



First Capital
A Janashakti Group Company

EQUITY | SRI LANKA | CAPITAL GOODS

EARNINGS UPDATE | 13 Aug 2025

HEMAS HOLDINGS PLC [HHL.N0000]

DOWNGRADE TO HOLD

“FROM GROWTH TO STABILITY – TIME TO PAUSE”

Fair Value: FY26E - LKR 30.0 [-2%]

Total Return with DPS: FY26E - +1% [AER - +1%]

Fair Value: FY27E - LKR 36.0 [+17%]

FY27E - +21% [AER +12%]

HHL reported robust 26.1%YoY earnings growth to LKR 1.2Bn in 1QFY26, surpassing FCR expectations, driven by margin expansion in the Healthcare segment and lower finance costs. The Healthcare segment posted strong revenue and earnings growth of 20.2%YoY and 26.8%YoY, respectively, supported by broad-based contributions, particularly from Pharmaceutical Manufacturing. The Consumer Brands segment delivered a 13.6%YoY earnings increase despite a 2.6%YoY revenue decline, off a low base. However, FCR believes the Consumer Brands segment has largely peaked, constrained by a mature portfolio and competitive pressures, while Healthcare, though promising, faces significant regulatory risks that could compress margins despite volume stability. With updated fair value estimates at LKR 30.0 for FY26E and LKR 36.0 for FY27E, and the stock currently trading at LKR 30.7, we see limited upside potential. Given the combination of maturity in core segments, regulatory uncertainties, and valuation nearing fair value, FCR recommends investors retain the stock and issues a **DOWNGRADE TO HOLD**.

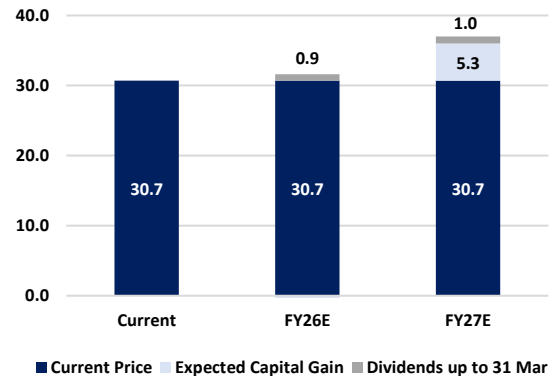
LKR (Mn)	1QFY25	1QFY26	YoY	FY24	FY25	YoY
Earnings (LKR 'Mn)						
Revenue	25,476	28,526	+12%	121,614	117,970	-3%
Gross profit	7,610	8,601	+13%	35,997	37,073	+3%
EBIT	1,930	2,064	+7%	11,921	13,707	+15%
PBT	1,716	1,952	+14%	9,468	12,729	+34%
Net Profit-Equity holders	946	1,192	+26%	6,109	8,057	+32%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	42,554	48,842	+15%	43,432	49,780	+15%
Borrowings	11,104	7,352	-34%	11,295	7,556	-33%
NAVPS	14.2	16.4		14.5	16.7	

Consumer Brands segment revenue down -2.6%YoY; earnings up 13.6%YoY, off a low base

Despite a 2.6%YoY revenue decline, the Consumer Brands segment delivered a 13.6%YoY earnings growth to LKR 665.6Mn, off a relatively low base. The improvement was underpinned by portfolio mix optimization, continued cost rationalization, and lower net finance expenses. However, revenue performance remained subdued due to the lagging impact of price reductions implemented in response to input cost deflation, while EBIT margins compressed to 8.3% from 9.2% in 1QFY25, indicating rising pressure on operating efficiency. Beauty and Personal Care showed encouraging volume recovery, but this was offset by weaker performance in Personal Wash and Home Care, suggesting inconsistent consumer demand across categories. In the international segment, while Bangladesh's stabilizing macroeconomic environment supported short-term performance, the imposition of a 20% reciprocal U.S. tariff on Bangladeshi exports introduces uncertainty and potential downside risk to export-driven growth. In the learning segment, Atlas maintained its market leadership across major categories, with most of the segments reporting YoY revenue growth for the quarter and gradual expansion of its product portfolio. Looking ahead, FCR maintains a cautious outlook on the segment. With a largely mature product portfolio and intensifying competition, significant topline growth appears increasingly constrained. While recent cost rationalization efforts may allow for some margin recovery and stabilization, the scope for further margin expansion may be limited without stronger volume-led growth or new category breakthroughs. In this context, the segment is expected to grow at a slower, more incremental pace, reliant on tactical gains rather than structural growth drivers.

Healthcare segment earnings up 26.8%YoY, driven by strong performances in all sub-categories

The Healthcare segment delivered a strong performance in 1QFY26, with revenue up 20.2%YoY and earnings rising 26.8%YoY to LKR 1,050.2Mn, supported by broad-based contributions across all sub-segments. Pharmaceutical Distribution and Manufacturing recorded solid profitability gains, driven by robust topline growth, margin expansion, and operational efficiencies. The transfer of Morison's distribution business to Hemas Pharmaceuticals enhanced focus on core manufacturing and improved segmental synergies. In the Hospitals sub-segment, performance was supported by service expansion, including the launch of Hemas Health Plus in Wattala and the introduction of advanced diagnostics like the Echosens FibroScan system. While these additions strengthen the value proposition and support incremental growth, meaningful volume expansion is unlikely in the near term due to the specialized nature of services. Looking ahead, FCR believes the Healthcare segment stands to benefit from a greater contribution by Pharmaceutical Manufacturing, which is well-positioned for scale, supported by its strategic focus on high-growth therapeutic areas such as cardiovascular, lipid, and blood pressure management. These categories offer strong margin potential, which, coupled with ongoing operational discipline, positions the segment to contribute meaningfully to group profitability. 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. It is encouraging to note that the buyback quotas are now allocated in an equitable manner providing a fair opportunity and a level playing field for all. However, the recent regulatory changes introduced under Gazette No. 2446/34, imposing price ceilings on pharmaceutical products pose downside risks to margin sustainability and revenue realization. With market-based pricing now constrained, the ability to pass through cost escalations may be limited, potentially pressuring margins despite underlying volume growth. Additionally, the Cabinet of Ministers has approved a new methodology for procuring pharmaceuticals and medical appliances through government-to-government agreements, which could also place some pressure on HHL's business. As such, while the segment is structurally well-positioned, earnings visibility could become more challenged in a tighter regulatory environment.



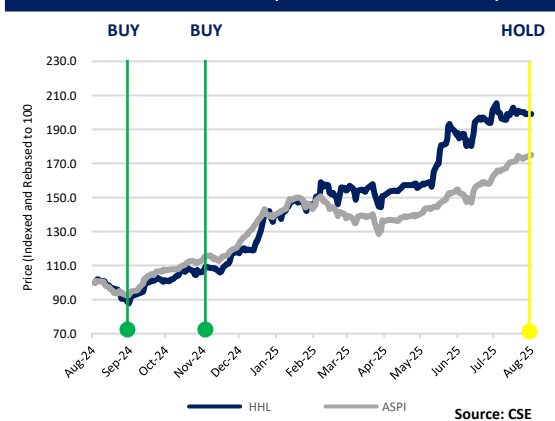
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Price Movement of HHL vs ASPI (Indexed and rebased to 100)



Minimum Return for BUY:

Buy Below for FY27E [AER of 15.0% with DPS]: LKR 29.5
HHL categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HHL during the five trading days prior to the issuance of this document

Key risks associated with our recommendation

Downside risks

- Unfavorable government regulations
- Stiffening competition
- Gradually increasing inflation levels
- Interest and exchange rate risks

Upside risks

- Greater than anticipated volume growth due to economic recovery
- Geographic diversification via expansion to overseas operations

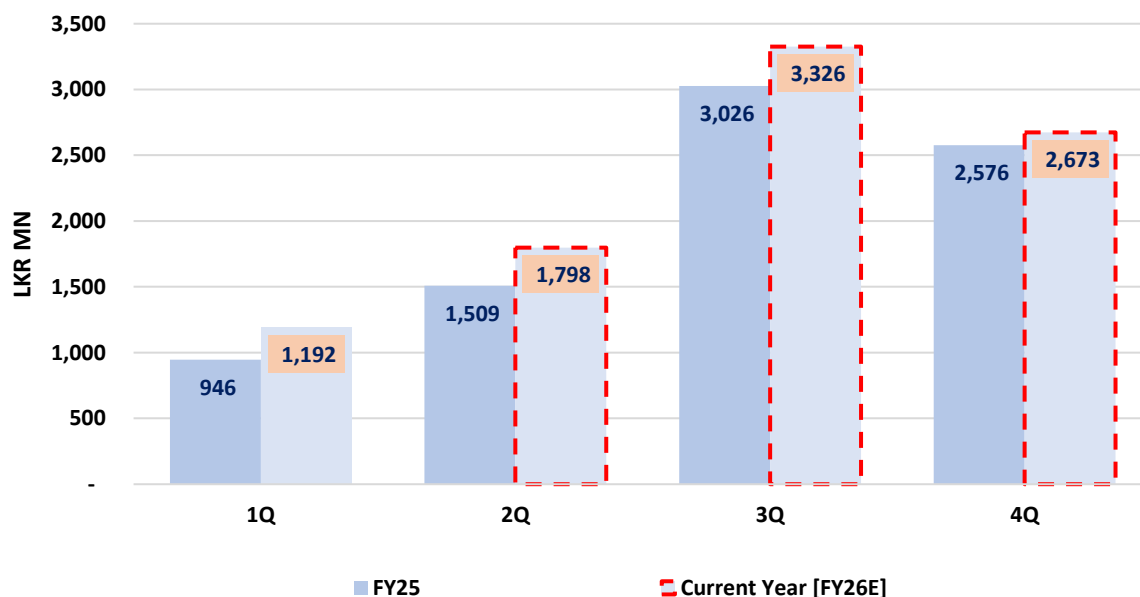


Fair value for FY27E at LKR 36.0 - DOWNGRADE to HOLD

FCR believes that HHL has largely reached its intrinsic value, with the Consumer Brands segment operating at or near full potential, constrained by a mature product portfolio, limited geographic diversification, and persistent margin pressure due to intense competition. While management’s intentions to scale overseas operations are noted, we view the near-term contribution from such initiatives as limited. In contrast, the Healthcare segment, particularly Pharmaceutical Manufacturing continues to show long-term promise, supported by high-margin product offerings and strategic focus on fast-growing therapeutic areas such as cardiovascular and metabolic health. The successful extension of government buyback agreements provides greater visibility on volume stability; however, the segment remains notably exposed to regulatory actions, which could compress margins even amid steady volume growth. On balance, while we have revised our FY26E and FY27E earnings forecasts upward due to lower net finance costs and a modest uplift in healthcare segment margins, the overall growth trajectory appears limited. Our updated fair value estimates stand at LKR 30.0 for FY26E and LKR 36.0 for FY27E. With the share currently trading at LKR 30.7, we see limited upside potential relative to our fair value estimates. In light of these factors, FCR recommends investors retain the stock and issues a **DOWNGRADE TO HOLD.** from our previous BUY.



Quarterly Earnings



Estimate Revision

In LKR Mn	FY26E-O	FY26E-R	% Change	FY27E-O	FY27E-R	% Change
Earnings Estimate						
Revenue	149,448	130,390	-13%	158,350	142,981	-10%
Gross Profit	43,639	39,443	-10%	47,188	43,466	-8%
EBIT	15,254	13,948	-9%	17,306	15,976	-8%
Profit before tax	13,443	13,289	-1%	15,267	15,087	-1%
Net Profit	7,770	8,988	+16%	8,825	10,204	+16%
Adjusted EPS	2.6	3.0	+16%	3.0	3.4	+16%
Growth YoY	-4%	12%		14%	14%	
Balance Sheet Estimate						
Shareholders' Equity	53,147	56,072	+6%	59,041	63,215	+7%
Borrowings	12,460	10,064	-19%	14,101	11,385	-19%
Adjusted NAVPS	17.8	18.8		19.8	21.2	
Ratio Estimate						
ROE (%)	14.6%	16.0%		14.9%	16.1%	
PER (x)	11.8	10.2		10.4	9.0	
PBV (x)	1.7	1.6		1.6	1.5	



Valuation Table

P/E 31 March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Estimates (LKR 'Mn)							
Revenue	78,831	113,940	121,614	117,970	130,390	142,981	154,682
Gross Profit	21,850	31,793	35,997	37,073	39,443	43,466	47,023
EBIT	6,783	10,963	11,921	13,707	13,948	15,976	17,530
Net Profit	4,249	4,269	6,109	8,057	8,988	10,204	11,247
Adjusted EPS (LKR)	1.4	1.4	2.0	2.7	3.0	3.4	3.8
YoY Growth (%)	31%	0%	43%	32%	12%	14%	10%
Valuations							
PER (x)	21.6x	21.5x	15.0x	11.4x	10.2x	9.0x	8.2x
PBV (x)	2.6x	2.4x	2.1x	1.8x	1.6x	1.5x	1.3x
DY (%)	2.8%	1.5%	1.5%	2.3%	2.9%	3.3%	3.7%
NAVPS	11.9	12.9	14.5	16.7	18.8	21.2	23.8
DPS (LKR)	0.9	0.5	0.5	0.7	0.9	1.0	1.1
Dividend Payout	61.1%	32.8%	23.0%	25.9%	30.0%	30.0%	30.0%

Ratio Analysis

		FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth	Revenue	22.2%	44.5%	6.7%	-3.0%	10.5%	9.7%	8.2%
	Cost of Sales	26.4%	44.2%	4.2%	-5.5%	12.4%	9.4%	8.2%
	Gross Profit	12.5%	45.5%	13.2%	3.0%	6.4%	10.2%	8.2%
	EBIT	11.9%	61.6%	8.7%	15.0%	1.8%	14.5%	9.7%
	Net Profit	30.6%	0.5%	43.1%	31.9%	11.6%	13.5%	10.2%
Profitability	GP Margin	27.7%	27.9%	29.6%	31.4%	30.3%	30.4%	30.4%
	EBIT Margin	8.6%	9.6%	9.8%	11.6%	10.7%	11.2%	11.3%
	NP Margin	5.4%	3.7%	5.0%	6.8%	6.9%	7.1%	7.3%
	Return on Equity	11.9%	11.1%	14.1%	16.2%	16.0%	16.1%	15.8%
Liquidity	Current Ratio	1.5x	1.4x	1.6x	1.6x	2.1x	2.5x	2.8x
	Quick Ratio	1.0x	0.9x	1.0x	1.1x	1.4x	1.7x	2.0x
Activity	Inventory Days	107.7	127.1	97.1	95.6	72.8	71.0	71.0
	Accounts Payable Days	128.2	85.4	88.3	97.7	60.0	45.0	45.0
	Accounts Receivable Days	66.3	57.0	64.5	67.1	60.0	60.0	57.0
Gearing	Debt/Equity	0.2x	0.5x	0.3x	0.2x	0.2x	0.2x	0.2x
	Debt/Debt+Equity	0.2x	0.4x	0.2x	0.1x	0.2x	0.2x	0.2x
	Debt/Total assets	0.1x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x



Valuation Summary

Return	FY26E	FY27E
Target Price	30.0	36.0
Current Price	30.7	30.7
Capital Gain (LKR)	-0.7	5.3
Dividends upto 31 Mar (LKR)	0.9	1.0
Capital Gain %	-2%	17%
Dividend Yield %	3%	3%
Total Return %	1%	21%
Annualized Return %	1%	12%

Expected HHL Price	FY26E	FY27E
PER Valuation based target price	30.1	34.2
SOTP Valuation based target price	29.5	37.8
Average Target Price	29.8	36.0
Target Price after Rounding off	30.0	36.0

PER Valuation

PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	8,988	10,204
No. of Shares ('Mn)	2,987	2,987
EPS	3.0	3.4
Expected Average PER	10x	10x
Price at 10x Earnings	30.1	34.2

SOTP Valuation

Segment	Valuation Method	Valuation Assumptions			Value in LKR Mn	Value in LKR Mn
		CoE	WACC	Growth	Firm Value FY26E	Firm Value FY27E
Consumer	DCF	22.0%	19.6%	3%	36,953.3	48,648.6
Healthcare	DCF	20.8%	16.4%	3%	45,302.5	58,443.1
Logistics and maritime	DCF	22.0%	17.1%	3%	8,185.8	9,602.2
Others	DCF	22.0%	19.6%	3%	-4,701.4	-5,549.1
Firm Value					85,740.3	111,144.7
Less: Debt					-10,365.4	-11,671.5
Add: Cash					12,780.0	13,522.9
Equity Value					88,155.0	112,996.1
No. of shares					2,986.5	2,986.5
Fair Value per share					29.5	37.8

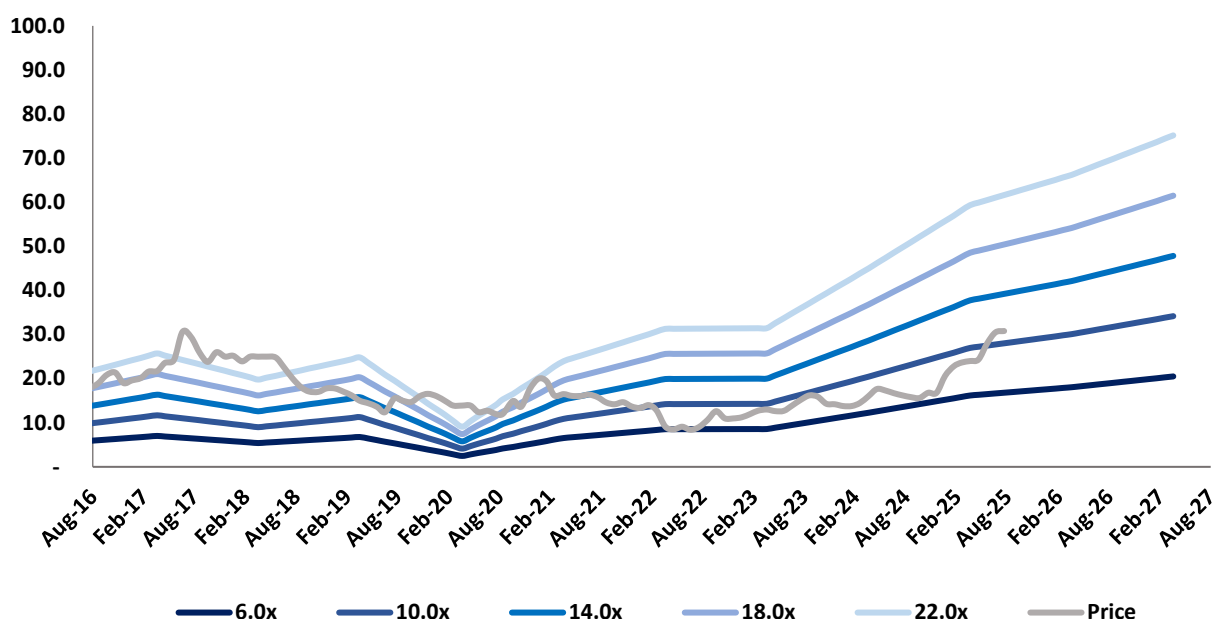
Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%



PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
P/E 31st Mar							
Revenue	78,831	113,940	121,614	117,970	130,390	142,981	154,682
Cost of sales	-56,981	-82,147	-85,617	-80,897	-90,947	-99,515	-107,659
Gross Profit	21,850	31,793	35,997	37,073	39,443	43,466	47,023
Other Income	1,099	720	754	1,092	913	1,001	1,083
Selling, Distribution & Admin expenses	-15,641	-21,150	-24,924	-24,911	-26,581	-28,678	-30,778
Share of results of equity accounted investees	-525	-400	93	452	173	187	202
Operating Profit	6,783	10,963	11,921	13,707	13,948	15,976	17,530
Finance Income	352	911	803	526	378	512	677
Less : Finance Cost	-486	-4,110	-3,256	-1,504	-1,037	-1,401	-1,579
Profit Before Tax	6,648	7,765	9,468	12,729	13,289	15,087	16,629
Income Tax Expense	-1,814	-2,696	-3,113	-4,390	-3,987	-4,526	-4,989
Profit for the Year (continuing)	4,834	5,069	6,355	8,339	9,302	10,561	11,640
Profit/(loss) from discontinued operations	-	-	-	-	-	-	-
Profit for the year	4,834	5,069	6,355	8,339	9,302	10,561	11,640
Minority Interest	586	800	246	282	314	357	393
Profit attributable to Equity Holders	4,249	4,269	6,109	8,057	8,988	10,204	11,247
EPS	1.4	1.4	2.0	2.7	3.0	3.4	3.8



Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY22	FY23E	FY24	FY25	FY26E	FY27E	FY28E
Non-Current Assets							
Property, plant and equipment	18,007	19,913	20,052	24,397	26,594	27,041	27,494
Investment properties	2,100	2,310	4,008	4,306	4,306	4,306	4,306
Right of use of assets	1,178	995	1,314	1,889	1,889	1,889	1,889
Intangible assets	3,295	3,311	3,283	3,333	3,333	3,333	3,333
Lease Receivable	125	122	42	23	23	23	23
Investments in JVs	85	702	1,474	2,154	2,154	2,154	2,154
Other non-current financial assets	210	182	210	255	255	255	255
Deferred tax assets	86	87	496	229	229	229	229
	25,086	27,623	30,880	36,585	38,782	39,229	39,682
Current Assets							
Inventories	16,807	28,602	22,775	21,183	18,137	19,348	20,932
Trade and other Receivables	19,772	25,456	26,299	25,971	25,837	28,284	29,138
Tax receivables	329	324	347	301	301	301	301
Lease Receivable	60	23	31	15	15	15	15
Other current financial assets	359	139	169	183	183	183	183
Cash and cash equivalents	13,895	16,331	13,223	12,579	12,780	13,523	21,866
	51,221	70,875	62,843	60,232	57,253	61,655	72,436
Assets held for sale	0	0	0	73	73	73	73
Total Assets	76,308	98,498	93,723	96,891	96,108	100,958	112,191
Equity and Liabilities							
Stated Capital	7,776	7,776	7,784	7,824	7,824	7,824	7,824
Other Reserves	160	119	103	76	76	76	76
Other components of equity	4,446	6,542	7,501	8,471	8,471	8,471	8,471
Retained Earnings	23,206	23,968	28,044	33,409	39,701	46,844	54,717
Equity attributable to equity holders of parent	35,588	38,405	43,432	49,780	56,072	63,215	71,088
Non-controlling interests	920	716	688	540	854	1,211	1,604
Total Equity	36,507	39,120	44,120	50,320	56,926	64,426	72,692
Non-current Liabilities							
Interest-bearing loans and borrowings	3,093	5,449	5,408	4,617	6,149	6,957	7,873
Other non current financial liabilities	277	276	280	275	275	275	275
Deferred tax liabilities	1,724	2,901	2,899	3,474	3,474	3,474	3,474
Employee benefit liabilities	992	1,199	1,384	1,562	1,562	1,562	1,562
	6,085	9,825	9,970	9,928	11,460	12,267	13,184
Current Liabilities							
Trade and other payables	27,165	29,626	30,848	31,940	22,060	18,104	19,586
Income tax payable	804	969	1,488	1,441	1,441	1,441	1,441
Other financial liabilities	2,272	2,949	0	0	0	0	0
Interest bearing borrowings	2,678	11,739	5,887	2,939	3,915	4,429	5,012
Bank overdraft	796	4,269	1,410	317	301	286	272
	33,716	49,552	39,633	36,638	27,717	24,260	26,311
Liabilities associated with assets held for sale	0	0	0	5	5	5	5
Total Liabilities & Shareholders' Funds	76,308	98,498	93,723	96,891	96,108	100,958	112,191
NAVPS	11.9	12.9	14.5	16.7	18.8	21.2	23.8



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