

Brief Rating Rationale
CRAF reaffirms ‘CARE MAU A1+’ rating assigned to the
Short-term Loan of Mur 200 million of Leal & Co. Limited

Ratings

Facility/Instrument	Amount (MUR Million)	Rating	Rating Action
Short-term loan* (carved out of working capital facilities**)	200	CARE MAU A1 + (A One Plus)	Reaffirmed
Total	200		

**Maturity not exceeding 364 days*

***“The aggregate of outstanding Short-term loan and working capital facilities shall always be within the overall sanctioned working capital limits (overdraft limit, import loan & money market line) of Leal & Co. Ltd. of MUR 932 million with banks”.*

Rating Rationale

The rating assigned to Leal & Co. Ltd (“Leal”) derives strength from long & satisfactory track record of the promoters in the automotive sector, Leal Group’s leadership position in automobile dealership sector in Mauritius, the Group’s presence in distribution of branded products across industries in Mauritius, a qualified management team with low attrition level, Leal being the authorised dealer of BMW, Mini, Renault & Mitsubishi vehicles in Mauritius, as well as being amongst the preferred dealer for providing very good after sales service in the luxury car segment, its rather diversified revenue stream with good profitability margins, moderate working capital utilisation and satisfactory debt coverage indicators.

The rating also considers the risks associated with Leal’s significant investment in group companies (37% of Leal’s net worth is invested in group companies), foreign exchange fluctuation risk on imports, rising competition from dealers of other luxury brands & secondary market, risk associated with inherent cyclical nature of demand in the automobile sector and the working capital-intensive nature of the business.

Leal’s ability to maintain its strong position in the automobile dealership sector in Mauritius, effective working-capital management, further improvement in performance of group companies, quantum of additional investment in group companies vis-à-vis its net worth along with improvement in profitability & capital structure are the key rating sensitivities.

BACKGROUND

Leal & Co. Ltd (Leal) was incorporated in January 1976 by Late Mr. Michael Joseph Clency Leal as a private limited company in Mauritius. Mr. Leal’s venture in automotive sector started in 1970 by setting up a small garage, for repairing cars, under the name of Société Clency Leal. In 1972, the Société Clency Leal entered into an agreement with BMW AG Germany for distribution of BMW cars (most popular car in the luxury segment of Mauritius) in Mauritius. In 1976, the agreement with BMW AG Germany was entered under Leal. In 1981, Leal was converted into a public limited company.

Leal is engaged in the dealership of new cars - passenger vehicles and motorcycles through its showrooms (owned) equipped with 4-S facilities (sales, service, spare-parts and systems) in Mauritius along with one sales outlet in North of the Island and one body & paint workshop. In addition to the above, the company also deals in pre-owned cars, spares parts, car accessories (BMW, Mini, Renault and Mitsubishi), car servicing facilities and car rental business.

Leal has been the dealer of BMW cars in Mauritius for more than 40 years. The company expanded its activities and entered into dealership of Renault (2004), MINI (2007) and Mitsubishi (2015). In October 2013, Leal Group entered into a dealership agreement with BMW in Reunion Island.

Leal Group ("Leal & Co. Ltd and its subsidiaries") is engaged in distribution of various products across a wide range of industries - automobile, pharmaceutical, chemical, consumer goods, retail products, IT products (distributor of Apple, Microsoft & Symantec products), software, information technology services and engineering in Mauritius and Reunion Island.

In FY19, most of the major group companies posted higher turnover and positive PAT with Leal Equipments, PNL and DistriPc exhibiting profitability growth of 68%, 10% and 5% respectively. LCI's experienced a 2.5x increase in PAT in FY19 over FY18, supported by an 11% increase in its turnover. United Motors demonstrated similar profitability as FY18 (1.3% growth in PAT over FY18), with KIA sales remaining stable. Around 37% of Leal's net worth is invested in group companies (FY18: 32%). All the major group companies were profitable in FY19. Leal has provided corporate guarantee on working capital bank facilities of few of its subsidiaries amounting to MUR 398 million.

At standalone level, Leal posted a PAT of MUR 200 million on a revenue of MUR 3.5 billion in FY19. Interest coverage was 6.29x and overall gearing was 0.65x as on June 30, 2019.

At the group level, Leal posted a PAT of MUR 297 million on a revenue of MUR 11.1 billion in FY19. Interest coverage was 4.53x and overall gearing was 1.59x as on June 30, 2019.

The company has stated to have achieved a revenue of MUR 1,800 million and PAT of MUR 80 million in H1FY20 (July 1 - Dec 31, 2019).

The average fund based working capital utilisation (including Short term loan of MUR 200 million from AfrAsia Bank) was at 51.5% during the last 12 months ended December 2019.

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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) / "-"(minus)} 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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