

ICRA Lanka reaffirms the [SL]A+ long-term ratings of Access Engineering PLC

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Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]A+ with Stable Outlook Reaffirmed
Senior unsecured debenture programme	LKR 5,000 Mn	[SL]A+ with Stable Outlook Reaffirmed

ICRA Lanka Limited, subsidiary of ICRA Ltd, a group company of Moody's Investors Service has reaffirmed the Issuer rating of [SL]A+ (pronounced S L A plus¹) with Stable outlook for Access Engineering PLC ("AEL" / "the Company"). ICRA Lanka has also reaffirmed the Issue Rating of [SL]A+, with Stable outlook, for the company's senior unsecured debenture programme of LKR 5,000 Mn.

ICRA Lanka has taken a consolidated view on Access Engineering PLC and its subsidiaries as a whole, in assigning the ratings, given the operational and financial linkages among them.

The reaffirmation of the ratings takes into consideration the longstanding track record and established position of the Access group as a leading Engineering, Procurement and Construction (EPC) contractor in Sri Lanka. AEL has sizable experience in the design and construction of Roads & Bridges, High-Rise Buildings, as well as foundations & sub-ground work for high-rise buildings. Further, AEL also has varied experience of undertaking EPC works in engineering segments such as water infrastructure, telecommunications, ports, airports, etc. The ratings also take into consideration the professional management team of the company, their healthy relationships with various stakeholders in the construction industry; and, the reputation in the industry for technology innovation and timely delivery. These apart, the ratings also factor in AEL's healthy financial profile backed by its comfortable profitability, and the healthy capitalization with relatively lower gearing levels.

AEL (Consolidated) operates mainly in four sectors i.e. Civil Engineering, Construction Material, Commercial Real Estate, and Automobile dealership. For the FYE2017, Civil engineering segment contributed to approximately 63% of AEL's revenues, while the auto dealership segment contributed 25%, construction materials segment contributed to 11% and the remaining 1% was contributed by the commercial real estate operations of AEL.

The construction sector in Sri Lanka experienced a recovery during the year FY2016-17, amidst the uncertain macro-economic environment in Sri Lanka. The GDP contribution from the construction sector during this period has also increased to 7.6% from 6.9% a year before. Moreover, the government has introduced new mega development projects including megapolis development plan, construction of central expressway, elevated highways, and expansion of the Airport etc. Thus, AEL being a leading construction company in Sri Lanka, is expected to further benefit from these mega projects in the medium term. The currently ongoing order book of AEL has increased to LKR 40 Bn from LKR 29 Bn in the previous year. The ability of the company to manage its currently ongoing order book position and maintain high profitability margins remains as a key rating sensitivity of the reaffirmed ratings.

AEL records comfortable operating profit margins from its construction segment of around 20-25%, from its construction materials segment of around 15-20%, from its commercial real estate segment of around 90%, from its auto dealership 5-8%, and its Hotel/resorts construction segment of around ~7-10%. Both the auto-dealership as well as the construction of hotels & resorts are very competitive

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

businesses in Sri Lanka and hence, the margins are moderated in these businesses. ICRA Lanka views positively the timely completion of Access Tower II, which is expected to be fully occupied in August CY2017 and consequently its revenue contribution in FY2018.

Backed by relatively stable working capital intensity and comfortable profitability margins in the past, and coupled with the sizable proceeds from the debenture programme of LKR 5 Bn in FYE March 2016, AEL has been able to maintain strong capitalization metrics with relatively low gearing level at the standalone level. Further, it had sizable cash & short term liquid investments of ~ LKR 4.0 Bn in FYE2017 (at the consolidated level) which could be utilized towards additional working capital requirements given the increasing interest rate scenario. AEL's subsidiaries -Sathosa Motors and Access Projects together had total borrowings to the extent of ~LKR 700 Mn in FYE2017. Access Realties and Sathosa motors have well established operations with positive cash flows and adequate debt servicing ability and hence no financial support is anticipated towards these businesses.

ICRA Lanka also notes, notwithstanding the company's healthy gearing levels of 0.3(x) in FYE2017 and coverage indicators in the past, the working capital requirements are sizable and could expose AEL to liquidity risk in case of increasing commitments towards larger projects and increasing scale of operations. AEL's working capital intensity has been moderately high with a noticeable increase in FYE2017. The working capital position has been largely driven by elongated receivables position, typically around 100-130 days. The working capital intensive-UDA sponsored housing development project has largely contributed to this. The company maintains raw material inventory of around 60 days generally. In addition, the recent investments in the real estate sector are recorded as work-in-progress while claims and variations are also recorded as work-in-progress until they are accepted by the employer.

In addition to the company's earlier investments in the Horizon Holdings Pvt Ltd, which is currently on hold as the construction of outer circular roads and other infrastructure facilities in the area are being developed by the government; and Blue Star Realties (Pvt) Ltd, a real estate company to penetrate into the condominium real-estate segment, AEL has invested around LKR 2.3 Bn in "Harbor Village", a mixed development project, a joint venture (JV) with China Harbor Engineering Ltd and Mustafa's Pvt Ltd (Singapore). ICRA Lanka expects that the company's financial support & commitments for this newly started project in the short to medium term is likely to be minimal given the strong financial capacity of the joint venture partners. However, ICRA Lanka notes that the AEL Group's overall risk profile has increased during FY2017 due to increased exposure to the real estate business segment. The ability of the company to manage the market related risks, while successfully completing these projects will be critical in maintaining the strong credit profile.

Company Profile

Access Engineering PLC (AEL) started its operations in 2001 as the Engineering, Procurement & Construction arm of the Access Group. Promoted by Mr. Sumal Perera, Mr. Christopher Joshua, and Mr. Ranjan Gomez, the Access group has presence in telecom, healthcare, power & renewable energy, and information technology also, in addition to the aforesaid businesses under AEL and its subsidiaries. Over the last 15 years, AEL has become one of the leading players in the Civil Engineering and Construction industry of Sri Lanka. The Company was listed on the Colombo Stock Exchange in March 2012 following an initial public offering. Since then, AEL has grown sizably with acquisitions of businesses, and through expanding its presence in construction, real estate and other segments.

In February 2012, Access Engineering acquired Sathosa Motors PLC (Sathosa), which holds the franchise for Isuzu commercial vehicles. Also, Sathosa's subsidiary - SML Frontier Automotive (Pvt.) Ltd. -is the sole agent for Jaguar Land Rover in Sri Lanka. This apart, Access Realties (Private) Limited, which owns a commercial office property - 'Access Towers' - and its subsidiary, Access Realties 2 (Private) Limited, which has developed another commercial property - "Access Tower II", are fully-owned subsidiaries. In FYE March 2016, the Company has invested in Horizon Holdings Ventures Pvt Ltd, Horizon

Knowledge City Limited and Horizon Holdings (Pvt) Ltd- These companies together own 21 acres of property in the Malabe Information Technology Zone and are expected to be developed after the necessary infrastructure of this area is developed by the government. The company had also invested LKR 800 Mn in Blue Star Realities (Pvt) Ltd, to penetrate into the condominium real-estate segment. During FY17, the company has invested around LKR 2.3 Bn in Harbour Village, a mixed development project, which is a JV between China Harbor Engineering Ltd, Mustafa's Pvt Ltd and Access Engineering PLC.

For the FYE Mar-2017, on a consolidated basis, AEL reported a net profit of LKR 2,746 Mn on a revenue of LKR 20,448 Mn as compared to a net profit of LKR 2,551 Mn reported on a revenue of LKR 17,625 Mn in FYE Mar-2016. For the FYE Mar-2017, on a standalone basis, AEL reported a net profit of LKR 2,684 Mn on a revenue of LKR 14,786 Mn as compared to a net profit of LKR 2,086 Mn reported on a revenue of LKR 11,604 Mn in FYE Mar-2016.

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