

Abans Auto Private Limited

Instrument	Rating Action
Issuer Rating	[SL]BBB assigned (stable Outlook)

ICRA Lanka has assigned an Issuer rating of [SL]BBB (pronounced S L triple B¹) for Abans Auto Private Limited ("AAPL"/ "the Company"). The outlook on the rating is stable.

The assigned rating primarily factors in the strong operational expertise and financial flexibility that AAPL derives from being part of the Abans Group, which is a reputed conglomerate in Sri Lanka. The Group's deep distribution reach coupled with AAPL's exclusive dealership arrangement with Hero MotoCorp Limited (Hero) - India's leading two-wheeler (2W) manufacturer, are also expected to act as key catalysts in propelling the Company's growth in the Sri Lankan 2W industry. In this context, the robust demand outlook for the Sri Lankan 2W industry on the back of broad based economic growth, soft interest rate regime and favorable demographics, is a key credit positive. While assigning the ratings, ICRA Lanka also takes cognizance of the sizeable market share gains achieved by the Company (within two years of operations) on the back of aggressive marketing efforts undertaken by AAPL and operational / technical support provided by Hero towards setting up of after sales services / spare parts distribution infrastructure, which is a critical success factor for this industry. The rating also factors in the support from Hero in terms of sharing of marketing/advertising expenses with AAPL, indicating the 2W manufacturer's commitment to establish a strong foothold in the Sri Lankan 2W industry.

These strengths are partially offset by the Company's present moderate financial profile characterized by high gearing (on account of accumulated losses and working capital debt to fund growth) and modest debt coverage indicators. AAPL's working capital intensity is also high mainly on account of its large inventory position owing to the present aggressive expansion undertaken by the Company and the growing Hire Purchase (HP) business which is inherently capital intensive. The Company's cash flow position is also modest due to the aforementioned factors. However, ICRA Lanka expects this to improve with the expected scaling up of operations leading to operating leverage benefits / better profitability and stabilization of working capital levels leading to better capitalization levels. ICRA Lanka expects AAPL's spare parts business volumes also to increase going forward as its on-ground 2W population scales up, leading to incremental opportunities for growing a higher margin business.

The rating, however, factors in the highly competitive nature of the 2W industry in Sri Lanka with stiff competition from market leader – Bajaj and Honda leading to pricing pressures, and the high sensitivity of 2W demand to import duties and interest rate movements given the large share of financed purchases in the Sri Lankan 2W market. Any adverse government actions in terms of duty / interest rate hikes could temper demand potential and hence, would be a key sensitivity to the rating. Going forward, AAPL's ability to sustain healthy revenue growth, scale-up its distribution network while maintaining margins of both the 2W retail and spare part businesses besides also paring down overall debt levels through compression of working capital cycle would be other key sensitivities to the rating.

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

Company Profile

Abans Auto Private Limited (“AAPL” / “the Company”) was incorporated in the year 2011 and commenced operations in the year 2012. The Company has a nation-wide exclusive right for dealing in ‘Hero’ branded two wheelers (supplied by Hero Motocorp Limited, based out of India) and is currently the second largest player in the segment. The company is part of the Abans Group whose flagship entity -Abans PLC - is a leading consumer electronic retailer in the country. AAPL is, however controlled, by the members of Abans family. The company currently has operations spread across 78 outlets, 200 dealers, two company -owned service centers and several other service centers run by AAPL appointed dealers Island wide.

For the FYE Mar-14, AAPL reported a net loss of LKR 62.6 Million on a total income of LKR 4,524.4 Million compared to a net loss of LKR 90.1 Million reported on a total income of LKR 1,574.1 Million in FYE Mar-13.

For the four month period ended July 2014, the Company reported a profit after tax of LKR 95.6 Million on a total income of LKR 2,437.7 Million.

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