

FOR IMMEDIATE RELEASE

January 31, 2017

**ICRA Lanka reaffirms the Issuer rating of [SL]BBB for
Abans Auto Private Limited**

ICRA Lanka Limited, Subsidiary of ICRA Limited, Group Company of Moody's Investors Service has reaffirmed the Issuer rating of [SL] BBB (pronounced SL triple B¹) for Abans Auto Private Limited ("AAPL" / "the Company"). The outlook on the rating is stable.

The rating reaffirmation considers 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 provides additional comfort. The Company has witnessed healthy growth since its inception aided by factors like soft interest rate environment, improvement in per capita income on the back of broad based economic growth post end of civil war and favorable demographics and onetime factors like large Government order during FYE March 2015 and FYE March 2016. The growth was also supported by expansion in dealer network and 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. Further, support from Hero in terms of sharing of marketing/advertising expenses with AAPL, indicates the 2W manufacturer's commitment to establish a strong foothold in the Sri Lankan 2W industry. Nonetheless, the Company faces stiff competition from market leader - Bajaj Motors and has lost market share to Honda (Stafford Motor Company Pvt Ltd) and TVS. The Company is trying to address the issue by planning to launch new models. The sales also remain susceptible to changes in duty structure and ICRA Lanka notes that in the near term, the sales may be impacted by the changes announced in November 2016, however the long term prospects for 2 wheeler segment remains favorable, which will drive retail sales. The ability of the Company to retain/grow its market share in a competitive environment remains a rating sensitivity factor.

The rating also takes note of the incremental improvement in capital structure of the Company, with moderation in gearing from ~6.0x as on March 31, 2015 to ~3.4x as on March 31, 2016 and 1.1x as on October 30, 2016 on the back of healthy accretion to reserves and capital infusion of LKR 300 Mn in current fiscal and moderation in debt levels. The working capital intensity however remains high with NWC/OI in the range of 25-30%, mainly on account of inventory requirement of ~80-90 days and receivable days of ~30-40 days arising from the Leasing/Hire Purchase (HP) business. The Company's cash flow position is also modest due to the aforementioned factors and capital expenditure incurred for expansion. Given the high dependence on imports which are not hedged fully, AAPL's revenues and profits are susceptible to foreign exchange risks. The Company's debt profile is largely skewed towards short term loans to fund the inventories and the working capital requirements (despite an improvement in 7MFYE March 2017), which are refinanced on a regular basis. The company also uses medium term loans for working capital requirements and capex funding. Nonetheless, with only

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

modest capex plan of ~LKR 10 Mn per annum in the medium term for further expansion; the capital structure and coverage indicators are expected to witness further gradual improvement.

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.

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 third 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. The company currently has operations spread across 106 own outlets, 160 dealers, three company -owned service centers and 395 service centers run by AAPL appointed dealers Island wide.

For the FYE Mar-2016, AAPL reported a net profit of LKR 815 Mn on a total income of LKR 15,752 Mn compared to a net profit of LKR 461 Mn reported on a total income of LKR 13,345 Mn in FYE Mar-2015.

For the 7M ending FYE March 2017, the Company reported a profit after tax of LKR 331 Mn on a total income of LKR 7,640 Mn.

January 2017

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