

Leal & Co. Ltd

July 07,2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Proposed term loan	600 (enhanced from MUR 500 million)	CARE MAU A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Total	600		

Rating Rationale

The rating assigned to the proposed term loan of MUR 600 million of Leal & Co. Ltd ("Leal") continue to derive strength from the long & satisfactory track record of the promoter in auto dealership business, Group's leadership position in automobile dealership in Mauritius, Leal being the sole dealer of BMW, Mini, Renault and Mitsubishi in Mauritius and the preferred dealer amongst Corporates and Govt. bodies, long association with BMW group for over 40 years and the rising demand for car sales in Mauritius during last 5 years barring CY20. The rating also takes into consideration the group's presence in distribution of branded products across various industries in Mauritius, stable operating margin for last few years, satisfactory financial position with moderate gearing & liquidity and stable performance & cash surplus of the dividend paying subsidiaries.

The rating is, however, constrained by the working capital-intensive nature of the business, foreign exchange fluctuation risk, competition from dealers of other luxury brands & secondary market, risk associated with inherent cyclical nature of demand in the automobile sector, significant investment in group companies and completion of the ongoing/proposed projects well within stipulated cost & time.

Rating sensitivities

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

- Ability to maintain steady operating margin
- Ability to maintain 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

- Additional investment in group companies (over & above already considered) vis-à-vis net worth adversely affecting its liquidity and debt coverage indicators
- Deterioration in performance of any major subsidiary leading to support requirement from Leal
- Additional long-term debt at Leal & Co. Ltd
- Non-renewal of dealership Agreement with BMW

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

CARE Ratings (Africa) Private Limited

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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 the automotive sector started in 1970 by setting up a small garage for car repairs under Société Clency Leal. In 1972, Société Clency Leal entered into an agreement with BMW AG for distribution of BMW cars (most popular brand in the luxury segment of Mauritius). In 1976, the agreement with BMW AG Germany was renewed 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 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.

Leal group (Leal and its subsidiary company United Motors Ltd.-engaged in distribution of KIA cars), is currently the largest car dealer of Mauritius with 27% share of the passenger & commercial vehicle market of Mauritius (based on CY2021 (January to December 2021) sales). Leal Group registered the highest sales of passenger cars in Mauritius in recent years with 2,409 units in 2021 (Jan-Dec).

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 64% of the market share of new passenger and commercial cars sold.

Standalone: In FY21, total income increased from MUR 3,283 million to MUR 3,170 million in FY20. The company has been able to maintain its position as market leader in the automobile industry with a market share of 27%. PAT witnessed an increase of 11%. PAT witnessed an increase of 11%. During FY18-FY21, GCA was comfortable. Overall gearing ratio has improved from 0.80x as on June 30, 2020, to 0.50x as on June 30, 2021, following the repayment of debt. The average fund based working capital utilization was at 45% during the last 12 months ended March 2022.

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Consolidated: Leal group reported a very satisfactory performance in FY21 with Revenue, EBIDTA and PAT being the highest since the past few years despite the pandemic and lockdown. Total income was up by 19% (MUR 13 billion in FY21 compared to MUR 11 billion in FY20) and PAT by 77% (MUR 385 million in FY21 as compared to MUR 217 million in FY20). The strong performance of the different clusters contributed to the improved performance in FY21. The overall gearing was at 0.98x times (from 1.52x times in FY20) with a good portion of debt been repaid.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity.

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CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure I

Long /Medium-term Instruments

Symbols	Rating Definition
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category. A suffix of '(SO)' may be added to the rating indicating that the instrument / facility is a "Structured Obligation". A prefix of 'Provisional' may be added to a 'SO' rating indicating that the rating is subject to completion of certain conditions.

Rating Outlook

The rating outlook can be 'Positive', 'Stable' or 'Negative'.

A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A 'Stable' outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

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About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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.

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