SenFin SECURITIES
Associate Company of SENKADAGALA FINANCE PLC

IMPACT OF SRI LANKA'S CHEMICAL IMPORT REGULATORY CHANGES

ON CSE-LISTED COMPANIES

CHEMICALS | REGULATIONS | BUSINESS IMPACT | CSE-LISTED COMPANIES

Senfin Research

Three Regulatory Tracks are Tightening at Once

The old approvals all stay, and three rules just add more layers on top

New 3, 2026 control tracks

- HCFC ban
- Import-payment/forex rules
- Widening SLSI standards

9 CSE-listed importers

- LCEY
- CHMX
- UCAR
- CIC
- AGST
- HAYL
- HAYC
- LLUB
- HHL

- **Widest impact:** the new payment and forex rules touch every importer's cash flow and paperwork.
  In practice: money can only be sent abroad after the importer is registered with Customs and the bank has verified it - so payments, and therefore shipments, take longer.
- **Hardest but narrow:** the HCFC ban is absolute but covers only 40 listed substances.
  If a product contains one of them it simply cannot be imported, no licence or exemption. It affects a few refrigerant, foam and aerosol lines, not whole businesses.
- **Slow cost creep:** wider SLSI testing rules add time and cost, mainly for paints, coatings and cosmetics.
  Each listed product needs a conformity certificate or lab test before Customs releases it - a per product cost that grows as more categories are added.
- **Uneven exposure:** small import dependent firms feel it most, large groups and exporters are cushioned.
  AGST, CHMX and UCAR run thin margins on imported goods, HAYL, HHL and CIC absorb the cost across many businesses, and HAYC earns foreign currency instead of spending it.

*HCFC - Hydrochlorofluorocarbons (chemical compounds made of hydrogen, chlorine, fluorine, and carbon)

Approvals Every Chemical Import Already Needs

All this already exists. The 2026 changes sit on top - nothing is removed

Central Environmental Authority (CEA)

Environmental clearance for listed industrial chemicals. Without it the shipment cannot be imported, and some chemicals are banned outright.

Office of the Registrar of Pesticides

Any pesticide active must be registered and carry an import license. Glyphosate is banned, so no license is issued for it at all.

National Fertilizer Secretariat

Every fertilizer import needs a licence from the Secretariat under the Fertilizer Act 1988 - this covers straight and blended fertilizers alike.

National Medicines Regulatory Authority (NMRA)

Medicines, diagnostics and some soaps, surfactants and cosmetic type products must be registered with the NMRA before they can be brought in.

Precursor Control Authority

Chemicals that can be diverted to making narcotics - acetone, toluene and similar - need prior approval for each import.

Ministry of Defence

Chemicals with a possible military or security use need Defence Ministry clearance before shipment, on top of any other approval.

National Ozone Unit (Ministry of Environment)

Ozone - damaging refrigerants and aerosol agents need Ozone Unit approval. The new HCFC ban tightens this same regime further.

Sri Lanka Customs (NITG 2026)

At the border Customs sets the tariff code, applies duties, and checks whether SLSI testing or an import licence is required before release.


HCFC / OZONE – DEPLETING SUBSTANCES IMPORT BAN
HCFC
HCFC
IMPORT – PAYMENT & FOREIGN – EXCHANGE CONTROLS
IMPORT
BANK
$ € £ ¥
WIDENING SLSI STANDARDISATION REGIME
SLSI
SRI LANKA STANDARDS INSTITUTION
QUALITY
SAFETY
COMPLIANCE
SLSI

HCFC / Ozone – Depleting Substances Import Ban

CHANGE 1 OF 3

Regulations No. 04 of 2026 · promulgated 7 May 2026 · effective 6 June 2026

THE RULE

HCFCs are the gases used in older refrigerators, air conditioners, foam insulation and some aerosols. They damage the ozone layer, so Sri Lanka has agreed under the Montreal Protocol to phase them out. From 6 June 2026, any product containing one of 40 listed HCFCs cannot be imported at all - there is no licence or quota route around it.

HOW IT CONNECTS TO THE TARIFF GUIDE

This is not a brand-new control. The tariff guide already required National Ozone Unit approval for these chemicals, and several were banned already. The 2026 rule simply converts a permit regime into an outright prohibition for the 40 named substances.

For the nine companies reviewed here, this is a product line issue rather than a business-model risk - none of them is mainly a refrigerant supplier.

COMMERCIAL EFFECT

- **!** Affected refrigerant, AC, foam and aerosol products must be reformulated with HFC, HFO or natural alternatives - each substitute must be re - registered and re-priced, so margins take a one - off hit.
- **!** Goods already shipped or sitting in bonded warehouses must be checked against the 40-substance list. Anything on it can be seized or penalised at clearance, so stock reviews should happen now.
- **!** Thinners, solvents and specialty blends can also contain listed HCFCs. Even companies with no refrigerant business should screen their formulations before ordering.

Refrigerants | **Aerosols & foams** | **Solvent blends**

Import - Payment & Foreign - Exchange Controls

CHANGE 2 OF 3

Regulations No. 06 of 2026 (Gazette Extraordinary 2493/39) · effective 19 June 2026

CORE OBLIGATIONS

- Money can only be sent abroad in advance once the importer is registered with Sri Lanka Customs - registration now sits in front of the payment, not just the shipment.
- The commercial bank must confirm that Customs registration before it releases any payment, so an unregistered buyer simply cannot pay a supplier upfront.
- Each payment carries a unique transaction number, and the bank reports the tax number, remitter and beneficiary details and proforma-invoice number to Customs - payment and shipment records must now match exactly.

COMMERCIAL EFFECT

In practice this lengthens the cycle between placing an order and receiving goods: more documents to assemble, a bank verification step before funds move, and less room for mismatched paperwork. Importers with high volumes, thin margins and short-term credit feel it most, because their inventory is funded on borrowed time. Exporters and cash-rich groups barely notice. Companies with clean Customs and trade-finance records face extra checking, not a different financing model.

WATCH ALONGSIDE THIS: CBSL'S WIDER FX TIGHTENING

Reg. 06 sits inside a wider Central Bank push to control how foreign currency enters and leaves the country:

Repatriation of Export Proceeds Rules No. 2 of 2026

Sets how much of an exporter's foreign-currency earnings must be converted into rupees. Gazetted, but still awaiting Parliamentary approval.

Related gazettes already cleared

Two further gazettes have already cleared the Committee on Public Finance - a signal that FX tightening is continuing, not pausing.

Why it matters here

These rules do not target chemicals, but they shape how strictly banks and Customs apply the new payment checks.

Widening SLSI Standardisation & Quality Control Regime

CHANGE 3 OF 3

Standardization and Quality Control Regulations, made under the same 1969 Act

THE RULE

SLSI is Sri Lanka's standards body. If a product appears on its list, it must meet the relevant Sri Lanka Standard before it can be imported - proven either by a conformity certificate from an accredited body abroad or by SLSI testing a sample locally. Customs will not release the consignment until SLSI signs off.

COVERAGE KEEPS WIDENING

The list grows over time. The 2024 revision alone added Schedule I(B) with more than 30 new categories, roughly half of them cosmetics. The 2026 tariff guide now prints the testing and licence requirement against each affected tariff line, so importers can no longer treat it as an occasional check - it is visible at the point of classification.

COMMERCIAL EFFECT

- **!** Every affected product needs its own certificate or test, so the cost is per product line, not per company. Testing also takes time, and goods sit at the port until it clears - demurrage and delayed sales follow.
- **!** Consumer-facing goods - paints, coatings, cosmetics, personal and home care carry far more listed items than bulk industrial chemicals, so companies with wide retail ranges face the most certificates.

MOST DIRECTLY AFFECTED HERE

Lankem (paints), CIC and Chemanex (coatings and personal care), Hemas (cosmetics) and Union Chemicals (coatings) have the largest number of product lines touched by the widening list.

Four Channels Carry These Changes to the Financials

How the new rules actually show up in the numbers

1 Cost of goods & margin

Banned inputs must be replaced with dearer substitutes, and every listed product carries a testing or certification fee. Both land in cost of sales, on top of import duty, VAT and Cess. Whether margin falls depends on pricing power: branded consumer lines can usually pass it on, commodity distributors selling on price cannot.

2 Working capital & cash flow

Advance payments now wait for Customs registration and a bank verification step, so cash leaves earlier relative to the goods arriving and stock sits longer before it can be sold. That stretches the cash conversion cycle and raises short-term borrowing. Importers funding inventory on overdraft feel it most, exporters earning foreign currency and cash-rich groups least.

3 Compliance & lead time

Each shipment may need several clearances - CEA, NMRA, Ozone Unit, SLSI plus the new bank check before payment. Every extra step is another place a document can be queried, so lead times lengthen and port demurrage becomes more likely, even when nothing is wrong.

4 Portfolio / substitution risk

A ban does not just stop future orders - existing formulations must be redesigned, re-registered and re-labelled, and stock already bought may become unsellable and be written off. Agri input and specialty formulators carry this risk most, because their product range is built around specific listed actives.

Source: CBSL, CSE, Sri Lanka Customs, CEA


HCFC
$
Rs
CSE
SLSI

Comparative Exposure Matrix

How exposed each company is to the 2026 changes - High, Medium or Low, judged against its peers

Company	HCFC Ban	Forex / Payment	SLSI Standards	Sector Licensing	Overall
LCEY	Low	High	Med	High	High
CHMX	Low	High	Med	Med	High
UCAR	Low	High	Med	Med	High
CIC	Low	High	Med	High	Med
HAYL	Low	Med	Med	Med	Low
HAYC	Low	Low	Low	Low	Low
LLUB	Low	High	Med	Med	High
HHL	Low	Med	Med	High	Med
AGST	Low	High	Low	High	High

HCFC Ban = whether the 40-substance ozone-depleting-substance list touches its product lines - Low for all nine.
Forex / Payment = how much the new advance-payment and bank-verification steps stretch the cash cycle. SLSI Standards = how many lines need testing certificates.
Sector Licensing = how many separate agency approvals (CEA, NMRA, Pesticides, Fertilizer) its range needs.
Overall is a judgement across the four columns, relative to the other eight companies - not an absolute measure of risk.

Why Each Overall Rating Lands Where It Does

Company	Overall	Why it lands there
LCEY	High	Broad forex and agri-licence exposure; more imported paint raw material just as the payment regime tightens.
CHMX	High	Thin distribution margins leave little room to absorb financing friction; CIC group backing is the offset.
UCAR	High	Small size multiplies risk - the same compliance and financing overhead on a much thinner cost base.
CIC	Med	High absolute exposure on every channel, but scale, diversification and in-house compliance absorb it.
HAYL	Low	Most diversified name, export earnings offset import payments and impact sits at divisional, not group, level.
HAYC	Low	Least import-exposed and a relative beneficiary - activated carbon serves solvent recovery and refrigerant transition.
LLUB	High	Large price - sensitive imported - input bill meets a slower payment regime; balance sheet allows pass - through.
HHL	Med	Concentrated in NMRA healthcare and SLSI personal care, group scale makes it a compliance matter, not a threat.
AGST	High	Import - dependent, agri - concentrated and small, with documented sensitivity to forex and product restrictions.

Overall is not a simple average of the row: it weights each channel by how central chemical importing is, and how much scale or diversification cushions the impact.

Source: CBSL, CSE, Sri Lanka Customs, CEA

Most Exposed Vs. Neutral Vs. Least Exposed

Size and place in the supply chain explain most of the difference

MOST EXPOSED

LCEY , CHMX , UCAR , LLUB , AGST

Small importers and blenders with little pricing power. Stock is bought in foreign currency and funded on short-term credit, so the new payment checks hit their cash cycle directly.

AGST and UCAR : agri inputs and coatings, thin margins, few businesses to spread cost across.

CHMX and LLUB : exposed mainly on input cost and forex timing.

LCEY : agri-input licensing on top of a rising paint raw-material import bill.

NEUTRAL

CIC , HHL

Diversified groups where chemicals are one business among many. Compliance teams, banking relationships and buffer stock already exist, so the extra paperwork is absorbed rather than passed to margin.

CIC and HHL : real product-level exposure in agri inputs and cosmetics, but earnings come from several segments, so group profit moves far less than any single line.

LEAST EXPOSED

HAYL , HAYC

HAYL is the most diversified name here, and its export earnings offset the import-payment regime, so impact lands at divisional rather than group level.

HAYC sits on the other side of the trade. It exports activated carbon, so it earns foreign currency rather than spending it - the tighter forex rules work in its favour.

Its filtration carbon is also used in the substitute refrigerants and solvent systems companies must move to under the HCFC ban, so the phase-out can add demand.

Sri Lanka Customs National Imports Tariff Guide 2026 Policy

Chapter 28	Inorganic chemicals, organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes.	Products of HS 2804.50.10, 2804.50.10, 2804.90.10, 2805.30.10, 2829.90 are subjected to the inspection and approval of the Central Environmental Authority. (07/WM/003/2006/XII of 23.10.2023) Require prior approval from Ministry of Defense for importations of all products within HS 2804.70.00, 2812.11.00, 2812.12.00, 2812.13.00, 2812.14.00, 2812.15.00, 2812.16.00, 2812.17.00, 2829.11.00, 2829.19.00, 2829.90.00 (except additives used for animal feed within this HS), 2834.10.00, 2834.21.00, 2837.29.90, 2850.00.00 and 2853.10.00. Require prior approval from Precursor Control Authority for products within HS 2806.10.00, 2807.10.00, 2811.12.00 and 2841.61.00. Require prior Registration and Pesticides Import Licenses issued by office of the Registrar of Pesticide for products within HS 2804.80.00 and 2825.10.00. Require prior approval and subsequent inspection/approval from Director General of the Department of Animal Production and Health (DG/ DAPH) for additives used for animal feed within HS 2829.90.00. Require prior Approval/ Permit obtained from Sri Lanka Atomic Energy Regulatory Council for products within HS 2844.10.00, 2844.20.00, 2844.30.00, 2844.40.00 and 2844.50.00. [Ionizing Radiation Protection of the Atomic Energy Safety Regulations No. 01 of 1999- Gazette Extraordinary No. 1142/30 of 28.07.2000]

Sri Lanka Customs National Imports Tariff Guide 2026 Policy

Chapter 29	Organic chemicals	Products of HS 2903.91, 2903.92.10, 2904.99, 2909.30.91, 2909.30.92, 2909.30.93, 2909.30.94, 2909.43.10, 2912.11, 2918.19, 2919.10, 2921.19, 2921.45, 2922.19, 2924.19, 2924.29, 2924.29.90, 2925.29, 2929.1, 2931.10.10, 2931.10.20, 2931.2 and 2933.21 are subjected to the inspection and approval of the Central Environmental Authority. Importation of products within HS 2903.99.12, 2903.99.13, 2903.99.14 are banned. (07/WM/003/2006/XII of 23.10.2023) Require prior approval from Ministry of Defense for importations of all products within HS 2903.39.40, 2904.91.00, 2904.99.00, 2920.21.00, 2920.22.00, 2920.23.00, 2920.24.00, 2920.30.00, 2920.90.00, 2921.12.00, 2921.13.00, 2921.14.00, 2922.15.00, 2922.16.00, 2922.17.00, 2922.18.00, 2922.19.00, 2922.43.00, 2929.90.00 and 2931.90.30. Require prior approval from Precursor Control Authority for products within HS 2902.30.00, 2909.11.00, 2909.19.10, 2909.20.10, 2909.30.10, 2909.30.91, 2909.30.92, 2909.30.93, 2909.30.94, 2909.41.10, 2909.43.10, 2909.44.10, 2909.49.10, 2914.11.00, 2914.12.00, 2914.31.00, 2915.24.00, 2916.16.00, 2916.34.00, 2932.91.00, 2932.92.00, 2932.93.00, 2932.94.00, 2933.32.00, 2933.39.20, 2933.52.00, 2933.53.00, 2939.41.00, 2939.42.00, 2939.44.00, 2939.61.00 and 2939.62.00. Require prior Registration and Pesticides Import Licenses issued by office of the Registrar of Pesticide for products within HS 2903.31.00, 2903.81.00, 2903.82.00, 2903.83.00, 2903.89.10, 2903.89.90, 2903.91.00, 2903.92.10, 2903.92.20, 2903.93.00, 2903.99.19, 2903.99.90, 2908.11.00, 2908.19.10, 2908.19.90, 2908.91.00, 2908.92.00, 2908.99.10, 2912.11.00, 2914.71.00, 2915.36.00, 2918.18.00, 2918.19.00, 2918.91.00, 2920.11.00, 2920.19.10, 2925.21.00, 2929.10.00, 2930.60.00, 2930.70.00, 2930.80.00, 2930.90.10, 2931.20.00, 2931.31.00, 2931.32.00, 2931.33.00, 2931.34.00, 2931.35.00, 2931.36.00, 2931.37.00, 2931.38.00, 2931.90.20, 2932.99.10, 2933.21.00 and all products in heading 29.10, 29.24. Require prior registration and license/ approval of National Medicines Regulatory Authority for all products within HS 2921.41.00. [National Medicines Regulatory Act, No.5 of 2015] Require prior approval for products containing Ozone Depleting substances of Sub Heading 2903.39 and 2903.70 from National Ozone Unit of Ministry of Environment. Importation of products within HS 2903.14.00, 2903.15.00, 2903.19.10, 2903.76.00, 2903.77.12, 2903.77.14, 2903.77.24, 2903.77.26, 2903.77.33, 2903.77.35, 2903.77.36, 2903.77.47, 2903.77.55, 2903.77.65, 2903.77.69, 2903.77.73, 2903.77.75, 2903.77.76, 2903.78.11, 2903.78.81, 2903.78.82, 2903.78.83, 2903.78.84, 2903.78.85, 2903.78.86, 2903.78.87 and 2903.78.88 is banned.

Sri Lanka Customs National Imports Tariff Guide 2026 Policy

Chapter 38	Miscellaneous chemical products	Products of HS 3801.90.10, 3802.10.10, 3808.94, 3808.94.90, 3808.99.90, 3824.99, 3824.99.10 and 3825.10 are subjected to the inspection and approval of the Central Environmental Authority. (07/WM/003/2006/XII of 23.10.2023) Require Prior Registration and Pesticides Import Licenses issued by office of the Registrar of Pesticide for all products in heading 38.08. Importation of products containing Glyphosate within HS 3808.93.90 is banned. Require prior registration and license/ approval of National Medicines Regulatory Authority for medical diagnostic and laboratory reagents within HS 3822.00.00. [National Medicines Regulatory Act, No.5 of 2015] Require prior approval for products containing Ozone Depleting substances of heading 38.13, 38.14 and 38.24 from National Ozone Unit of Ministry of Environment. Require prior approval and subsequent inspection/approval from Director General of the Department of Animal Production and Health (DG/ DAPH) for HS 3824.99.10.

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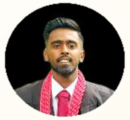

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