

MTD Walkers PLC

Instrument	Amount	Rating Action
Issuer Rating	N/A	[SL]BBB+ Assigned (Outlook - Stable)
Senior Unsecured Redeemable Debenture Programme	LKR 2,500 Mn	[SL]BBB+ Assigned (Outlook - Stable)

ICRA Lanka has assigned an Issuer rating of [SL]BBB+ (pronounced S L triple B plus¹) for MTD Walkers PLC ("MTDW" / "the Company"). ICRA Lanka has also assigned [SL]BBB+ rating for the company's proposed senior unsecured debenture programme. The outlook on the long-term rating is stable.

While assigning the rating, ICRA Lanka has taken a consolidated view on MTD Walkers PLC and its subsidiaries as a whole, given the significant operational and financial linkages among them. The assigned rating takes into consideration the longstanding track record and established position of the MTD Walkers Group as a leading Engineering and Infrastructure Development Group in Sri Lanka. The rating also takes into consideration the professional management team of the company supported by regular project tracking and implementation systems; and the parentage of the company (with majority shareholding (90.78%) in the company being held by MTD Capital Berhad, a Malaysian conglomerate focused on infrastructure sector), providing requisite managerial and financial support on a regular basis. These apart, the rating also factors in the Group's healthy operational profile supported by an order backlog of over Rs. 60,000 Mn of ongoing projects and a sizable pipeline of expected orders which boosts revenue visibility for the Group.

The above ratings, however, are constrained by the high concentration in the order-book in terms of exposure to selected projects, segments and customers. The competitive pressure in the construction industry in particularly for government projects and the prevailing regulatory uncertainty acts as key limitations for the ratings. ICRA Lanka also notes that, though the Group level gearing and coverage indicators have been moderate in the past, the working capital position remains stretched and this could expose the Group to liquidity risk on the back of increasing commitments towards larger projects and growing scale of operations. Further, any change in government policy towards the construction sector would impact the Group, as the Group is heavily reliant on government orders; furthermore, planned expansion into overseas markets could increase the overall risk profile of the Group, given its limited experience in the overseas markets.

The MTD Walkers Group operates mainly in three sectors i.e. Civil Engineering, Engineering Services and Power Generation. For FY2014 Civil Engineering sector contributed approx. 79% of the Group's revenue, while Power generation sector contributed approx. 16% and Engineering Services sector contributed approx. 4%, whilst the remaining 1% being contributed by the smaller companies in the Group. On a standalone basis MTDW doesn't have any operating income and hence is reliant on subsidiary performance for cash flows. The largest subsidiary of the Walkers Group is CML-MTD Construction Limited (CML-MTD, a C1 graded contractor by Institute for Construction Training and Development) operating in the Civil Engineering segment. CML-MTD accounted for approximately 72% of the Groups' revenue. Some of the larger projects that are currently being handled by CML-MTD are government projects issued by the RDA (Road Development Authority) and UDA (Urban Development Authority).

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

Walkers Piling (Private) Limited under the Civil Engineering sector carries out the piling business of the Group and accounted approx. 7% of the Group's revenue, while Northern Power Company (Private) Limited (NPC) under the power generation sector contributed to approx. 16% of the Group's revenue. NPC operates a thermal power plant in Jaffna and is a commissioned independent power producer with a Power Purchase Agreement (PPA) with the Ceylon Electricity Board (CEB) for a guaranteed production capacity of 27 MW for a period of ten years.

The Group has been reporting steady revenue growth during the post war period mainly due to the increase in the number of contracts in the construction industry. The Group reported losses during the FY2010 and FY2011 categorized by operational inefficiency leading to cost overruns and high interest rates impacting profitability. However since FY2011 the Group reported consistent growth in profits. The operating margins have steadily improved since FY2011 following the management's efforts to restructure the organisation and improve operational efficiencies. At the Group level operating margins² have ranged between approx. 17%-20% levels during the past three FYs while Group level Net Margins have ranged between 6-7% during the same period. Return on Capital Employed (ROCE) has increased from approx. 19.1% during FY2012 to over 21.7% in FY2014. As MTDWP is a non-operational investment holding company, no revenue except for fee based income received from subsidiaries and dividend income from investments have been booked. ICRA Lanka notes the management's plan to establish a project-wise fee based income structure, to be charged from the operational subsidiaries, which would eventually improve the standalone financial strength of MTDWP.

The working capital intensity (as characterized by net working capital / operating income) of the Group has been steadily increasing over the last three years from approx. 19.8% in FY2012 to 27.8% in FY2014 on the back of a corresponding increase in the receivables position. As a result, the Group level capital structure and debt protection indicators weakened from FY2012 to FY2014. Nevertheless, a modest reduction in the working capital and improved profitability during H1FY2015 aided in reducing the gearing and improving the debt protection indicators during the H1FY2015 period. Further, with interest and finance costs remaining stable during the current year, the debt protection indicators are expected to improve to an extent. At the standalone level, gearing levels for the holding company remains low at 0.2x; however the proposed debenture of Rs 3 Bn, which is expected to be used partly for new business ventures, could increase the leverage of the company to an extent in the medium term. ICRA Lanka also notes that the recently concluded rights issue of Rs 2.4 Bn would also aid to improve MTDWP's capitalization levels.

Company Profile

Walkers Group of Companies has been in operation in Sri Lanka for over 160 years with its origin in 1854 and had been a leading Construction and Engineering Group company in the country. Kapila Heavy Equipment PLC, which had been established as a public company in 1981 and listed on the Main Board of Colombo Stock Exchange in 1983, had subsequently acquired controlling interest of the Walkers Group. In April 2007, MTD Capital Bhd, a leading Malaysian based infrastructure development company, purchased a majority stake in Kapila Heavy Equipments PLC, the holding company of the Walkers Group of Companies. Kapila Heavy Equipments PLC was subsequently re-named as MTD Walkers PLC on 12th December 2007.

MTD Walkers PLC remains a non-operational investment holding company with subsidiaries operating across Civil Engineering, Engineering Services and Power Generation sectors. The key operating companies of the Group currently are CML-MTD Construction Limited, Northern Power Company (Private)

² Operating Margins – Operating Profit before Depreciation, Interest, Tax and Amortization (OPITDA) / Operating Income

Limited, Walker Sons & Company Engineers (Private) Limited, Colombo Engineering Services (Private) Limited and Walkers Piling (Private) Limited.

For the FYE Mar-14, MTD Walkers Group reported a net profit of LKR 600.8 Mn on a total income of LKR 10,301.69 Mn compared to a net profit of LKR 502.5 Mn reported on a total income of LKR 7,547.86 Mn in FYE Mar-13.

For H1FY2015, the Group reported a profit after tax of LKR 805.4 Mn on a total income of LKR 7,250.04 Mn.

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