

## Hemas Delivers Strong Performance in Earnings Growth

### Performance Review for the Nine Months Ended 31<sup>st</sup> December 2024

#### Overview

The Group recorded earnings of Rs. 3.0 billion, a 36.3 percent growth in consolidated earnings for the quarter with revenue increasing by 6.4 percent to Rs. 33.2 billion and operating profit increasing by 25.7 percent to Rs. 4.9 billion. Revenue growth was evident across all sectors, as the Group's businesses leveraged efficiency improvements and enhanced competitiveness amid a cautiously rising consumer confidence. During the quarter, the net finance expenses of the Group decreased significantly by 47.4 percent to Rs. 271.2 million due to lower interest rates and the reduction of net debt as a result of improved cashflows.

Despite revenue shortfalls in the first two quarters, the Group achieved a significant revenue increase in the third quarter, reflecting the resilience and commitment of the Group to drive growth, resulting in a cumulative revenue of Rs. 87.6 billion. Cumulative earnings and operating profit increased to Rs. 5.5 billion and Rs. 9.9 billion, a growth of 20.9 percent and 12.5 percent respectively.

As part of its continuous efforts to enhance its IT infrastructure, the Group successfully completed the upgrade to the SAP RISE platform, during the quarter, marking the first implementation of its kind by a conglomerate in Sri Lanka. This enhancement will drive greater efficiencies, synergies and cost savings across the Group businesses.

Supported by the Group's strong performance in previous quarters and the positive market sentiment that boosted the Colombo Stock Exchange towards the end of the quarter, the company's share price closed at Rs. 103.25, reflecting a notable 32.2 percent growth for the quarter. In line with the company's commitment to delivering value to its shareholders, an interim dividend of Rs. 1.00 per share was declared on November 6, 2024, for the financial year ending March 31, 2025.

During the quarter, the Group's commitment to sustainable business practices and impactful environmental and social initiatives was recognised when it was named one of the Top 10 Best Corporate Citizens at the prestigious Best Corporate Citizen Sustainability Awards 2024, organized by the Ceylon Chamber of Commerce.

#### Operating Environment

In December 2024, Sri Lanka reached a significant milestone in its debt restructuring efforts, marking progress in resolving its first-ever external default and advancing toward economic stabilisation. The Government announced the successful completion of the International Sovereign Bond (ISB) restructuring, leading Fitch Ratings to upgrade Sri Lanka's credit rating from Restricted Default to CCC+, with Moodys also issuing a similar upgrade.

#### LKR Million

#### Quarterly Financial Snapshot

	FY25 Q3	Vs FY24 Q3	Vs FY25 Q2
Consumer Brands	16,054.9	4.0%	46.1%
Healthcare	16,657.5	8.7%	-4.5%
Mobility	518.7	12.6%	8.8%
Other	3.7	12.9%	50.0%
<b>Revenue</b>	<b>33,234.7</b>	<b>6.4%</b>	<b>15.0%</b>
<b>Gross Profit</b>	<b>11,005.7</b>	<b>11.7%</b>	<b>20.4%</b>
Gross Profit Margin	33.1%	1.6%	1.5%
<b>EBITDA</b>	<b>5,360.2</b>	<b>25.0%</b>	<b>50.4%</b>
EBITDA Margin	16.1%	2.4%	3.8%
<b>Operating Profit</b>	<b>4,863.6</b>	<b>25.7%</b>	<b>57.3%</b>
Operating Profit Margin	14.6%	2.2%	3.9%
Net Interest Cost	(271)	-47.4%	4.5%
Income Tax Expenses	(1,488)	41.0%	19.6%
<b>Earnings</b>	<b>3,026.2</b>	<b>36.3%</b>	<b>100.6%</b>

For the fifth consecutive quarter, Sri Lanka's GDP growth remained in positive territory, recording a 5.5 percent expansion, reflecting sustained economic momentum. Inflation continued to ease, with the Colombo Consumer Price Index (CCPI) experiencing a deflationary trend throughout the quarter, ending at 1.7 percent in December. This deflation was primarily driven by reductions in electricity tariffs, domestic fuel prices, and the moderation of volatile food prices amid subdued demand pressures. These conditions allowed for further interest rates reductions, leading to a decline in the Average Weighted Prime Lending Rate (AWPLR) to 9.06 percent by the end of the quarter. A sustained increase in foreign exchange inflows contributed to the continued appreciation of the Rupee, which strengthened to 292.6 against the United States Dollar by quarter end.

## Consumer Brands

Compared to the previous year, the appreciation of the Rupee and the decline in commodity prices have intensified competition within the industry, with several players offering a variety of consumer, shopper and trade promotions.

The Learning segment continued to be impacted by price competition and seasonality factors, with the new school term set to commence in late January.

Bangladesh's foreign exchange reserves strengthened due to strong export revenues and remittance inflows. However, the country is facing high inflation, reaching 10.9 percent in December, with food inflation particularly affecting households. In response, the government has reduced import duties on key commodities to curb price hikes and address shortages.

Driven by improving consumer sentiment, the sector witnessed moderate growth in volumes during the quarter, resulting in a marginal increase in revenue by 4.0 percent to Rs.16.1 billion. This growth in revenue combined with efficiency improvements contributed to increases in operating profits and earnings, recording Rs. 3.2 billion and Rs. 2.3 billion respectively.

For the year, the cumulative revenue was Rs. 35.9 billion with operating profits of Rs. 5.7 billion and earnings of Rs. 4.1 billion.

## Home and Personal Care

Despite the challenges posed by downward price movements, the business has successfully maintained market shares across most categories, achieving marginal growth in a number of categories, along with improved profitability. The beauty categories experienced a significant volume growth compared to the same quarter last year. While the home care segment saw a decline in market share due to increased demand for generic products in price-sensitive segments, the personal care segment experienced volume-led growth compared to the same quarter last year. The drive to introduce innovative offerings to beauty and personal care consumers continued, with the launch of Vivya sunscreen and Vitamin C range, as well as Velvet body wash Naturals range. Additionally, the relaunch of Velvet soap, with improved product attributes and packaging, has gained strong momentum.

In response to evolving market dynamics, the business launched several successful marketing and promotional initiatives, including the innovative *Kumarika Hair Play Studio*. This initiative has gained traction with its mobile truck-based salon concept, offering personal care products directly to consumers in a distinctive and engaging manner.

## Learning

With the easing of import restrictions and the stabilisation of the Rupee, the stationery market experienced added competition with an influx of new entrants offering products at lower price points and varying quality. In response, several initiatives were launched to create a unique and innovative point of difference, such as the re-launch of its "Innovate" range, which had a positive impact on brand recognition, customer loyalty, and overall market positioning.

### *Consumer Brands International*

Despite the challenges posed by rising inflation and increased price sensitivity, which have led many consumers to seek more affordable alternatives, 'Kumarika', the flagship Value-Added Hair Oil (VAHO) product has successfully maintained its market share. This achievement can be attributed to the product's strong customer loyalty and consistent repeat purchases.

### **Healthcare**

The Healthcare industry has been gaining momentum and recovering from the downturn experienced during the economic crisis. The trend of consumers increasingly seeking more affordable options continued throughout the quarter under review.

The sector recorded an 8.7 percent growth in quarterly revenue amounting to Rs. 16.7 billion with operating profits increasing to Rs. 1.6 billion and earnings growing to Rs. 0.9 billion. Although the cumulative revenue was marginally below the previous year at Rs. 50.2 billion, operating profits and earnings grew to Rs. 4.4 billion and Rs. 2.8 billion respectively.

### *Pharmaceuticals*

During the quarter, the Pharmaceutical Distribution business reinforced its market leadership and commitment to delivering innovative healthcare solutions by onboarding Vexxa Lifesciences and Aculife. Both partners operate in underleveraged areas of strategic interest, further strengthening our position in the market.

Having successfully fulfilled all government orders for 2024, the Pharmaceutical Manufacturing business secured an extension to the buyback agreement for 2025, with new orders already confirmed. Driven by a commitment to innovation and expanding its branded product line, the company unveiled 'CliniMor'—a new solution for the treatment of hypertension.

Cash flows in this segment remain robust, driven by effective working capital management, particularly through improved debt collections. Additionally, the implementation of productivity enhancements and cost rationalisation initiatives enabled the business to achieve improved margins and increased earnings.

### *Hospitals*

While outpatient revenue has seen a steady increase, inpatient revenue experienced a decline due to lower admissions, which was a trend observed across the market.

Plans for expansion at the two hospitals in Wattala and Thalawathugoda are progressing, with the planned acquisition of land for the expansion of the Thalawathugoda hospital being completed, marking a key milestone in our growth strategy.

In recognition of its operational efficiency and patient-centric strategies, Hemas Hospitals was honoured with the prestigious Business Excellence Award at the recently concluded Asian Hospital Management Awards held in Bali, Indonesia.

### **Mobility**

During the quarter, both freight rates and volumes saw significant increases in the import and export operations compared to the previous year. This led the Maritime segment to achieve a notable rise in cumulative revenue, despite the appreciation of the Rupee during the period.

In the Aviation segment, cargo revenue grew due to higher yields and expanded market share. However, passenger revenue faced a decline due to intense fare competition among key players.

Additionally, Emirates SkyCargo (CMB) was recognized for its outstanding service and major contributions to Sri Lanka's logistics sector, receiving the prestigious Gold Award in the Airline Category at the 2024 National Logistics Awards, hosted by the Sri Lanka Logistics and Freight Forwarders Association.

The sector reported revenues of Rs. 518.7 million for the quarter which is a growth of 12.6 percent. Operating profits increased by 23.2 percent to Rs. 344.5 million and earnings grew by 15.7 percent to Rs. 166.7 million. Cumulative revenue for the sector was Rs. 1.5 billion, which is a growth of 17.1 percent with operating profits growing by 42.6 percent to Rs. 1.1 billion and earnings increasing by 35.3 percent to Rs. 544.8 million.

### **Commitment to Sustainability**

During the quarter, Hemas continued its focus on achieving its Environmental Agenda goals. The Group recorded a notable milestone in its efforts to combat plastic pollution, collecting over 1.2 million kilogrammes of plastic waste to date, demonstrating its commitment to the responsible consumption of plastic and its 2030 target of collecting 100 percent of its plastic waste. Additionally, water intensity was reduced to 1.3 m<sup>3</sup> per Rs. million in revenue, marking a 15.6 percent reduction compared to Q3 of FY 24. Renewable energy usage reached 9.9 percent of total energy consumption, reflecting a 126.5 percent increase compared to the same quarter last year, as the Group works toward its goal of sourcing 25 percent of its energy from renewable sources.

The Group also made significant strides in empowering communities through its social initiatives, positively impacting over 49,000 families during the quarter and addressing pressing societal needs. Hemas Outreach Foundation expanded its early childhood education network, with the construction of its 69<sup>th</sup> Piyawara Preschool in Matikotuwa, Dankotuwa. The preschool is equipped to support 50 children at a time, furthering the Foundation's mission of providing quality early childhood education across Sri Lanka. In addition, the Hemas Outreach Foundation successfully hosted its 23<sup>rd</sup> consecutive annual Piyawara Teacher Training Programme, bringing together 150 teachers for a three-day residential programme.

### **Outlook**

The completion of the debt restructuring process and the removal of the Restricted Default status will facilitate foreign investors re-entering the market, bringing much-needed investment to Sri Lanka.

Following the successful conclusion of the Presidential and General elections, the new government has received a strong mandate, which paves the way for policy stability and the implementation of critical structural reforms aimed at accelerating economic recovery. These developments are vital in restoring financial stability, regaining investor confidence, and setting the stage for sustainable growth in the future.

Additionally, the recent reduction in electricity tariffs will provide relief to both businesses and consumers, and the proposed Pay As You Earn (PAYE) tax concessions are expected to boost disposable incomes, further stimulating consumer spending.

With a diversified portfolio of quality-driven products and services in both the consumer and healthcare sectors, the Group is well-positioned to capitalize on the expected rebound in consumer sentiment and the broader economic recovery. As the market conditions improve, we remain focused on meeting evolving consumer needs while ensuring long-term growth and value creation.

**Ravi Jayasekera**

**Acting Chief Executive Officer**

**February 06, 2025**

**Colombo**