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ICRA Lanka Reaffirms the issuer rating of [SL]A+ for ACL Cables PLC

ICRA Lanka Limited, Subsidiary of ICRA Limited, group company of Moody's Investors Service has reaffirmed the Issuer rating of [SL]A+ (pronounced S L A plus[1]) with stable outlook for ACL Cables PLC ("ACL"/ "the company").

ICRA Lanka has taken a consolidated view on ACL Cables PLC and its subsidiaries as a whole, given the significant operational & business dependencies among them. The reaffirmed rating primarily factors in the company's strong brand and its dominant market position in the local cable industry. The company's strong distribution dealer network has enabled ACL group to establish a strong presence in the local retail cable market. Moreover, ACL has also been able to secure a leading market share in the utility market due to strong execution track record along with relatively high value addition. The company has introduced new innovative product categories such as covered cables, fire resistant cables and low voltage transmission cables through their R&D Testing Laboratory. Given the recovery of the local construction industry (including the private and state sectors), which has a direct bearing on the cable market and the Megapolis development projects, ACL's future outlook in the Sri Lankan operation remains positive. ICRA Lanka also takes into account the experience of the promoters, the company's strong track record and reputation in the industry which have enabled the company to enjoy steady access to funding from financial institutions. The company's professional management team coupled with a good governance structure adds further comfort for the rating. These apart, the reaffirmed rating also factors in the group's positive cash accruals, which is characterized by healthy profit margins (PAT margin 8.5% in FYE March 2017 Vis a Vis 9.9% in FYE March 2016 and 6.5% in FYE March 2015) and relatively lower overhead cost structure. Moreover, ICRA Lanka views the company's established export markets such as Maldives on a positive note.

The above rating strengths are partly constrained by the volatility in the global metal prices (including Copper, Aluminum and PVC Resins) and the exposure of the company's margins to the same. ICRA Lanka also notes the deterioration in the financial performance during 3MFY18 which is attributable to several factors - increased raw material costs, the changes in product mix, adverse weather conditions, and the non-functioning of the company's scrap metal plant. Therefore, the ability of the company to successfully manage the increased raw material prices, moderate its working capital intensity, in the event of a commodity price rally, and turnaround of the financial performance of the company in the short to medium term remains a key rating sensitivity.

ICRA Lanka notes positively the growth in export revenue contribution in FYE March 2017 as against the de-growth witnessed in FYE March 2016. However, the ability of the company to explore new export markets and further expand export sales going forward remains to be seen. The Company's operations are exposed to regulatory risks, including changes in interest rates and duties imposed to curb imports. ACL's profits are also exposed to currency risks, with imports forming a large portion of sourcing and no formal currency hedging mechanism in place to mitigate any sharp volatility in exchange rates.

[1] *For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications*

The Group has also diversified into renewable energy and recently into sugar plantation industries, with experienced German and Indian partners, through its fully owned subsidiary- Ceylon Copper (Pvt) Ltd. Though the management does not anticipate any major funding support (at the standalone level), any adverse operational performance of these investments/projects, would necessitate funding support from ACL and will also moderate the overall return on capital employed. Hence, ICRA Lanka will continue to monitor the Group's new diversification initiatives and the corresponding impact on the financial profile.

Financials;
During FYE March 2017, the group has recorded a total revenue of LKR 14,722 Mn, an increase of YOY 14%, mainly owing to the execution of a special CEB electrification project along with the recovery of the construction industry. However, the company's OPBDITA and PAT Margins have gradually declined from FYE March 2016 to 3M ended FYE March 2018 (FYE March 16 -9.9%, FYE March 17 -8.5%, and 3M ended FYE March 2017- negative 0.2%). This is attributable to the increasing global metal prices notwithstanding the company's improved operational efficiencies with the increased scale of business. ACL Group has registered a net profit of LKR 1,254 Mn in FYE March 2017 compared to the net profit of LKR 1,269 Mn in the previous year.

The company's working capital requirements have remained relatively high over the years, owing to the high debtors and inventory levels. The recent increase in the debtors level is partly attributable to the growing scale of the business, relatively weaker financial position of the main debtors (mainly construction contractors), the delay in the arrangement of ADB loan by CEB. The Company's debt profile is largely skewed towards short term loans to fund the inventories and the working capital requirements, which are refinanced on a regular basis. Further, the company envisages moderate-capital expenditure plans to further automate the manufacturing plant in the medium term at the company level.

The company has limited its reliance on external debt, mainly due to strong cash accruals from the operations. Further, net accruals in the recent past have bolstered the net worth position of the company substantially (Net worth of LKR 10.4 Bn in FYE March 2017 Vis a Vis LKR 9.4 Bn in FYE March 2016). As a consequence, the Company's capital structure has remained relatively strong with gearing of 0.2-0.3x in FYE March 2017 (FYE March 2015/16 - 0.3x). The company's coverage and key debt metrics have also improved given the relatively lower debt levels on the books coupled with improving operating results.

Group Profile
The company was formerly known as Associated Cables Ltd and changed its name to ACL Cables PLC in 1990. ACL Cables PLC was founded in 1962. ACL Cables PLC is engaged in the manufacture and sale of cables and electrical conductors both in Sri Lanka, as well as internationally. Being the market leader and having acquired the second largest manufacturer of cables in the year 1998, ACL today, is a Group of cable manufacturing companies holding a robust 70% market share of the local cable industry. Kelani Cables PLC, a subsidiary of ACL Group, is the second largest cable & conductor manufacturer in Sri Lanka, was owned and managed by OLEX Cables of Pacific Dunlop Group of Australia till the year 1998. ACL Group owns 65.2% and 31.71% stakes in ACL Plastic PLC and Resus Energy PLC respectively.

On a consolidated basis, ACL reported a net profit of LKR 1,255 Mn on a total income of LKR 14,669 Mn in FYE March 2017, compared to a net profit of LKR 1,269 Mn reported on a total income of LKR 12,811 Mn in FYE March 2016. During 3M ended FYE March 2018, ACL has registered a net loss of LKR 5.4 Mn on a total income of LKR 3,403 Mn.

On a standalone basis, for the FYE March 2017, ACL reported a net profit of LKR 1,001 Mn on a total income of LKR 8,054 Mn, compared to a net profit of LKR 544 Mn reported on a total income of LKR 6,790 Mn in FYE March 2016. During 3M ended FYE March 2018, ACL has registered a net loss of LKR 20 Mn on a total income of LKR 1,754 Mn

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For further details please contact:

Analyst Contacts:

Mr. Raghunath T, (Tel. No. +91-4445964440)
Raghunath.t@icraindia.com

Mr. Danushka Perera, (Tel. No. +94-77-4781591)
danushka@icralanka.com

Relationship Contacts:
Mr. W Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com

Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

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