The Company has also witnessed a moderation in revenue-contribution from the non-umbrella segment during this period. The rating, however, takes note of the group's dominant presence in umbrella segment in Sri Lanka with a strong brand name and the completion of group restructuring, undertaken during the last two years.

### Key Rating Drivers

#### Credit strengths

**Long track record and brand name;** The Company is the market leader in the local umbrella industry with over 65% market share and has established a brand name in the segment.

**Product diversification;** Rainco has diversified its product portfolio into other business segments such as socks, shoe accessories, baby care products (GRACO & PIGEON) and bed nets in the last few years. However, the revenue contribution from these products categories witnessed moderation during FY2019.

**Demand dynamics;** Although, the Sri Lankan umbrella industry is a mature market, the demand for umbrellas is increasing as a functional accessory/item.

#### Credit challenges

**Weakening financial profile and delays in debt servicing:** The Company has witnessed significant weakening of profit margins in FY2018 and FY2019 on account of increase in raw material prices and

<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

depreciation of the Sri Lankan rupee. The capital structure and coverage indicators have also weakened during this period due to lower profitability and stretched working capital intensity. During FY2019, the Company's exposure to the retail segment also increased, which has resulted in elongated receivable period and stretch on cash flows, leading to delays in debt servicing.

**Limited pricing flexibility:** The Company has limited pricing flexibility due to the nature of product categories and is susceptible to changes in raw material prices (which are predominantly imported), volatility in forex rates, changes in Government policies and increasing price competition from new and existing umbrella manufacturers.

**Investments in group entities:** Despite the group restructuring, wherein investments in group entities are expected to be routed through the new investment holding company-Averana Venture, the Company may still provide some support to the group entities, which may exert further pressure on capital structure.

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

**Links to applicable criteria:** [http://www.icralanka.com/images/pdf/Corporate\\_Rating\\_Methodology\\_June\\_04\\_2019.pdf](http://www.icralanka.com/images/pdf/Corporate_Rating_Methodology_June_04_2019.pdf)

### About the Company:

Rainco is the manufacturing, marketing and Distribution Company with a growing global presence in the weather protection 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 recognized 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 Ventures (Pvt) Ltd, 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.

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