

ICRA Lanka assigns [SL] A+ to the proposed Senior Unsecured Redeemable Debentures of Access Engineering Plc

November 2, 2015

Instrument	Amount	Rating Action
Senior Unsecured Redeemable Debenture Programme	LKR 3,000 Mn (with option for the amount to be increased to LKR 5,000 Mn)	[SL]A+ Assigned (Outlook - Stable)

ICRA Lanka has assigned a rating of [SL]A+ (pronounced S L A plus¹) with a stable outlook to the proposed LKR 3,000 Mn (with option for the amount to be increased to LKR 5,000 Mn) Senior unsecured debenture programme of Access Engineering Plc ("AEL"/ "the Company"). ICRA Lanka also has an Issuer rating of [SL]A+ outstanding on AEL with stable outlook.

While assigning the rating, ICRA Lanka has taken a consolidated view on Access Engineering Plc and its subsidiaries as whole, given the operational and financial linkages among them. The assigned rating 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, Medium-Rise Buildings segments, as well as foundations & sub-ground work for high-rise buildings. Further, it also has varied experience of undertaking EPC works in segments such as water resources, telecommunications, ports, airports, etc. The rating also takes into consideration the professional management team of the company supported by SAP Enterprise Resource Planning system which aids it in real-time project tracking and implementation. These apart, the rating also factors in AEL's healthy financial profile backed by its comfortable profitability and debt-free capital structure.

The rating, however, is constrained by the modest size of AEL's current order backlog of Rs. 24, 000 Mn of ongoing projects as well as the high concentration in the order-book in terms of exposure to few projects, segments and customers. The competitive pressure in the construction industry, particularly for government projects, and the prevailing macro uncertainty within the sector, act as key rating sensitivities for AEL. ICRA Lanka also notes that, though the gearing and coverage indicators have been healthy 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. To an extent, ICRA expects this liquidity risk to be mitigated over the next 12-18 months period on the back of the proposed fund raising programme², which would ease AEL's access to funds for its working capital requirements. Further, any change in government policy towards the construction sector would impact AEL, as the company is reliant on government orders; further, expansion into overseas markets or other sectors could increase the overall risk profile of the group, given its limited experience in such business operations.

Company Profile

Access Engineering PLC (AEL) started its operations in 2001 as the Engineering, Procurement & Construction arm of the Access Group. Over the last 14 years, AEL has become one of the leading players

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

² AEL's proposed debenture programme is expected to be utilized towards part funding two ongoing projects, viz., (i) Construction of Access Tower II, and (ii) Urban Regeneration Project (Phase II) - Design & Construction of 941 Housing Units at Henamulla, Colombo

in the Civil Engineering and Construction industry of Sri Lanka. The Company was listed in 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 Land Rover in Sri Lanka. This apart, Access Realities (Private) Limited, which owns a commercial office property – 'Access Towers' – and its subsidiary, Access Realities 2 (Private) Limited, which is developing another commercial property – "Access Tower II", are fully-owned subsidiaries. In September 2013, the Company formed a joint venture, ZPMC Lanka Company (Private) Limited with Shanghai Zhenhua Heavy Industries Company Limited (ZPMC) of China, a large container handling equipment manufacturer, to repair and maintain container handling equipment in the Colombo port. These apart, recently, in June 2015, AEL acquired 100% shareholding in Horizon Holdings Ventures (Pvt.) Limited and 50% shareholding in Horizon Holdings (Pvt.) Limited. These companies are in the business of developing their property located in Malabe over an extent of 12.5 Acres. These acquisitions are expected to further enhance AEL's footprints in the property development sector.

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.

For the FYE Mar-15, on a consolidated basis, AEL reported a net profit of LKR 2,423.9 Million on a revenue of LKR 16,514.1 Million as compared to a net profit of LKR 2,901.5 Million reported on a revenue of LKR 16,373.3 Million in FYE Mar-14.

For the Q1 FYE Mar-16, on a consolidated basis, AEL reported a net profit of LKR 637.3 Million on revenue of 4,207.3 Million.

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For further details please contact:

Analyst Contacts:

Mr. R Srinivasan, (Tel. No. +91-44-45964315)

r.srinivasan@icraindia.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

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