



CREDIT RATING RATIONALE

CORPORATE RATINGS

January 2015

Analysts:

Lead

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Principal Activity:

Hand protection,
purification,
transportation,
agriculture, plantations,
textiles, construction
materials, fibre,
consumer, industry
solutions, power and
energy, leisure and
aviation.

Ratings:

Long-term: AA-
[Reaffirmed]
Short-term: P1
[Reaffirmed]

Instrument:

(i) LKR 2.0 billion
Senior, Unsecured,
Redeemable
Debentures
(2013/2016)

HAYLEYS PLC

- Credit Update

Methodology Used: LRA - Corporate Profile Rating

Summary

Lanka Rating Agency ("LRA"), former RAM Rating Lanka's, technical partner is CRISIL India ("CRISIL"). CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. CRISIL is India's leading ratings agency and is also the foremost provider of high-end research to the world's largest banks and leading corporations. CRISIL's majority shareholder is Standard and Poor's ("S&P"). S&P, a part of McGraw Hill Financial (formerly The McGraw-Hill Companies) ("NYSE:MHI"), is the world's foremost provider of credit ratings.

LRA reaffirms Hayleys PLC's ("Hayleys" or "the Company") long- and short-term corporate credit ratings at AA- and P1 respectively. Concurrently, LRA also reaffirms the long-term issue rating of AA- to the Company's issued LKR 2.0 billion Senior, Unsecured, and Redeemable Debentures (2013/2016). Furthermore, LRA also assigns an initial preliminary issue rating of AA- to the Company's proposed LKR 2.0 billion Senior, Unsecured, Redeemable Debentures (2015/2020). All long-term ratings are recommended to carry a stable outlook.

Hayleys is a diversified conglomerate with wide ranging business interests in hand protection, purification, transportation, agriculture, plantations, textiles, construction materials, fibre, consumer, industrial solutions, power and energy together with leisure and aviation. (Hayleys, along with its subsidiaries will collectively be referred to as "Hayleys Group" or "the Group")

(ii) Proposed LKR 2.0 billion Senior, Unsecured, Redeemable Debentures (2015/2020)

Ratings:

(i) AA- [Reaffirmed]

(i) AA- [Assigned]

Rating Outlook:

Stable

Coupon Rates:

(i) 14.25% p.a (payable quarterly)

(ii) Type A: 7.74% p.a. (payable semi-annually)
Type A: 8.00% p.a. (payable semi-annually)

Last Rating Action:

December 2013

The ratings reflect the following strengths:

• **Diversified business Interests**

LRA observes that Hayleys is a well-diversified conglomerate with a widespread array of revenue contributions stemming from a number of key sub-sectors. The Group does not place significant reliance on any single sub-sector, as evidenced from its revenue composition, with no sub-sector accounting for more than 20% of the Group's total revenue. Hayleys' business portfolio is divided into its three major sectors, namely, global markets and manufacturing, agriculture and plantations and services. The diversification has allowed the Group to withstand the adversities affecting a particular industry sector, as weaker showings in one business line can be off-set by the strong performance in another.

• **Strong market positions in business lines**

The Group continues to hold strong market positions in several of its key businesses. In purification, it is the largest producer of coconut shell based activated carbon in the world, with an estimated global market share of around 15%. Meanwhile, in the non-medical rubber gloves market the Group commands a global market share of around 5%. In the transportation industry, the Hayleys' subsidiary Hayleys Advantis Limited ("Advantis") is a strong player in the domestic logistics industry. In plantations, the Group is a significant player in the production of tea and rubber. In addition, Hayleys is also a strong player in aluminium extrusions manufacturing.

• **Adequate debt protection metrics**

The Group's gearing levels continued to remain stable during FY Mar 2014, with the gearing ratio being recorded at 0.71 times as at end-fiscal 2014 and end-fiscal 2013. Hayleys' total debts increased by 9.73% y-o-y, primarily to fund capacity expansion in its key business lines, and to satisfy the Group's higher working capital requirements. The gearing ratio increased slightly at 0.75 times as at end-1H fiscal 2015. Going forward, despite the issuance of the LKR 2.0 billion debenture, which is raised primarily to restructure the Group's gearing levels; Hayleys' gearing ratio is anticipated to hover at similar levels. Moreover, the Group's debt protection metrics also continues to be adequate. The Group's FFO improved 8.50% y-o-y to LKR 8.78 billion during fiscal 2014. Subsequently, the Group's FFO debt coverage remained stable at 0.34 times by end-fiscal 2014 and end-fiscal 2013. Moreover, the ratio improved to 0.37 times in 1H fiscal 2015 owing to a marked improvement in the Group's FFO.

The preceding strengths are however moderated by the following weaknesses:

- **Average liquidity levels**

The Group's liquidity position which improved in FY Mar 2014 with its LKR 2 billion debenture issue, however remains average compared to our similar rated peers; its cash and bank balances amounted to LKR 2.64 billion as at end- FY Mar 2014, compared to short term debts amounting to LKR 16.68 billion, which accounted for 64.44% of the Group's total borrowings (FY Mar 2013: 75.96%). This resulted in an improved CCE to short-term debt of 0.25 times (FY Mar 2013: 0.17 times), relatively average compared to our similar rated peers. Meanwhile, the Company's liquidity position declined marginally during 1H FY Mar 2015 on the back of an increase in short-term borrowings to LKR 18.77 billion, primarily raised to satisfy the Group's working capital requirements. Nevertheless, our concerns are somewhat mitigated given the Group's ability to obtain debt-financing through its strong relationships with banks, as well as the financial flexibility derived from the listed status of several of its key subsidiaries. Moreover, the proposed debenture issuance of LKR 2.0 billion, raised primarily to restructure the Group's short-term borrowings are expected to further improve the Group's liquidity position.

- **Vulnerable to volatilities in commodity prices**

The Group's key businesses are sensitive to fluctuations in commodity prices which in turn are governed by a range of factors including global supply, demand and weather conditions. For instance, the performance of the Group's plantation sector is directly correlated to the prices fetched by tea and rubber. Meanwhile, rubber and coconut are key inputs to the Group's hand protection and activated carbon businesses respectively. However, given the Group's backward linkages between the segments, this risk is somewhat mitigated (rise in the rubber prices will benefit plantation segment, though it will adversely impact the hand protection segment). Thus volatilities in the prices of these raw materials directly affect the Group's margins in the short term.

- **Exposure to foreign exchange ("forex") and environmental risks**

Hayleys is exposed to foreign exchange volatility given its reliance on international trading. A majority of the Group's sales are denominated in foreign currency while their costs are largely rupee denominated; any movements in exchange rate would have an impact on the profitability. That said, the Group's Central Treasury provides consultation to Group companies on minimising forex risk, thus mitigating this risk to a certain extent.

Corporate Information- Hayleys PLC

Date of Incorporation:	1953			
Commencement of Business:	1878			
Major Shareholders as at 30 September 2014:	KDD Perera	40.93%		
	SBL/ KDD Perera	4.53%		
	Trustees of DS Jayasundera Trust	11.60%		
	Hayleys PLC-Employees Share Trust	9.14%		
	Employees Provident Fund	4.09%		
	Vallibal One PLC	2.91%		
	Lanka Orix Leasing Company PLC	2.27%		
Directors:	AM Pandithage	Chairman/ Chief Executive		
	KDD Perera	Co- Chairman (Non-Executive)		
	MR Zaheed	Executive		
	WDNH Perera	Non-Executive		
	SC Ganegoda	Executive		
	HSR Kariyawasan	Executive		
	Dr H Cabral, PC	Independent/Non-Executive		
	Dr KIM Ranasoma	Executive		
	MDS Goonetilleke	Independent/Non-Executive		
	LT Samarawickrama	Executive		
	L R Waidyaratne	Executive		
	M.H Jamaldeen	Independent/Non-Executive		
Auditor:	Ernst & Young			
Listing:	Main Board of Colombo Stock Exchange			
Key Management (General Management Committee members)	AM Pandithage	HCS Mendis		
	MR Zaheed	Dr A Sivaganathan		
	SC Ganegoda	LDEA De Silva		
	HSR Kariyawasam	R. Rajadurai		
	Dr KIM Ranasoma	R. Goonetilleke		
	LT Samarawickrama	G A Dandeniya		
	R Waidyaratne	Ms D.S. Amerasinghe		
	J Wijesinghe			
Listed Subsidiaries:	Haycarb PLC	67.70%		
	Hayleys Fibre PLC	65.00%		
	Dipped Products PLC	55.17%		
	Hayleys MGT Knitting Mills PLC	82.80%		
	The Kingsbury PLC	58.40%		
	Amaya Leisure PLC	63.60%		
	Talawakelle Plantations PLC	27.40%		
	Kelani Valley Plantations PLC	39.10%		
	Alumex PLC	55.70%		
	Alufab PLC	62.48%		
	Hunas Falls Hotels PLC	56.30%		
Capital History:	Year	Remarks	Amount (LKR million)	Cumulative Total (LKR million)
	2014	Brought forward	-	1,575.00
			-	1,575.00

FINANCIAL SUMMARY

Hayleys PLC – Group

unaudited

STATEMENT OF FINANCIAL POSITION (LKR million)	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	30-Sep-14
Property, Plant & Equipment	24,445.60	31,013.72	37,431.89	38,483.91	41,864.80
Investments in Associates/Jointly-Controlled Entities	463.65	305.63	268.80	247.34	236.75
Deferred Tax Assets	197.24	239.30	352.21	397.60	393.71
Other Investments & Non-Current Assets	1,195.30	1,262.74	1,245.66	2,128.02	2,855.61
Goodwill & Intangible Assets	3,361.55	5,164.38	5,358.55	5,541.29	5,655.57
Total Non-Current Assets	29,663.33	37,985.78	44,657.11	46,798.15	50,806.43
Inventory	8,720.29	10,397.62	10,277.47	12,098.86	12,156.68
Trade Receivables	6,486.85	7,140.32	9,503.37	11,565.33	17,968.76
Other Current Assets	7,289.15	7,678.34	7,179.89	6,709.60	1,894.10
Amounts Due from Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due from Associates/Jointly-Controlled Entities	3.72	0.00	1.33	9.04	9.09
Cash & Bank Balances	1,487.23	1,755.42	2,125.51	2,637.71	2,484.19
Money Market Instruments	14.85	915.07	998.65	1,536.10	1,090.13
Total Current Assets	24,002.09	27,886.77	30,086.22	34,556.64	35,602.94
Total Assets	53,665.42	65,872.54	74,743.33	81,354.79	86,409.37
Equity Share Capital	1,575.00	1,575.00	1,575.00	1,575.00	1,575.00
Equity-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Reserves	9,788.11	7,104.33	9,888.65	9,911.33	9,695.84
Retained Profits/(Accumulated Losses)	4,282.89	9,692.41	10,788.13	12,236.71	13,114.00
Non-Controlling Interests	8,052.43	10,077.10	11,173.10	12,614.22	13,998.46
Total Equity	23,698.42	28,448.84	33,424.89	36,337.27	38,383.31
Short-Term Private Debt Securities	0.00	0.00	0.00	0.00	0.00
Amounts Due to Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due to Associates/Jointly-Controlled Entities	52.56	21.16	30.13	10.02	10.00
Other Short-Term Debts	12,153.63	16,516.61	17,892.26	16,671.20	18,762.62
Trade Payables	4,484.50	3,255.36	4,081.65	4,757.17	11,586.39
Taxation	399.05	297.51	571.36	373.34	381.35
Dividends Payable	0.00	80.06	76.17	96.83	0.00
Other Current Liabilities	3,602.41	6,454.95	6,892.07	7,279.64	483.90
Total Current Liabilities	20,692.16	26,625.65	29,543.64	29,188.20	31,224.26
Long-Term Liabilities	4,842.22	5,585.72	6,103.65	6,622.30	6,906.63
Debt-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Long-Term Private Debt Securities	0.00	0.00	0.00	0.00	0.00
Other Long-Term Debts	4,432.62	5,212.34	5,671.15	9,207.02	9,695.16
Total Non-Current Liabilities	9,274.84	10,798.06	11,774.80	15,829.32	16,801.79
Total Liabilities	29,967.00	37,423.70	41,318.44	45,017.52	48,026.05
Total Equity + Total Liabilities	53,665.42	65,872.54	74,743.33	81,354.79	86,409.37

FINANCIAL SUMMARY

Hayleys PLC – Group

UNAUDITED

STATEMENT OF COMPREHENSIVE INCOME (LKR million)	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	30-Sep-14
Revenue	54,224.60	65,806.71	74,301.85	80,554.11	45,496.47
Operating Profit(Loss) before Depreciation, Interest & Tax	3,887.17	5,287.04	7,999.71	8,792.10	4,631.35
Depreciation & Amortisation	(1,262.89)	(1,556.38)	(1,771.64)	(2,003.41)	(1,173.57)
Operating Profit(Loss) before Interest & Tax	2,624.29	3,730.66	6,228.07	6,788.69	3,457.78
Finance Costs	(1,209.66)	(1,512.90)	(2,694.13)	(2,407.60)	(1,252.99)
Debt-Related Foreign Exchange Gain(Loss)	196.85	(395.56)	340.95	(184.26)	0.00
Operating Profit(Loss) before Tax	1,611.48	1,822.20	3,874.89	4,196.83	2,204.79
Other Income(Loss)	374.31	734.89	1,041.34	875.93	504.84
Non-Recurring Items	(5.28)	0.00	0.00	0.00	0.00
Share of Associates/Jointly-Controlled Entities Profits/(Losses)	51.07	3.81	0.35	1.24	(1.46)
Pre-Tax Profit(Loss)	2,031.59	2,560.90	4,916.58	5,074.00	2,708.17
Taxation	(903.85)	(738.70)	(1,411.98)	(1,365.01)	(678.85)
Net Profit(Loss)	1,127.73	1,822.20	3,504.60	3,708.99	2,029.31
Other Comprehensive Income(Loss)	0.00	188.07	2,826.20	(165.24)	4.94
Total Comprehensive Income(Loss)	1,127.73	2,010.28	6,330.80	3,543.75	2,034.26
Additional Disclosure:					
Net Profit Attributable to Non-Controlling Interests	450.55	608.36	1,743.45	1,900.47	1,072.80
Dividends - Ordinary Shares & Preference Shares	536.27	300.00	337.50	375.00	0.00

unaudited

STATEMENT OF CASHFLOW (LKR million)	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	30-Sep-14
Pre-Tax Profit(Loss)	2,031.59	2,560.90	4,916.58	5,074.00	2,708.17
Adjustments	3,207.45	3,987.88	4,347.98	5,081.36	3,181.34
Operating Profit(Loss) before Working Capital Changes	5,239.04	6,548.78	9,264.55	10,155.36	5,889.51
Tax Paid	(748.49)	(1,065.72)	(1,175.68)	(1,379.16)	(604.64)
Funds from Operations	4,490.55	5,482.06	8,088.87	8,776.21	5,284.86
Changes in Working Capital	(1,847.14)	(2,684.83)	(375.69)	(2,676.90)	(1,628.00)
Other Income/(Expenses)	(230.43)	(344.78)	(416.61)	(498.36)	(262.76)
Net Cashflow from Operating Activities	2,412.98	2,472.45	7,296.56	5,600.95	3,394.11
Capital Expenditure	(2,934.93)	(5,053.43)	(5,148.90)	(3,453.47)	(2,705.13)
Free Operating Cashflow	(521.95)	(2,580.98)	2,147.66	2,147.48	688.98
Other Investing Outflows	(3,319.51)	(3,529.05)	(761.35)	(827.04)	(1,285.62)
Investing Inflows	1,594.40	3,469.63	1,225.29	590.62	285.75
Pre-Financing Cashflow	(2,247.06)	(2,640.41)	2,611.61	1,911.06	(311.09)
Interest Payments	(1,209.65)	(1,476.67)	(2,679.11)	(2,387.46)	(1,140.34)
Net Changes in Borrowings	2,205.28	552.55	8.11	5,000.17	220.68
Dividend Payments	(150.00)	(300.00)	(300.00)	(337.50)	(375.00)
Others	(95.00)	(438.57)	(983.87)	(837.84)	(600.52)
Net Increase/(Decrease) in Cash & Cash Equivalents	(1,496.44)	(4,303.0960)	(1,343.26)	3,348.43	(2,206.06)
Opening Cash Balance	(5,897.95)	(7,536.10)	(11,839.19)	(13,182.45)	(9,834.02)
Closing Cash Balance	(7,394.39)	(11,839.19)	(13,182.45)	(9,834.02)	(12,040.08)

FINANCIAL RATIOS

Hayleys PLC – Group

KEY RATIOS	unaudited				
	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	30-Sep-14
PROFITABILITY (%):					
OPBDIT Margin	7.17%	8.03%	10.77%	10.91%	10.18%
OPBIT Margin	4.84%	5.67%	8.38%	8.43%	7.60%
Pre-Tax Profit Margin	3.75%	3.89%	6.62%	6.30%	5.95%
Net Profit Margin	2.08%	2.77%	4.72%	4.60%	4.46%
Return on Capital Employed	7.55%	8.90%	12.75%	12.32%	11.82%
CAPITALISATION (TIMES):					
Gearing Ratio	0.70	0.76	0.71	0.71	0.75
Net Gearing Ratio	0.64	0.70	0.64	0.64	0.68
Debt-Capital Ratio	0.41	0.43	0.41	0.42	0.43
DEBT COVERAGE (TIMES):					
Interest Coverage Ratio	3.84	2.77	3.40	3.39	3.70
OPBDIT Debt Coverage Ratio	0.23	0.24	0.34	0.34	0.32
Funds from Operations Debt Coverage Ratio	0.27	0.25	0.34	0.34	0.37
Operating Cashflow Debt Coverage Ratio	0.15	0.11	0.31	0.22	0.24
Free Operating Cashflow Debt Coverage Ratio	(0.03)	(0.12)	0.09	0.08	0.05
LIQUIDITY (TIMES):					
Current Ratio	1.16	1.05	1.02	1.18	1.14
Quick Ratio	0.74	0.66	0.67	0.77	0.75
Cash and Cash Equivalents to Short-Term Debts	0.12	0.16	0.17	0.25	0.19
Short-Term Debts to Total Debts (%)	73.36%	76.04%	75.96%	64.44%	65.48%
CASH CYCLE (DAYS)					
Receivables Cycle	43.66	39.60	46.68	52.40	72.08
Payables Cycle	38.14	22.66	25.98	28.11	59.44
Inventory Cycle	74.17	72.39	65.41	71.50	62.37
Operating Cash Cycle	79.69	89.33	86.12	95.79	75.00

OPBDIT = Operating Profit Before Depreciation, Interest & Tax

OPBIT = Operating Profit Before Interest & Tax

FINANCIAL RATIOS

Hayleys PLC – Group

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY (%)	
OPBDIT Margin	OPBDIT / Revenue
Adjusted OPBDIT Margin	Operating Lease-Adjusted OPBDIT / Revenue
OPBIT Margin	OPBIT / Revenue
Adjusted OPBIT Margin	Operating Lease-Adjusted OPBIT / Revenue
Pre-Tax Profit Margin	Pre-Tax Profit / Revenue
Net Profit Margin	Net Profit / Revenue
Return on Capital Employed	$(\text{Pre-Tax Profit} + \text{Finance Costs} + \text{Debt-Related Foreign Exchange Loss(Gain)}) / (\text{Total Debts} + \text{Total Equity})$
Adjusted Return on Capital Employed ¹	$(\text{Pre-Tax Profit} + \text{Operating Lease-Adjusted Finance Costs} + \text{Debt-Related Foreign Exchange Loss(Gain)}) / (\text{Total Adjusted Debts} + \text{Total Equity})$
CAPITALISATION (TIMES)	
Gearing Ratio	Total Debts / Total Equity
Adjusted Gearing Ratio	Total Adjusted Debts / Total Equity
Net Gearing Ratio	$(\text{Total Debts} - \text{Cash \& Bank Balances}) / \text{Total Equity}$
Adjusted Net Gearing Ratio	$(\text{Total Adjusted Debts} - \text{Cash \& Bank Balances}) / \text{Total Equity}$
Debt Capital Ratio	Total Debts / (Total Equity + Total On-Balance Sheet Debt)
Adjusted Debt Capital Ratio	Total Adjusted Debts / (Total Equity + Total Adjusted Debt)
DEBT COVERAGE (TIMES)	
Interest Coverage Ratio	$\text{OPBDIT} / (\text{Finance Costs} + \text{Preference Share Dividends} + \text{Interest Capitalised} + \text{Realised Debt-Related Foreign Exchange Loss(Gain)})$
Adjusted Interest Coverage Ratio	$\text{Operating Lease-Adjusted OPBDIT} / (\text{Operating Lease-Adjusted Finance Costs} + \text{Preference Share Dividends} + \text{Interest Capitalised} + \text{Realised Debt-Related Foreign Exchange Loss(Gain)})$
OPBDIT Debt Coverage Ratio	OPBDIT / Total Debts
Adjusted OPBDIT Debt Coverage Ratio	Operating Lease-Adjusted OPBDIT / Total Adjusted Debts
Funds from Operations Debt Coverage Ratio	Funds from Operations / Total Debts
Adjusted Funds from Operations Debt Coverage Ratio	Operating Lease-Adjusted Funds from Operations / Total Adjusted Debts
Operating Cashflow Debt Coverage Ratio	Net Operating Cashflow / Total Debts
Adjusted Operating Cashflow Debt Coverage Ratio	Operating Lease-Adjusted Net Operating Cashflow / Total Adjusted Debts
Free Operating Cashflow Debt Coverage Ratio	Free Operating Cashflow / Total Debts
Adjusted Free Operating Cashflow Debt Coverage Ratio	Operating Lease-Adjusted Free Operating Cashflow / Total Adjusted Debts
LIQUIDITY (TIMES)	
Current Ratio	$(\text{Current Assets} - \text{Amounts Due from Related Parties}) / (\text{Current Liabilities} - \text{Amounts Due to Related Parties})$
Quick Ratio	$(\text{Current Assets} - \text{Amounts Due from Related Parties} - \text{Inventory}) / (\text{Current Liabilities} - \text{Amounts Due to Related Parties})$
Cash and Cash Equivalents to Short-Term Debts	$(\text{Cash \& Bank Balances} + \text{Money Market Instruments}) / \text{Short-Term Debts}$
Short-Term Debts to Total Debts (%)	Short-Term Debts / Total Debts
CASH CYCLE (DAYS)	
Receivables Cycle	Trade Receivables / Revenue x 365
Payables Cycle	Trade Payables / Cost of Sales x 365
Inventory Cycle	Total Inventory / Cost of Sales x 365
Operating Cash Cycle	Receivables Cycle - Payables Cycle + Inventory Cycle
Adjusted ratios take into consideration non-cancellable operating leases and/or other liabilities excluded from statement of financial position, where applicable.	
¹ Include on-going, non-discretionary payments on hybrid securities, if any.	
OPBDIT = Operating Profit Before Depreciation, Interest & Tax	
OPBIT = Operating Profit Before Interest & Tax	



CREDIT RATING DEFINITIONS

Corporate Credit Ratings

A Corporate Credit Rating ("CCR") is Lanka Rating Agency's current opinion on the overall capacity of an entity to meet its financial obligations. The opinion is not specific to any particular financial obligation, as it does not take into account the expressed terms and conditions of any specific financial obligation.

Long-Term Ratings

AAA	An entity rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term CCR assigned by Lanka Rating Agency.
AA	An entity rated AA has a strong capacity to meet its financial obligations. The entity is resilient against adverse changes in circumstances, economic conditions and/or operating environments.
A	An entity rated A has an adequate capacity to meet its financial obligations. The entity is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.
BBB	An entity rated BBB has a moderate capacity to meet its financial obligations. The entity is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.
BB	An entity rated BB has a weak capacity to meet its financial obligations. The entity is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.
B	An entity rated B has a very weak capacity to meet its financial obligations. The entity has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.
C	An entity rated C has a high likelihood of defaulting on its financial obligations. The entity is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.
D	An entity rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardise the payment of financial obligations.

Short-Term Ratings

P1	An entity rated P1 has a strong capacity to meet its short-term financial obligations. This is the highest short-term CCR assigned by Lanka Rating Agency.
P2	An entity rated P2 has an adequate capacity to meet its short-term financial obligations. The entity is more susceptible to the effects of deteriorating circumstances than those in the highest-rated category.
P3	An entity rated P3 has a moderate capacity to meet its short-term financial obligations. The entity is more likely to be weakened by the effects of deteriorating circumstances than those in higher-rated categories. This is the lowest investment-grade category.
NP	An entity rated NP has a doubtful capacity to meet its short-term financial obligations. The entity faces major uncertainties that could compromise its capacity for payment of financial obligations.
D	An entity rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardise the payment of financial obligations.

For long-term ratings, Lanka Rating Agency applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the entity ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the entity ranks at the lower end of its generic rating category.





CREDIT RATING DEFINITIONS

Issue Ratings

An Issue Rating is Lanka Rating Agency's current opinion on the creditworthiness of a particular debt issue. It reflects the overall capacity and willingness of an issuer to meet the financial obligations on a particular debt issue on a full and timely basis, taking into account its expressed terms and conditions.

Long-Term Ratings

AAA

An issue rated AAA has a superior capacity to meet its financial obligations. This is the highest long-term Issue Rating assigned by Lanka Rating Agency.

AA

An issue rated AA has a strong capacity to meet its financial obligations. The entity is resilient against adverse changes in circumstances, economic conditions and/or operating environments.

A

An issue rated A has an adequate capacity to meet its financial obligations. The entity is more susceptible to adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories.

BBB

An issue rated BBB has a moderate capacity to meet its financial obligations. The entity is more likely to be weakened by adverse changes in circumstances, economic conditions and/or operating environments than those in higher-rated categories. This is the lowest investment-grade category.

BB

An issue rated BB has a weak capacity to meet its financial obligations. The entity is highly vulnerable to adverse changes in circumstances, economic conditions and/or operating environments.

B

An issue rated B has a very weak capacity to meet its financial obligations. The entity has a limited ability to withstand adverse changes in circumstances, economic conditions and/or operating environments.

C

An issue rated C has a high likelihood of defaulting on its financial obligations. The entity is highly dependent on favourable changes in circumstances, economic conditions and/or operating environments, the lack of which would likely result in it defaulting on its financial obligations.

D

An issue rated D is currently in default on either all or a substantial portion of its financial obligations, whether or not formally declared. The D rating may also reflect the filing of bankruptcy and/or other actions pertaining to the entity that could jeopardise the payment of the financial obligations.

Short-Term Ratings

P1

An issue rated P1 has high safety for payment of financial obligations in the short term. This is the highest short-term Issue Rating assigned by Lanka Rating Agency.

P2

An issue rated P2 has adequate safety for payment of financial obligations in the short term. The issuer is more susceptible to the effects of deteriorating circumstances than those in the highest-rated category.

P3

An issue rated P3 has moderate safety for payment of financial obligations in the short term. The issuer is more likely to be weakened by the effects of deteriorating circumstances than those in higher-rated categories. This is the lowest investment-grade category.

NP

An issue rated NP has doubtful safety for payment of financial obligations in the short term. The issuer faces major uncertainties that could compromise its capacity for payment of a particular debt issue.

D

An issue rated D is either currently in default or faces imminent default on its financial obligations, whether or not formally declared. The D rating may also reflect a distressed exchange, the filing of bankruptcy and/or other actions pertaining to the issuer that could jeopardise the payment of a particular debt issue.

For long-term ratings, Lanka Rating Agency applies signs plus (+), flat or minus (-) in each category from AA to C. The sign plus (+) indicates that the issue ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus (-) indicates that the issue ranks at the lower end of its generic rating category.



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