G.M Punjabi & Co. Ltd

11 August 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Bank Facilities (short-term)	**340**	**CARE MAU A2 [A two]**	**Assigned**

Ratings Rationale

The rating assigned to the bank facilities (short-term) of G.M Punjabi & Co. Ltd derives strength from the experienced and resourceful promoters, established presence of the company across the commerce and retail sector in Mauritius, the exclusivity in distribution of Hisense products across the country, the wide portfolio of 600 clients, the growing demand of consumer electronics, and stable operational and financial performance of the company. The rating also takes into consideration the strong presence of Hisense and INGCO brands in the Mauritian market and the improving operating cycle.

The rating is, however, constrained by the volatility in revenue highly correlated to consumer demand and the economy, stiff competition in the retail and distribution market, long collection period, client concentration with counter party risk, foreign exchange risk and market risk associated with import business and interest rate risk.

Rating Sensitivities

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

- Effective working-capital management with collection period improving in a sustainable manner
- Consistent demand in the local market which in turn will contribute to the scaling up and steady profitability.
- Ability to introduce more brands and new products

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

- Additional debt at the company level over and above the envisaged level
- Significant decline in consumer demand
- Non-renewal of agreements with supplier for the key brands or loss of major clients

BACKGROUND

Incorporated in June 1989, G.M Punjabi & Co. Ltd ("**G.M Punjabi**"), is a private limited (family-run) company which was founded by late Mr. Gopaldas Punjabi in the year 1974. The son of Mr. Gopaldas Punjabi, Mr. Padam Punjabi owns 100% stake in G.M Punjabi.

The core activity of the company consists mainly of importation and distribution of electronic goods, tools & safety equipment, beauty & personal care, and home & appliances. G.M Punjabi was ranked 10th for the commerce sector in Mauritius in 2022 as per Business Magazine. G.M Punjabi derives its income from the wholesale and distribution of a variety of electronics, hardware, home appliances and personal care products. The main brands include Hisense, INGCO, Mikachi, Rockford, to name a few.

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

It has the exclusive rights on the import and distribution of Hisense brand in Mauritius which is a leading electronic brand in China. Its wholesale network covers more than 600 clients. The company also operates one small retail shop located within the head office premises which sells Hisense electronical products and INGCO products.

Group background: Mr. Gopaldas Punjabi moved to Mauritius from India in the 1950s. It started business with a shop named Bombay Store in Vacoas which dealt in textiles. After 30 years of entrepreneurship, the former owner of the company, Mr. Gopaldas Punjabi, handed over the business to his sons, Mr. Padam Punjabi, and Mr. Pravin Punjabi. The successors of Mr. Gopaldas started to import textile from India for wholesale and retail to the local Mauritian market. Further expansion of the business happened when Mr. Padam Punjabi started to import of sundry items and small household appliances from South Africa, China, Hong Kong, Indonesia, and Taiwan. In 2008, the company obtained the exclusive rights for the importation and distribution of the Hisense brand in Mauritius. Hisense Electronics is a multinational electronics manufacturer headquartered in China. G.M Punjabi continued its business expansion to cater for the growing market segment demands, for instance, smart phones, beauty & personal care, and handheld tools and equipment.

Management: G.M Punjabi is a professionally managed entity with more than 100 employees. The strategic affairs of the company are overseen by the managing director, Mr. Padam Prakash Punjabi. With his acquainted knowledge and experience in the retail and commerce sector, Mr. Padam Punjabi contributed to the growth, expansion and is behind the diversification of G.M Punjabi. Mrs. Sarojini Punjabi, spouse of Mr. Padam Punjabi, was appointed as director in 2005. She has over 15 years of experience in the directorship and audit field.

CREDIT RISK ASSESSMENT

Long track record of the company & experienced promoters

Incorporated in 1989 and with over 30 years of existence, G.M. Punjabi & Co. Ltd is a private limited company, controlled and managed by the Punjabi Family whereby 100% of the stake are held by Mr. Padam Punjabi. G.M Punjabi ranks at the 10th place in the commerce sector as per Top 100 companies of business magazine in 2022. The company began expanding its activities and hence started importing sundry items and other small household appliances from China, Indonesia, Hong Kong, and Taiwan.

With growing demand in the local market, G.M Punjabi ventured into other new segments such as smart phones, power tools, equipment, and personal care. The company later obtained the exclusive rights for the distribution of the Hisense brand in Mauritius, thus being the USP of the leading electronic giant in China. While the company is mainly engaged in the business-to-business (B2B) market, it also has its own retail shop, which shows its presence in the business-to-customer (B2C) market.

Established presence of the company across the retail & commerce sector of Mauritius

G.M. Punjabi & Co. Ltd is fully owned and managed by the Punjabi family, whereby 100% of the stake is held by Mr. Padam Punjabi. G.M Punjabi has over 30 years of existence and operations in Mauritius. The company deals mainly in the importation and distribution of retail non-food items such as home appliances, smart phones, personal care, tools, and equipment to retailers across Mauritius. The company derives its income primarily from local sales. G.M Punjabi sources majority of its products from South Africa, China, Taiwan, Turkey, and Indonesia. It offers distributorship of brands such as Hisense, INGCO, Mikachi, Rockford, Rema Metal (Ferre), Audiosonic, Suzuki Time and Probike across

Mauritius. In 2008, the company obtained exclusive rights for import of Hisense branded electronics from South Africa. G.M Punjabi has over the years, built, a portfolio of 600 clients whereby the key clients are Mammouth Trading Co. Ltd, Nadsha Electro Meubles Co. Ltd, Promat Marketing Ltd, Cellplus Mobile Communications Ltd, M.A Khooduruth Marketing Co Ltd and A1 Supplies Ltd which contribute to 47% of the total sale (FY22).

Wide range of products offered and exclusive brand for Hisense

The company deals mainly in the importation and distribution of retail non-food items such as home appliances, smart phones, personal care, tools, and equipment to retailers across Mauritius. It offers distributorship of brands such as Hisense, INGCO, Mikachi, Rockford, Rema Metal (Ferre), Audiosonic, Suzuki Time and Probike across Mauritius. In 2008, the company has obtained exclusive rights to import and distribute Hisense branded electronics from South Africa.

In FY22, G.M Punjabi reported sale revenue of MUR 466 million and MUR 225 million from Hisense and INGCO respectively. As of June 2023, the INGCO brand had a market share of 40% for tools and safety equipment category in Mauritius while Hisense, exclusively distributed by G.M Punjabi, had around 20% of the market share in the consumer electronics (excluding smartphones) segment.

Large and renowned client's portfolio

Over its years of operations, G.M Punjabi has built a portfolio of 600 clients in Mauritius whereby the key clients are Mammouth Trading Co. Ltd, Nadsha Electro Meubles Co. Ltd, Promat Marketing Ltd, M.A Khooduruth Marketing Co Ltd, Cellplus Mobile Communications Ltd and A1 Supplies Ltd contributing to 47% of the total local sales for FY22. G.M Punjabi has long-term fixed contracts with its clients for distribution of imported products. The main clients are also entitled to one off discounts on the company's product range, which is at the discretion of the company. This concurrently ensures a smooth relationship with its clients. The company also allows its key clients to purchase on credit with credit terms varying between 30 to 90-100 days. Below table shows breakdown of total sales into cash sales and credit sales.

Breakdown of sales	FY20	FY21	FY22
	MUR million		
Cash Sales	45.70	83.67	118.78
Credit Sales	393.27	530.35	756.77
Total Sales	**438.97**	**614.02**	**875.56**

Long collection period albeit no history of bad debts

The current outstanding amount of trade receivables for the company was MUR 236 million as at July 31, 2023 out of which Mammouth Trading Co. Ltd owes an amount of MUR 130 million (55% of total receivables). As stated by the management, Mammouth Trading Co. Ltd makes regular monthly payments. G.M Punjabi stated that they do not face difficulty to recoup amount owed by the clients. In FY22, the average collection period was 97 days (104 days in FY21).

Mammouth Trading Co. Ltd (trades under the name of Courts Mammouth) is the leading non-food retailer in Mauritius. Courts Mammouth is a multi-national brand and began its journey as a furniture retailer in 1850. Courts was then sold to the Cohen Family in 1946 before coming to Mauritius as Courts Mammouth in 1850. The company deals in the retailing of furniture, electrical, electronic, equipment and leisure products. The company has since grown in popularity and is now operating across 22 branches in Mauritius including one clearance centre and 1 branch in

Rodrigues. In 2022, as per business magazine, Courts Mammouth was ranked first in the commerce sector of Mauritius, overtaking The Brandhouse Ltd. The financial summary of Mammouth Trading Co. Ltd is as below: *MUR million*

Year ended/ as on 31 March	FY20	FY21	FY22
12M		**Audited**	
Total Income	2,258	2,100	2,933
EBITDA	212	222	340
Total Interest Expense	25	14	18
Profit/(Loss) after Tax	26	30	95
Gross Cash Accruals (GCA)	158	168	258
Equity share capital	50	50	50
Tangible networth	12	61	189
Total debt	169	150	361
Cash & Bank balances	17	7	20
Key Ratios			
EBITDA margin (%)	9.42	10.88	11.75
PAT margin (%)	1.17	1.41	3.24
Overall gearing ratio (times)	13.64	2.46	1.91
Interest coverage (times)	8.52	16.24	18.66
Current ratio (times)	1.11	1.23	1.26

Mammouth Trading is the largest client of G.M Punjabi with a contribution of 35% to the total local sales. The company achieved a turnover of MUR 2.9 billion and PAT of MUR 95 million.

Reliable and strategic suppliers

G.M Punjabi procures its products from reliable and strategic network of suppliers. It has long-term fixed contracts with its suppliers which do not require yearly renewals. The main suppliers (international suppliers) of G.M Punjabi include Hisense SA Manufacturing, INGCO Tools Co., Zhongshan Double Crown Electrical Appliance Co Ltd, Chongqing Amity Machinery, and Kennede Home Appliances Co Ltd.

It has a 90-day credit facility with Hisense SA Manufacturing and a 30-day credit facility with INGCO and all other suppliers, all being interest free. G.M Punjabi & Co. Ltd imports majority of its products from Asia and South Africa to resell to local retailers in Mauritius. The company imports all Hisense product range from South Africa, which is closer to Mauritius than China, translating to lower import risk in terms of lower shipment & logistics costs and less transit time.

As of 30 June 2023, the total amount due to payables stood at MUR 82 million. Hisense and INGCO are the main brands of G.M Punjabi where the most working capital is deployed for the purchase of electronics appliances, tools, and safety equipment. Hisense and INGCO represent around 90% and 7% of the total creditors as of June 2023. G.M Punjabi has around MUR 31 million to pay by the end of July 2023 and MUR 51 million in the next 30 days. The average creditors days stood at 43 days as at June 2022 and the company's operating cycle was at 167 days (173 days in FY21).

Higher operating margin in sales consumer electronics
G.M Punjabi's 'import and sell' model is purely trading in nature, wherein profit margins (5.0% - 8.84%) during FY20-22 are high compared to the trading nature of the business and the profit margin of other comparable wholesalers. The company's gross profit margin (EBITDA margin) from home appliances, tool & equipment, and electronics sales ranges between (8.70% - 13.50%). This is explained by the flexibility of G.M Punjabi in adding a markup of up to 35%, better bargaining power with Hisense, discounts on bulk purchase and interest free credit term facility from its suppliers.

Stiff competition within the retail and distribution market
Although G.M Punjabi is the exclusive distributor of Hisense with a 20% market share, it faces stiff competition from other consumer electronic brands in Mauritius such as LG, Samsung, Sony to name a few which are also well sought brands in Mauritius. Additionally, many retail stores have also started to import their own products instead of buying the products from local wholesalers. The INGCO brand has around 40% of the market share in Mauritius in the tools & safety equipment segment from which G.M Punjabi enjoys leverage as it has its own INGCO retail shop in Phoenix and sells to the largest retailer in Mauritius, Mammouth Trading. Nevertheless, G.M Punjabi is not the sole distributor of INGCO products.

Foreign exchange fluctuation and interest rate risk
G.M Punjabi is exposed to foreign exchange fluctuation risk by virtue of purchasing home appliances, smart phones, tools, and safety equipment in USD and selling them in MUR. The company has MUR 340 million of working capital facilities with ABSA Bank whereby MUR 240 million is availed as Import/Trade Loan which are floating rate facilities linked to key rate and prime lending rate of the bank. As per the Mauritius Exchange Rate Index (MERI), the Mauritian rupee has depreciated by 4.6% from December 2022 to the end of June 2023. In FY22, the company posted MUR 7.4 million as foreign exchange loss.
G.M Punjabi is also sensible to both local and international interest rate risk. Being highly dependent on trade/import loans for its import business, the company faces interest rate risk which in turn is directly linked to the movement in Term SOFR, domestic Key Rate, and inflationary pressures. G.M Punjabi mainly imports from Asian countries namely South Africa, China, India, Taiwan, and Indonesia, which has a lower inflation rate compared to the western countries.

Industry Risk
<u>International Trade, Retail and E-Commerce Sector</u>
International Trade: One of the key drivers of economic growth for Mauritius is International Trade. Mauritius has an open economy and liberalized trade regime with a trade-to-GDP ratio of 95% and is currently engaged in trade negotiations at different levels and has finalized several Free Trade Agreements (FTA). The island is a member of the World Trade Organization (WTO), the only global international organization who regulates trade between nations with a well-established legal framework. WTO ensures that trade happens in a smooth and predictable manner.
In April 2023, Mauritius' main trading partners were United States (11.5%), France (11.1%), South Africa (9.6%), the United Kingdom (8.2%), Italy (7.5%), and Madagascar (7.2%); with imports originating in China (15.9%), the UAE (13.5%), India (9.1%), South Africa (7.0%), France (5.9%) and Japan (3.4%). Mauritius imports more than it exports, resulting in structural trade deficit. In 2022, Mauritius exported goods amounting to MUR 102 billion, MUR 82 billion in

2021 and MUR 70 billion in 2020 compared to an imported value of MUR 292 million in 2022, MUR 215 billion in 2021 and MUR 166 billion in 2020 (a constant increasing trade deficit over the years).

The Asian market remains the most traded market in Mauritius accounting for around 56% of imported value in 2022. Main import markets in Asia includes China (29%), India (17%), UAE (16%) and Japan (4%).

The top 5 imports for the period of 2020-2022 were Minerals and Lubricants with an import value of MUR 66.8 billion followed by Machinery & Equipment (includes household appliances, electrical parts and telecommunication, vehicles, machines) MUR 56.5 billion, Food and Basic goods with a value of MUR 52.8 billion, manufactured goods (includes paper, textile, cement, Iron) at MUR 46.5 billion and manufactured articles (includes apparels, accessories, beauty and personal care, jewellery) with and import value of MUR 26.6 billion.

China: With a GDP of around USD 18 trillion, China is rapidly expanding its middle-class and diversifying its product demand profile. The country is the first largest trading partner of Mauritius in terms of import value amounting to MUR 47,082 million with a partner share of 16% in 2022. The main products imported from China in 2022 were Household appliances, electronic equipment, smart phones, air conditioners and profiles of aluminium alloys. China was ranked 19th by Ease of Doing Business Index. The home appliance industry of China has become globally competitive in production scale and export volume. The country has around 80 to 90% global production capacity of small household appliances.

The Free Trade Agreement (FTA) was signed between China and Mauritius in 2019, which was the first FTA signed by China with an African country. Upon signing the FTA, Mauritius benefited from an immediate reduction in duties in the Chinese market on more than 7,000 tariff lines. The remaining products will be liberalised, as from January 2021 over a period of 5-8 years.

South Africa is the 1st largest trading partner of Mauritius in the African region and 4th largest overall representing around 9% of the total imported value in 2022. The country is the 3rd wealthiest country in Africa with a GDP of USD 412 billion and accounts for 25% of the African continent GDP. The annual headline inflation rate was at 5.40% in June 2023. Likewise, South Africa and Mauritius has signed several agreements such as the Southern Africa Development Community (SADC) and the African Continent Free Trade Agreement to promote trade and economic growth.

Retail and E-Commerce Sector in Mauritius: Mauritius has a dynamic retail and distribution sector backed by an attractive tax regime, reliable banking and financial services, efficient internet connection, freedom of entry and exit to the market and high degree of competition.

The commerce sector, more specifically, the retail of consumer electronics, mobile phones, and home equipment, is led by Mammouth (Mauritius) Group (Courts Mammouth) with a turnover of 2.89 billion. In consequence, The Brandhouse Ltd (Galaxy) holds the second place with MUR 2.62 billion turnover followed by Le Warehouse Limited (361) which is ranked third with a turnover of Rs 1.85 billion and J. Kalachand & Co. Ltd ranked fourth with revenue of MUR 1.24 billion, as per Business Magazine 2022. Courts Mammouth shifted to leadership in the year 2022 surpassing The Brandhouse Ltd with a steady increase in turnover close to MUR 3 billion milestone. The Mauritian market has seen a consistent growth in the appetite for consumer electronics and new technologies over past decade.

The strength of the retail sector emanates from the consumption and spending of the population. It is worth noting that despite an increase in the average cost of living resulting in lower purchasing power (Inflation), a depreciating currency and with high import costs, the final consumption expenditure rose to MUR 492,023 million in 2022 (an increase of 13% from 2021). The GDP per capita for the island in 2022 was at MUR 445,717. The wholesale and retail trade contributed 11.7% to 2022's GDP (GDP in 2022 was at USD 12.5 billion). The Inflation rate moderated to 10.5 % in June 2023 from record height of 11.9% in September 2022. The Gross Saving rate was ascertained at 12.6 % of the GDP in 2022.

E-commerce: The e-commerce platform in Mauritius is limited. The Island has more of an in-store (offline shopping) practice as more people prefer to walk into shops and check the product physically before purchasing. However, with a reliable, stable and an increase in the internet penetration rate, and being further encouraged in the post pandemic, the e-commerce sector is projected to grow by 14% in the next 5 years. Many wholesalers and retailers have embarked on the online market contemplating to launch ecommerce website, e-shops, and e-ordering. Mauritius has still some remote areas which has low speed internet and bandwidth which is the lacking element for modern e-commerce transactions. More and more people are perceiving the benefits of the e-commerce platform. As such the retail sector is gradually shifting to a more digitalised way of shopping and transacting.

Financial Performance

Performance in FY22: G.M. Punjabi & Co Ltd derives its revenue mainly from import and distribution of Home & Appliances, Tools & Equipment, and Beauty & Personal Care products to local retailers. It also operates a small shop where it sells Hisense and INGCO products directly to customers. In FY19, the company posted revenue of MUR 359 million and profits of MUR 18 million. Despite the covid outbreak in 2020, revenue grew by 24% reaching MUR 439 million, however profits moderated to MUR 17 million portraying the resilience of the company during the economic turmoil. In 2021, the company reported a 40% growth in revenue with a sale of MUR 614 million. EBITDA and PAT were also higher at MUR 53 million and MUR 29 million respectively.

In FY22, G.M Punjabi witnessed a notable revenue growth of 43% in FY22 mainly attributed to the strong presence of INGCO and Hisense in Mauritius contributing each around 53% and 26% of G.M Punjabi's total revenue. EBITDA and PAT were MUR 110 million and MUR 76 million respectively. GCA was comfortable at MUR 80 million. G.M Punjabi does not have any long-term borrowings. Interest coverage was at 7.69 times and overall gearing ratio fell to 1.45 times (2.19 times in FY21) as at December 31, 2022. In FY22, the operating cycle of G.M Punjabi moderated to 167 days (173 days for FY21).

Financials of G.M Punjabi & Co. Ltd (Standalone) **MUR Million**

For the year ended as on	Jun-20	Jun-21	Jun-22
	12M, Audited		
Revenue	439	614	876
Total Income	447	630	888
EBITDA	38	53	110
Depreciation	4	5	5
Interest	13	12	14
PBT	21	37	91
PAT	17	29	76
Gross Cash Accruals (GCA)	21	33	80
Dividend paid/proposed	-	-	-
Equity share capital	5	5	5

For the year ended as on	Jun-20	Jun-21	Jun-22
	12M, Audited		
Tangible networth	70	98	174
Total debt	175	214	252
- Long term debt	-	-	-
- Short term debt	175	214	252
Cash & Bank balances	3	5	4
Key Ratios			
EBITDA / Total operating income	8.70	8.69	12.54
PAT / Total income	3.85	4.54	8.51
ROCE- operating (%)	10.97	11.15	24.13
RONW (%)	28.03	34.08	55.55
Overall gearing ratio	2.50	2.19	1.45
Interest coverage (times)	2.83	4.49	7.69
Total Debt/ EBITDA	4.59	4.01	2.30
Total debt/ GCA	8.28	6.40	3.14
Current ratio	1.28	1.34	1.45
Quick ratio	0.62	0.68	0.70
Avg. Collection Period (days)	124	104	97
Avg. Inventory (days)	134	116	113
Avg. Creditors (days)	63	47	43
Op. cycle (days)	195	173	167

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+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Networth.

Details of Instruments

Bank Facilities (short-term)

Name of Bank	Instrument	Amount (MUR Million)	Interest rate (%)
ABSA Bank	Overdraft	20	7.45 (PLR)
	Trade Loan	240	MUR: 6.45 (PLR less 1%) / USD: SOFR plus 3%
	Discounting Facility	80	6.45 (PLR less 1%)
Total		**340**	

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Annexure I

Rating Symbols

Short term Instruments

Symbols	Rating Definition
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifiers {"+" (plus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.

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CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.