

ICRA Lanka assigns issuer rating of [SL]A+ for Metrocorp (Private) Limited

July 23, 2020

Instrument*	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	-	[SL]A+ (Stable) assigned

Rating action

ICRA Lanka Limited has assigned the Issuer rating of [SL]A+ (pronounced SL A Plus) with Stable outlook for Metrocorp (Private) Limited ("Metrocorp"/"the Company").

Rationale

ICRA Lanka has taken a consolidated view on Metrocorp (Pvt) Ltd and its subsidiaries as a conglomerate, given the significant operational and financial linkages among them. The rating primarily factors in Metrocorp's position as a conglomerate in Sri Lanka with the market leaderships in their core business sectors such as mini hydro power, agro industry, water management and leisure sectors.

ICRA Lanka also considers Metrocorp's promoters, experienced management team, the Company's professional setup and its good corporate governance practices as positives, which have complemented its business strengths. Cumulatively, these factors have enabled the Group to record healthy financial performance in the past, largely through prudent-organic growth. Metrocorp as the investment holding-company is not totally dependent on dividend upstreaming from its subsidiaries owing to healthy investment incomes from its liquid investment portfolio. Nevertheless, over the past several years, Metrocorp has up-streamed significant amount of dividends from its Power sector and therefore, Metrocorp at the standalone level currently has a strong capitalization metric with zero debt facilities. The rating takes into account the Group's strong financial profile, which is characterized by healthy Group profitability margins (PAT margin 23.10% in FYE March 19, vis -a-vis 40.2% in FYE March 18). The Group's capitalization metric at the consolidated level also remains strong with the gearing level of 0.32(x) as of March 31, 2019. This is largely attributable to the strong financial profile of Eco Power Holdings (Pvt) Ltd, in spite of weaker financial performance of the plantation sector over the past three years. The assigned rating draws comfort from the rating strengths of Eco Power Holdings (Pvt) Ltd as a leading mini hydropower producer in Sri Lanka and abroad. Although, Eco Power has strong Power Purchase Agreements (PPAs) in place with the state-owned Utilities for 15-20 years, 8 of the local PPAs had expired and the company is in the process of extending these for a further period of 20 years. Recently, the Company has renewed three of the expired PPAs in line with the tariffs previously envisaged. ICRA Lanka will monitor the renewal of the balance expired 5 PPAs at the envisaged tariffs. Metrocorp's healthy relationships with the global funds (such as Norfund, and Belgium Investment Company for Developing Countries SA/NV- BIO), access to financing options given the strong tie-ups with its foreign shareholders at the subsidiary levels, access to capital markets and better relationships with the financial institutions provide further comfort for the assigned rating. The Company's liquid investments of over LKR 3 Bn plus real estate and long-term investments of LKR 2 Bn and the Company's access to undrawn sanctioned lines also provide comfort on the overall liquidity position.

These rating strengths are partly offset by Metrocorp Group's business diversification risks as Power and Plantation Sectors collectively account for 95% of the consolidated revenue of Metrocorp Group in FY2019. However, this risk is mitigated to a larger extent by the vertical diversifications into overseas markets, with

over 25% of the Group revenue being currently derived from overseas/export markets. The Group's power sector currently plans to aggressively expand their operations into Africa and East Asian Region, although these investment plans have not been fully crystallized as they are in various stages of development. Notwithstanding the Group's expertise in this sector and the strong tie-ups with the global financing partners, the ability of the management to successfully manage and implement these proposed projects remains to be monitored periodically in the future. The financial performance of the Plantation sector has moderated sharply over the past three years. ICRA Lanka envisages that the ability of the Company to turnaround this sector, in the post COVID-19 Pandemic, is key in augmenting the overall performance of the Metrocorp Group. Metrocorp views its core businesses as independent operations-especially Bogawanthalawa Plantation Estates PLC and therefore these entities being solely responsible for meeting its capex needs and debt obligations; however, Metrocorp has extended financial support for its Group entities in past with the view of optimizing its returns on excess liquidity of the Metrocorp Group.

Outlook: Stable

The Stable outlook reflects ICRA Lanka's expectations that Metrocorp Group would perform well in the long term amidst the favourable industry outlooks in its core business sectors.

Key Rating Drivers

Credit strengths

Well experienced promotor and the management team; The assigned rating considers favourably the experiences of the management team and the Group's strong operational track record, which have enabled the Group to record healthy growth in revenues and profits over the past several years. ICRA Lanka also draws comfort from the experience of the promoters, who are actively engaged in the strategic decision making process of the Group companies and the reputation in the industry, which have helped the Group to enjoy steady access to funding, from the capital markets, foreign investors, and financial institutions, both local and multilateral, that have supported its organic growth over the years amidst the Company's prudent investment philosophy. The Company's corporate governance structure adds further comfort for the assigned rating.

The Group's healthy partnerships with the global funds/foreign shareholders: Given the Company's carbon neutrality objectives and sustainable business practices, the Metrocorp Group has been able to maintain healthy partnerships with Global funds (such as NorFund, BIO) that have already helped the Power Sector to access concessionary funding facilities for its overseas expansions. Since its inception, the Group has been maintaining strong strategic-tie-ups with its foreign Investors and who are currently represented at the subsidiary levels of the Metrocorp Group. This together with the Group's access to the capital markets with a listed entity in the Group (Bogawantalawa Tea Estates PLC/BTE) provides comfort for the Company's ability to raise additional capital in the future.

The Company's core business sectors are market leaders in their industries; The Group's Power sector is the largest mini hydropower producer in Sri Lanka with over 36 MW installed capacity, supplying power to the National Grid. The Company's Magalgage MHPP (9.9 MW) is the only tunnel MHPP project that was undertaken by a private company in Sri Lanka. In addition, Eco Power currently has two operational SHPPs in Uganda, with the total power generation capacity of 12 MWs. Eco Power is also the first Sri Lankan Company to expand into Uganda in 2009 with its first overseas small hydropower project- Ishasha SHPP. Therefore, ICRA Lanka takes note of the rating strengths of Eco Power Holdings (Pvt) Ltd as a leading mini hydropower producer in the island with strong PPAs for 15-20 years with the state-owned Ceylon Electricity Board (CEB). However, Eco power had eight local PPAs, which had expired over the past few

years (albeit all these MHPPs are currently supplying power to the National Grid). Noting that three of these expired PPAs have already been signed in line with the tariffs previously envisaged, ICRA Lanka will monitor the renewal of the rest of the expired PPAs at favourable tariffs. Bogawantalawa Tea Estates PLC - the Group's plantation sector is one of the leading Regional plantation companies (RPCs) in Sri Lanka, predominantly with business exposure in the High Grown premium tea market. ICRA Lanka views positively the Bogawantalawa tea, which is synonymous with high quality Ceylon Tea (High Grown tea) and the leading position in the Sri Lankan tea plantation industry. ICRA Lanka also takes note of the Company's other business segments - including the Water Management (with the recent investments undertaken in early CY2020 of a USD 20 million USD based fully funded from bilateral foreign party for the Supply and Installation of Mechanical & Electrical Equipment and Scada System Kandy North - Pathadumbara Integrated Water Supply Project), Asset Management, E&M Consulting, Leisure (with Ceylon Bungalows) business segments, which are expected to perform well going forward, given the synergistic benefits within the Group of Companies.

The favourable long term outlook for key sectors; the Group's power sector currently remains as the core business of the Metrocorp Group. Going forward, the Power sector intends to further expand aggressively into other markets in the African continent and South East Asian Region. However, these investments have not been fully crystallized amidst pending approvals for these expansions. The approvals and the commissioning of these projects are expected to be further delayed owing to the spread of COVID-19 Pandemic. The plantation sector is currently dependent on the tea sector (high grown tea), in the absence of business diversifications into other crops in the past. Going forward, BTE intends to diversify gradually into other crops such as spices, oil palm and organic tea. These diversification projects (especially for the proposed power projects) are long term in nature and therefore, Metrocorp's capital commitment for these expansion projects are limited to an extent, as these projects are largely being funded at the subsidiary company levels. Nevertheless, given the healthy relationships with the financing partners, Metrocorp, is in a better position to efficiently manage/optimize its capital layouts for these expansions at favourable terms.

Healthy financial performance with a strong capital structure; liquidity available in the form of liquid investments; Since Metrocorp (Pvt) Ltd (at the standalone level) has no independent operations, the revenue streams are generally dependent on the dividend upstreaming from investee-companies. However, this risk is mitigated to a greater extent by the healthy interest incomes from the Company's liquid investment portfolio. Currently, Metrocorp has short term investments, totalling to ~LKR 3.0 Bn and these are largely invested in fixed deposits, unit trusts and short term equity investments. The Company generally funds its investments largely through preserved capital (at the standalone level), rather than leveraged investments. This has helped Metrocorp (Pvt) Ltd to maintain a very healthy capitalization metric (gearing is nil) at the standalone level amidst the healthy internal accruals without significant debt facilities.

The rating takes into account the Group's stronger financial profile, which is characterized by the healthy Group profitability margins (PAT margin 23.10% in FYE March 19, vis -a-vis 40.2% in FYE March 18). The capitalization metrics at the consolidated level also remain strong with the gearing level of 0.32(x) as of March 31, 2019. The Group ROCE stands at 14.2% and 16.3% in FY2019 and FY2018 respectively albithe the weaker financial performance of the plantation sector during these periods. The debt service indicators at the consolidated level are comfortable with OPBDITA/Interest & Finance Charges at 3.8(x) in FY2019. However, the Group's working capital intensity has increased over the past three years amidst the increasing trade receivables from the Power sector. Hence, ICRA Lanka will continue to monitor the ability of the management to recover these payments (~LKR 700 Mn) after the successful renewal of expired PPAs with the CEB as envisaged.

Credit challenges

The company faces risks of revenue concentrations from the core business segments, albeit currently ongoing diversification initiatives. The Group generally has maintained a prudent investment strategy over the past several years and therefore, the sector – wise business diversification of Metrocorp Group is largely limited to the power and plantations sectors, which have contributed ~95% of the Group’s revenue in FY2019. This lends less diversity to revenue streams and exposures the revenues to risk of concentration/high dependence on these sectors. However, this risk is mitigated to a greater extent by vertical diversification through overseas expansions of the Power sector as well as diversification initiatives under the plantation sector into other crops such as oil palm and spices. Recently, Metrocorp has invested in new synergistic sectors, such as Water Management and Leisure sectors and therefore, the ability of the management to successfully achieve the profitability targets of these sectors as envisaged remains to be reviewed in the future.

Group’s exposure to foreign currency and other macroeconomic volatility; Since Metrocorp Group’s core business sectors are market leaders of their industries, the macro economic conditions such as volatile interest rates, depreciation of Sri Lankan rupee and other policy directives applicable to core business sectors would likely have an impact on the overall performance of the Group. However, as over 25% of the group revenues are derived from outside of Sri Lanka, the risks in relation to the local macro conditions, are mitigated to an extent.

Under performance of the Plantations Sector: Given Metrocorp Group’s sustainability/carbon neutrality objectives, the Plantation sector remains a strategically important sector to the Metrocorp Group. Bogawantalawa Tea Estates PLC (BTE) (rated BBB+, with Negative Outlook by ICRA Lanka) is a one of the leading Regional Plantation Companies (RPCs) in Sri Lanka. Metropolitan Resource Holdings PLC (MRH), a fully owned subsidiary of Metrocorp (Pvt) Ltd is the plantation agent of Bogawantalawa Tea Estates PLC. Notwithstanding the favourable plantation industry outlook in the post COVID-19 Pandemic, BTE’s financial performance during FY2019 and 9MFY2020 has deteriorated significantly due to negative industry outlook that prevailed during past three years. BTE has recorded a PAT of LKR 41Mn in FY2018, a net loss of LKR 45 Mn in FY2019 and a net loss of LKR 249 Mn in 9MFY2020. BTE’s capital structure has moderated on account of declining profitability margins and relatively high debt levels. Therefore, ICRA Lanka envisages that the ability of the Company to turnaround this sector is key in augmenting the overall performance of the Metrocorp Group.

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

Links to applicable criteria: <https://www.icralanka.com/issuer-rating-methodology/>

About the Group:

Metrocorp (Pvt) Ltd, formerly known as Metropolitan Investment (Pvt) Ltd, was established in 1994. Today, Metrocorp Group has diversified into several businesses such as Agro Industries, Plantations, Hydro power, Water management and Environment, Office Automation and Leisure Sectors. The company’s core business segments such as plantations and power segments are the market leaders in their industries. The Power segment (through Eco Power Holdings (Pvt) Ltd), is the largest operating profit contributor of Metrocorp Group. Going forward, Eco Power Holdings (Pvt) Ltd intends to expand its operations rapidly in the overseas market, particularly in the African region. Eco Power has a total installed capacity of 50 MW of which 37 MW installed capacity (12% of Sri Lanka’s installed mini hydro power capacity) is based in Sri Lanka, while the balance is in overseas projects. The Group’s plantation segment – Bogawantalawa Tea

Estates PLC (BTE) (rated at BBB+, with Negative Outlook by ICRA Lanka), is one of the leading Regional Plantation Companies (RPCs) in Sri Lanka, predominantly in the high grown premium tea market. BTE's tea estates are located in the Golden valley of Sri Lanka, which is a globally famous tea plantation estates for premium tea industry. Metrocorp has recently diversified its businesses into synergistic businesses such as water management/consultancy and leisure sectors. Currently, under the leisure sector, Metrocorp group manages 40 tourism related Ceylon Bungalows based in their tea estates (with sizable investments currently underway). The group has continuously expanded its businesses through organic as well as inorganic growth strategies. Metrocorp Group, including BTE, currently had an asset base of LKR 23.4 Bn and consolidated revenues of LKR 7.20 Bn in FY2019.

Key financial indicators (audited)

Revenue and profitability indicators-Figs are in LKR Mn	FY16	FY17	FY18	FY19
(Consolidated Level)				
Operating Income	2,618.2	1,650.7	4,346.5	7,132.8
OPBDITA	1,861.7	956.0	1,417.0	1,898.2
PAT	1,949.0	910.7	1,749.3	1,649.8
ROCE (%)	20.6%	9.8%	16.3%	14.3%
NWC / OI (%)	11.4%	21.7%	21.1%	21.5%
Total Debt	1,832.3	2,547.6	4,353.8	4,624.7
Networth	9,794.8	10,593.4	12,724.9	14,315.7
Gearing (x)	0.19	0.24	0.34	0.32
OPBDITA/Interest & Finance Charges(x)	14.90	9.29	5.42	3.81
Total Debt/OPBDITA (x)	0.98	2.66	3.07	2.44

Note:-Metrocorp group has partly consolidated the financial performance of BTE during FY2018

Rating history for last three years

Instrument	Amount Rated (LKR Mn)	Current Rating	Chronology of Rating History for the last 3 years		
			FY2020	FY2019	FY2018
			July-20		
Issuer rating	N/A	[SL]A+ (Stable)	N/A	N/A	N/A

ANALYST CONTACTS

Mr. Danushka Perera,
+94 11 4339907
danushka@icralanka.com

RELATIONSHIP CONTACT

Mr. W. Don Barnabas
+94 11 4339907
wdbarnabas@icraindia.com



Subsidiary of
ICRA Limited

CORPORATE OFFICE
Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka
Tel: +94 11 4339907; Fax: +94 11 2333307
Email: info@icralanka.com; Website: www.icralanka.com

© Copyright, 2020 ICRA Lanka Limited. All Rights Reserved.
Contents may be used freely with due acknowledgement to ICRA Lanka.

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on ICRA Lanka ratings outstanding. All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents.