

**Rating Rationale
Axess Limited**

Ratings

Instrument/Facilities	Amount	Rating	Rating Action
Bank Facilities – Overdraft, Import loan and Letter of Credit	MUR 350 million	CARE MAU A+; Stable (Single A Plus; Outlook: Stable) CARE MAU A1+ (A One Plus)	Assigned
Proposed Money Market Instrument*	MUR 100 million	CARE MAU A1+ [A One Plus]	Assigned

The aggregate of outstanding MMI and working capital facilities shall always be within the overall sanctioned working capital limits (overdraft limit and import loan) of Axess of MUR 335 million with banks).

Rating Rationale

The rating assigned to the bank facilities of MUR 350 million and proposed Money Market instrument of MUR 100 million of Axess Limited (“Axess”) derives strength from the long & satisfactory track record of Axess in the auto dealership business, the company’s position as the second largest automobile dealer in Mauritius (in terms of units sold), part of ENL group, being the sole dealer of Jaguar, Land Rover, Ford, Citroen, Mazda & Peugeot in Mauritius, 15 years long relationship with Jaguar and Land Rover and the rising demand for car sales in Mauritius during last 5 years. The rating also takes into consideration the company’s stable financial position with moderate gearing, low working capital utilisation level and satisfactory debt coverage indicators and comfortable liquidity. The rating is, however, constrained by foreign exchange fluctuation risk, competition from dealers of other luxury brands and secondary market and risk associated with inherent cyclical nature of demand in the automobile sector.

Rating sensitivities

Positive factors that could, individually or collectively, lead to positive rating action/upgrade

- Ability to maintain steady operating margin
- Ability to maintain second leadership position in the automobile dealership market of Mauritius
- Effective working-capital management

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Non -renewal of dealership Agreement with Jaguar/ Land Rover
- Timely debt servicing

BACKGROUND

Axess was incorporated in October 1982 as a private limited company in Mauritius. Since 1989, under the leadership of Mr. Antoine D’Unienville, Axess has broadened its portfolio of car brands, increased its market share and positioned itself as one stop shop for the motor vehicle owners on the island. In 2006, Axess has entered into an agreement with Land Rover and Jaguar UK for the distribution of Land Rover and Jaguar vehicle in Mauritius. Axess is also a specialist supplier of heavy vehicles and agricultural/industrial equipment and operates a portfolio of international brands including Isuzu, New Holland and Sumitomo. In August 2015, Axess has amalgamated with Tractors and equipment

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(Mauritius) Ltd (TEML) and Axess remains as the surviving company. Axess is wholly owned (100%) by ENL Commercial, which in turn is a subsidiary of ENL Limited (CARE MAU A Stable).

Axess is the sole distributor of Jaguar and Land Rover cars in Mauritius for over 15 years. The company has expanded its activities and entered distribution of Ford, Suzuki, Mazda, Citroen and Peugeot (all sole distributors except for Suzuki).

Axess is engaged in the distribution of new cars - passenger vehicles, commercial vehicles and heavy vehicles of agricultural /industrial equipment. The company display its vehicle brands through its two showrooms (rented) equipped with 4-S facilities (sales, service, spare-parts, and systems) in Mauritius along with one body & paint and mechanical workshop. Apart from this, the company is also involved in trading of pre-owned cars. Other additional income from Axess is from its sales of spare parts and accessories and car servicing facilities. Axess also has a dedicated Tyre Department (Michelin) supplying a range of tyre brands (including Michelin) to its customers.

Management: Axess is a professionally managed company. It is governed by a 5-member Board of Directors comprising of eminent industrialists and professionals. Mr. Eric Espitalier Noel is the Chief Executive Officer of ENL Commercial and has extensive experience in the commercial and hospitality sectors, being a Board Member of various companies operating in those fields of activity. The strategic affairs of the company are looked after by him and Mr. Antione D’unienville (General Manager of Axess). Mr. Antoine D’Unienville holds a BSc in Economics from the University of Cape Town and a degree in Political Science (Paris). He is also an Executive Director of ENL Commercial Limited, Axess’ parent company. They are assisted by a team of professionals looking after various functions of the company.

CREDIT RISK ASSESSMENT

Strong parentage of ENL Group

Axess is a 100% subsidiary of ENLC, which is a wholly owned subsidiary of ENL Limited (ENL: rated CARE MAU A; Stable). ENL is one of the large conglomerates in Mauritius having diverse business interest from Land and Investment, Commerce and Industry, Real Estate, Agro-Industry hospitality, logistics, Fintech to IT & ITeS domain. Land & Investment and Real Estate and Commerce & Industry are major business segments of ENL. ENL is controlled and managed by the Espitalier Noel family.

The group owns around 23,000 arpents (acres) of land in Moka (Centre of the island and most populated & one of the posh areas of Mauritius), Savannah (South) and Bel Ombre/Case Noyale (South-West). It grows sugar cane on 15,000 arpent of land and have earmarked about 5% of this area (around 1,000 arpent near Moka) for real estate development over next 10 years. Since the group has been holding such land for more than 100 years, its cost is almost negligible as compared to its current value. In 2011, the group inaugurated the Bagatelle Mall which is the most popular mall of Mauritius and has increased the land value in Moka region. The group’s strategy for growth has remained virtually unchanged over

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time: it leverages its significant land assets, to create cash-generating businesses that participate in building up modern-day Mauritius.

The promoters of ENL group hold their stake in various group entities through L'Accord. Four of the group's companies (ENL Limited [CARE MAU A Stable], Rogers, Ascencia [rated CARE MAU AA-Stable] and Commercial Investment Property Fund) are listed on SEM, with a market capitalization exceeding MUR 25 billion (against total debt of MUR 24 billion).

ENL Limited (Standalone Financials) as on June 30, 2020 are as under: MUR Million

For the year ended as on June 30,	2019	2020
	Audited	
Total Income	255	226
EBIDTA	60	(92)
Interest	199	389
Fair value gain on revaluation of investment properties	282	1,869
Profit on sale of land	43	872
PAT	189	2,640
Gross Cash Accruals (GCA) (Net of fair value gain in FY19, FY20 & 9MFY21)	189	771
Dividend paid/proposed	195	169
Tangible networth	17,348	19,656
Total debt	7,223	7,336
Investment in Subsidiaries	14,685	13,661
Cash & Bank balances	609	789
PAT (after defd. tax) / Total income	74.12	1170.71
Overall gearing ratio	0.42	0.37
Interest coverage (times)	NM	NM

Sole authorized dealer of Land Rover & Jaguar selling luxury car in Mauritius

Axess enjoys the leverage of being the sole dealer of Land Rover and Jaguar in Mauritius. It has an agreement with Land Rover, United Kingdom, to act as its sole distributor and the same has been renewed annually for the past 15 years (Land Rover, worldwide renews its contracts with the dealers on yearly basis). It also has similar Agreement with TATA Motors & British Motor Holdings to act as the sole distributor of Jaguar in the island. The contract is also renewed annually. The company's long association with these brands also speaks about its ability to renew the sole distributorship contract in future. In last 15 years, Land Rover & Jaguar have imparted training on knowledge & technical specification of Land Rover & Jaguar cars to various senior management personnel and staff of Axess. The company's showroom, spare parts, repairs & maintenance division and new body workshop has been set up under the guidance of the 2 companies. The unit sales of various luxury brands (BMW, Mercedes, Audi, Jaguar, Porsche and Land Rover) including Land Rover and Jaguar for last 5 years:

Passenger Cars Sold (Units)	2016	2017	2018	2019	2020
	12m	12m	12m	12m	12m
BMW	661	657	667	588	526
Mercedes	410	413	325	336	323
Audi	242	271	270	241	227
Land Rover	49	36	22	91	85
Mini	33	28	47	66	66
Porsche	61	48	52	53	46
Jaguar	80	78	77	86	38

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Source: National Transport Authority

Sale of new Jaguar cars in Mauritius dipped in FY20 due to the shortage of stock. Due to small size of the market almost every brand has only one authorized car dealer, hence competition from another dealer representing the same brand is very unlikely. Land Rover cars are quite popular around the island. Axess offers entire series of Land Rover cars (Series Sport, Defender 90/110, Evoque and Velvar) available in the range of MUR 4.0 – MUR 6.5 million which provides it the leverage to cater to different customer segments.

Axess also provides entire series of Jaguar cars. This apart, currently both Land Rover and Jaguar has launched their hybrid & electric models and all these models are in high demand due to duty discounts (30%-100%) provided by the Govt of Mauritius.

Sole authorized dealer of Ford, Mazda, Isuzu and Peugeot in Mauritius

Axess is also the sole authorized dealer of Ford, Mazda, Isuzu and Peugeot in Mauritius. It also sales Suzuki cars along with another car dealer in Mauritius. All these sole dealership acts as a strong and consistent revenue generating source for the company. It also helps Axess to establish its dominant position in the auto dealer market of Mauritius. While Ford is sold in the same showroom of Mazda and Isuzu, but Peugeot and Suzuki are sold in a different showroom recently built in the Bagatelle Motorcity. This is the very first automobile centre which offers a wide range of renowned brand of vehicles. Axess, for instance, has already set up flagships of French automakers Peugeot et Citroën, as well as renowned Japanese automaker Suzuki. The unit sales of various brands for last 5 years are as under.

New Passenger Cars Sold (units) – 12M	2016	2017	2018	2019	2020
KIA	960	1,242	1,317	1,242	982
Toyota	942	962	1,370	1,495	729
Hyundai	903	1,044	664	1,021	523
Nissan	852	942	1,282	1,370	419
Renault	570	533	487	496	357
Suzuki (Axess)	465	633	790	938	651
Honda	317	380	392	330	230
Mitsubishi	184	187	245	608	396
Ford (Axess)	117	93	120	287	4
Mazda (Axess)	110	141	166	436	77
Peugeot (Axess)	102	133	248	204	153

Source: National Transport Authority

In FY20, there was a decline in sale of new passenger cars for all the brands as compared to FY19 due to the pandemic and lockdown. Prior to the pandemic, the past trend depicted increase in sales of Suzuki, Ford and Mazda over the last few years, which in turn has reduced dependence of the company on Jaguar Land Rover for revenue from sale of cars. This apart, the company earns revenue from sale of spare parts, pre-owned cars, revenue from services (repairing of cars in workshops).

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Revenue stream of Axess is as under:

	FY18 MUR Million	% Of Revenue	FY19 MUR Million	% of Revenue	FY20 MUR Million	% of Revenue	FY21 MUR Million	% of Revenue
Sale of vehicles	2,496	95%	2,560	81%	2,469	81%	2,378	76%
Sale of spare parts and tyres			405	13%	382	13%	554	18%
Sales of rendering of services	114	4%	156	5%	140	5%	144	5%
Sales from Contract with customers			5	0%	7	0%	5	0%
Other operating Income	21	1%	34	1%	52	1%	51	2%
Total Revenue	2,631	100%	3,161	100%	3,049	100%	3,132	100%

Axess witnessed an overall decline in revenue from the different sale streams in FY20. However, revenue from spare parts witnessed increase in FY21, with marginal decline in automobile sales. Sale of new vehicles fell by 3% in FY21 over FY20. Sale of new JLR cars in Mauritius fell drastically in FY21 due to lack of vehicle in the showroom. In FY20-21, Jaguar has launched two new Jaguar Ipace and F-Pace (hybrid models). Both the cars have gained popularity in Mauritius due to lower duty and competitive pricing. Sale of Suzuki, Mazda, Ford and Peugeot also dipped due to lack of stocks. Sale of Ford cars are expected to pick up in CY21 with successful re-launch of the Ford raptor pick up vehicle. The company indicated that all its incoming stock for Land Rover and Jaguar till March 2022 is already booked and for non-luxury cars all incoming stocks till January 2022 is fully booked. The company has received advances from the customers (15-25%) based on the value of the vehicles.

Preferred dealer for Leasing companies, Corporates & Agricultural companies

Axess's customers are mainly from Leasing companies, Corporates, and individuals. Corporates accounts comprise of majority of the car sales from the ENL Group followed by Leasing companies and individuals. It caters to around 90% of the car requirement of corporate entities due to its after-sales service facility. Axess also sales pick up vehicles (4X4) of Ford, Mazda and Suzuki, which are quite popular and in demand within the agricultural community. Axess's workshop and inventory of spare parts is considered the best in Mauritius.

Stable operating margin in car dealership, service and spare parts

Axess's automobile dealership model is purely trading in nature, wherein profit margins (EBIDTA margins – 6.30%-8.0%) during FY18-20 are satisfactory considering the nature of business. This is because of long relationship & better bargaining power with Land Rover and JLR which enables the company to get discounts, offers, and higher credit period on cars. This apart the company's leadership position in automobile market of Mauritius also enabled it to negotiate better terms with other mid-segment brands.

Axess paid total rent of MUR 27 million to CIPF in FY21. In FY22, Axess will pay MUR 47 million of rental to CIPF. With full year of operations of the new showrooms in Motor city from FY23, Axess will be paying MUR 68 million of rental to CIPF from FY23 onwards.

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Stiff competition from secondary market and other car brand for non-luxury segment

Axess is the only new car dealer of Land Rover and Jaguar. Given the high price of spare parts and equipment used in service departments of Land Rover and Jaguar, Axess hardly faces any competition from the second-hand car dealers selling re-condition cars. However, it faces competition from other luxury car brands – BMW, Mercedes, Audi and Porche.

The company's non-luxury brand segment (Suzuki, Ford, Peugeot, Citroen, Mazda, Isuzu etc) faces stiff competition from second-hand car dealers who import re-condition cars from Japan & Europe. The second-hand car dealers influence the automotive sector in Mauritius. In January- December 2020, registration of new cars was around 8,180 units and imported cars was around 7,460 units. Sale of cars, both second-hand cars and new cars decreased in FY20 majorly impacted by the lockdown and closure of international borders. The second-hand imported car registration fell by 25% for the period CY20 over CY19 whilst new car registration dropped by 31% during the same period.

Foreign exchange fluctuation risk

Axess is exposed to foreign exchange fluctuation risk by virtue of purchase price of cars & spare parts in Euro (Land Rover & JLR) and USD (Ford and Suzuki) and selling price in MUR. Axess has a credit line of Euro 5 million (MUR 225 million) from JLR at 0% rate for 60 days. Initially the same is utilized for purchasing the cars. The company has an active Treasury desk, headed by Ms, Yagambrun, who monitors the movement of Euro/MUR & USD/MUR closely and the credit facility is repaid on the favourable Euro/MUR rate. In. During last 5 years, the company has always posted foreign exchange gain. This apart, the company also follows a stringent policy to cover its foreign exchange risk with forward cover in case of adverse movement of currency.

Competition from the other automobile dealers of other cars

Mauritius automobile industry remains a moderately concentrated market. The top 5 dealers - Leal Group, Axess, Toyota Mtius, Bamyris Motors Ltd and ABC Group control around 63% of the market share of new passenger and commercial cars sold. Axess faces competition from dealers of other luxury & premium cars in Mauritius (Mercedes, Audi, BMW, Porche, Honda, Toyota, Hyundai, Nissan & Suzuki). Axess group is the second largest car dealer of Mauritius (in terms of units sold), for last 5 years. It has market share of 22% in FY20.

The automobile industry has witnessed gradual increase in demand of passenger car over the past 10 years. The upward trend in demand for cars have been mainly driven by increasing purchasing power of Mauritians, rising income, declining taxes on vehicles over the period, changing lifestyle and psychological factors like status, social and personal aspirations, and emotional aspects. In FY20 post the pandemic, the automotive sector was impacted leading to a worldwide reduction in car sales. The closed borders and ceasing of operations due to the lockdown slackened the sale of cars. However, new vehicles registration has increased by 19% in 7MCY21 (Jan-July 2021) over 7MCY20

Stable Financial position with moderate gearing

In FY18 & FY19, Axess witnessed steady revenue growth in the sale of land Rover, Jaguar, Ford, Suzuki and Mazda cars; thereby increasing the sale of vehicles, spares & accessories and servicing. EBIDTA & PAT has also increased in FY18 and FY19.

However, in FY20, Total income witnessed a dip of 4% due to 3 months lockdown period and challenges faced with import of new cars due to closed frontiers. Despite lower turnover, EBIDTA increased by 14% in FY20 due to lower cost of sales (company benefited in turnover from appreciation of USD & EURO between March-June period). PAT was lower due to higher depreciation upon application of IFRS 16. GCA increased from Mur 113 million in FY17 to Mur 173 million in FY20.

In FY21, despite lower revenue from car sales, turnover witnessed an increase of 1.1% due to higher revenue from sale of spare parts, tyres and servicing. However, EBITDA and PAT were lower due to higher cost of goods sold vis-à-vis incremental turnover, since Axess provided discounts to clear its stock of cars in May-June 2021 (post second lockdown). GCA was satisfactory at MUR 157 million.

Axess doesn't have any long-term debt from banks and Financial Institution, barring some leasing facility.

In FY19, the company had availed long term loan from ENL Limited (MUR 112 million @3.10% p.a.) and utilized the same to reduce its short-term borrowings from banks. The company further availed MUR 172 million from ENL Limited (@3.10%) in FY20 to manage its working capital (cheaper than overdraft at 4.10%). As on June 30, 2020 and 2021, Axess had Mur 284 million of borrowings from ENL Limited. The management stated that Axess has repaid MUR 250 million to ENL Limited by partly utilizing its cash and bank borrowings.

Overall gearing improved June 2019. The same deteriorated to 0.85x as on June 30, 2020, due to debt availed from ENL Limited. The same has improved further to 0.60x as on June 30, 2021 due to lower utilization of working capital facilities. The management has stated they don't have any plans to borrow long term loans in next 3-5 years. They will be primarily using working capital to finance inventory and debtors. Current ratio has been above unity over the few years, since the company uses advance from customers to part finance its inventory. The average fund based working capital utilization was at 30% during the last 12 months ended September 2021.

Short Term Rating Analysis:

Axess has to maintain high inventory (around 2-3-month period) for display and to guard against supply shortages (shipment of cars from Europe and Japan takes 30-40 days). It has to maintain inventory of spare parts for around 6-9 months. Axess has a credit line of Euro 5 million (MUR 225 million) from JLR at 0% rate for 60 days. This apart the company also takes 15-20% advance from its customers at the time of initial booking. Accordingly, the company's inventory is financed by a mix of creditors (Letter of credit, advances from customers and bank borrowings).

While Axess delivers the vehicle only after receipt of full payment or against the release order from

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financial institution (funding the vehicle), however the financial institution takes around 30-40 days' time to release the funds. This apart insurance companies take 60-90 days to release the funds for repairs & services. Accordingly, the company has to utilize its bank borrowings to fund its receivables and inventory. The average fund based working capital utilization was at 30% during the last 12 months. The company's utilisation of non-fund based facilities (Letter of Credit) was around 65% during last 12 months.

FINANCIAL PERFORMANCE

MUR Million

For the year ended as on	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
	Audited				
Revenue	2,104	2,610	3,127	2,997	3,037
Total Income	2,134	2,631	3,161	3,049	3,084
EBIDTA	145	165	210	239	216
Depreciation	49	47	53	90	96
Interest	37	31	28	53	51
PBT	64	91	134	103	70
PAT	64	76	112	83	60
Gross Cash Accruals (GCA)	113	123	164	173	157
Dividend paid/proposed	-	30	50	-	40
Financial Position					
Equity share capital	150	250	250	250	250
Tangible networkth	296	452	484	568	587
Total debt	413	329	335	483	355
- Long term debt	111	20	26	35	30
- Short term debt	271	275	197	170	47
- Loan from holding company - ENL Limited	31	34	112	278	278
Cash & Bank balances	14	48	42	20	213
Key Ratios					
Profitability (%)					
EBIDTA / Total operating income	6.89	6.32	6.73	7.96	7.12
PAT / Total income	3.01	2.90	3.53	2.72	1.96
ROCE- operating (%)	0.00	12.44	14.06	7.40	4.5
RONW (%)	0.00	20.42	23.86	15.76	10.5
Solvency					
Long Term					
Debt equity ratio	0.37	0.04	0.05	0.06	0.05
Overall gearing ratio (incl. loan from ENL Limited)	1.39	0.73	0.69	0.85	0.60
Interest coverage (times)	3.94	5.37	7.50	4.52	4.28
Total debt/EBITDA	2.85	1.99	1.59	2.03	1.64

Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve and intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax.
3. Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Net worth.
4. Total Operating Income includes revenue from others (Dividend income, rental income, Management fees, rebate on purchase, etc.)

Details of Instruments

Details of Working Capital facilities rated by CRAF:

Limit	Amount (MUR Million)	Int Rates	Remarks
Overdraft	160	4.10%	Tenure: Up to 1 year
Import Loan	175	2.75-3.50%	
L/C	15	1.00%	
Total	350		

Instrument	Amount (Mur Million)	Tenure	Indicative Interest Rate
Money Market Instrument	100	1 year	2.00-2.50%

[Madam Aruna Radhakeesoon did not participate in the Rating Committee discussion of this case because of her association with Rogers & Co. Ltd, an associate company of Axess Limited]

Disclaimer

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