

Brief Rating Rationale

CRAF assigns ‘CARE MAU A1+’ rating to the proposed Commercial Paper issue of MUR 200 million of Leal & Co. Limited

Ratings

Facility/Instrument	Amount (MUR Million)	Rating	Rating Action
Proposed Commercial Paper (CP) (earmarked out of working capital facilities)*	200	CARE MAU A1 + (A One plus)	Assigned
Total	200		

**“The aggregate of outstanding CP 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. MUR 800 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 sector in Mauritius, the group’s presence in distribution of branded products across industries in Mauritius, qualified management team with low attrition level, Leal being the authorised dealer of BMW, Mini, Renault & Mitsubishi vehicles in Mauritius, preferred dealer for providing amongst the best after sales service in luxury car segment, diversified revenue stream with good profitability margins, low working capital utilisation and satisfactory debt coverage indicators.

The rating also takes into cognizance the risks associated with significant investment of Leal & Co. Ltd. in group companies (42% of Leal’s net worth is invested in group companies), foreign exchange fluctuation risk, rising competition from dealers of other luxury brands & secondary market, risk associated with inherent cyclical nature of demand in the automobile sector and the intensive working capital nature of the business.

Leal’s ability to maintain its leadership position in the automobile sector in Mauritius, effective working-capital management, 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 the automotive sector started in 1970 by setting up a small garage for car repairs under Societe Clency Leal. In 1972, Societe 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 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 (owned) equipped with 4-S facilities (sales, service, spare-parts and systems) in Mauritius

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along with one sales outlet (in North of the Island) and one body & paint workshop. Apart from 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 the last 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 is governed by 11 Board member comprising of professionals with wide range of experience and expertise. Mr. Eric Georges Michel Leal (Chairman and Group Chief Executive officer) looks after the strategic affairs of the company. He is assisted by a team of experienced professionals.

Leal and United Motors Ltd (subsidiary company engaged in distribution of KIA cars), are currently the largest car dealers in Mauritius with 32% share of the passenger & commercial vehicle market of Mauritius in CY16 (25% in CY15). Leal registered the highest sales of passenger cars in Mauritius for the last 3 years (2014, 2015 and 2016).

In FY16 (July 2015 – June 2016), Leal posted a PAT of MUR 102 million on a turnover of MUR 2,422 million. Interest coverage was 3.99x during FY16. Overall gearing was 0.96x as on June 30, 2016. In FY17 Prov. (July 2016 – June 2017), Leal posted a PAT of MUR 157 million on a turnover of MUR 3,012 million. Interest coverage for FY17 was 4.38x and the overall gearing was 0.94x as on June 30, 2017.

At the group level, Leal posted a PAT of MUR 135 million on a turnover of MUR7.9 billion in FY16. Interest coverage was 2.77x during FY16. Overall gearing was 2.45x as on June 30, 2016.

On the September 1, 2017, Leal had an aggregate working capital limit of MUR 805.5 million from various banks in the form of overdraft, money market line and import line. The average utilisation of these facilities was around 47% during the last 12 months ended June 2017. Additionally the company has secured term loan of MUR 190 million from various banks.

Details of Instrument

Facilities/Instruments	Coupon rate	Maturity Date	Credit Rating	Size of the Issue (MUR Million)
Proposed Commercial Paper (earmarked out of working capital facilities)	-	7-364 days from the date of Issuance	CARE MAU A1+	200

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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.

Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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