

**Rating Rationale  
Leal & Co. Ltd**

**Ratings**

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

*\*“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 along with one sales outlet (in North of the Island) and one body & paint workshop. Apart from the

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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 members comprising of professionals with wide range of experience and expertise. Late Mr. Michael Joseph Clency Leal, C.B.E, was Group Chairman of Leal since January 1976 till his demise in May 2014. After his sudden demise, his son Mr. Eric Georges Michel Leal (48 years) took over as the Chairman and Group Chief Executive officer. He has worked in various departments of Leal for more than 25 years and has a good understanding of the automotive market of Mauritius. The strategic affairs of the company are looked after by himself, Mr. Joseph Jacques Collet Serret (Deputy Chief Executive officer) and Mr. Yousouf Rehmally (Group CFO). They are assisted by a team of professionals looking after the various functions of the company.

## **CREDIT RISK ASSESSMENT**

### ***Long & satisfactory track record of the promoters***

Leal’s promoters have over 40 years’ experience in the automobile dealership industry. At present, Leal family through various companies are the main shareholders (78%) in Leal & Co Ltd. The remaining 22% shareholding is held by insurance companies, corporates and individuals. 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).

### ***Professional and highly qualified management team***

Leal has a qualified and experienced employee pool with vast experience in their related fields. Most of the members of senior management team have been associated with Leal for more than 15 years.

### ***Established group engaged in distribution of branded products across industries in Mauritius***

Leal group, through its various subsidiaries, is engaged in the distribution of various brands across a wide range of industries from automobile to medical, consumer goods, electronic goods, software, information technology services and engineering in Mauritius and Reunion Island. Whilst the majority of the group’s business is based in Mauritius, the company is also present in Reunion Island, where it is the dealer of BMW & Mini cars, Apple products & accessories. The main subsidiaries of the group

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are PNL (engaged in the distribution of consumer goods, pharmaceutical products, retail good and chemical products in Mauritius), Leal Reunion (Dealer of BMW & Mini cars in Reunion Island), United Motors Limited (Dealer of KIA cars), SARL Solinfo (Distributor of Apple and accessories in Reunion Island), DistriPC Ltd (Distributor of Symantec and Microsoft products), Leal Communications & Informatics Ltd and Leal Equipements Cie Ltée.

**The brief financials of major group companies are as under:**

*MUR Million*

Companies (FY16)	Stake (%)	Turnover	PAT	Total Debt	Net worth	Overall gearing
Leal Reunion	100.0	1874.3	14.6	366.5	59.0	6.2
Pharmacie Nouvelle Limited (PNL)	57.7	1710.6	47.3	630.0	273.4	2.3
United Motors Limited	100.0	640.8	-10.2	153.0	77.3	2.0
DistriPc Ltd	75.0	428.7	7.9	27.9	26.8	1.0
Leal Communications & Informatics Ltd	94.0	321.5	3.4	48.9	7.1	6.9
Leal Equipments Compagnie Ltee	75.0	249.6	-10.1	11.2	43.0	3.8
SARL Solinfo	50.0	232.8	4.1	21.1	28.2	0.7

***Significant investment in group companies***

Around 42% of Leal’s net worth is invested in group companies, some being loss making in FY16. However, the management has stated these loss incurring entities have turned around during FY17 and that there are no major plans of further investment in group companies. The management has also indicated that in FY17, the group has achieved a turnover of MUR 9.5 billion (turnover of 7.9 billion in FY16). This is mainly attributable to the excellent performance of United Motors Limited selling Kia cars, improvement in the financials of Leal Equipment and S.A.S Leal Reunion.

***Authorized dealer of BMW- the highest selling luxury car in Mauritius***

Leal has an agreement with BMW to act as its authorized dealer in Mauritius and the same has been renewed annually for the past 40 years (BMW Germany, worldwide renews its contracts with its dealers on yearly basis). BMW has imparted training on knowledge & technical specification of BMW cars to various senior management personnel and staff of Leal. The company’s showroom, spare parts, repairs & maintenance division and new body workshop has been set up under the guidance of BMW. It is to be highlighted that in the luxury car market of Mauritius (which includes BMW, Mercedes, Audi, Jaguar, Porche and Land Rover), unit sales of BMW has consistently been the highest in last 3 years.

Passenger Cars Sold (Units)	CY2014	CY2015	2016-17
BMW	513	638	661
Mercedes	317	157	410
Audi	142	209	242
Land Rover/Range rover	29	68	49
Mini	23	43	33

The wide variety of models of BMW cars (116i, X1 - X6, 3, 5 & 7 series & BMW i8) offered in the price range of MUR.1.4 to 11 million provides Leal with the leverage to cater its different customers.

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In CY16, sales of new BMW cars increased in Mauritius despite revitalized Mercedes activity following the appointment of their new dealer. Due to limited size of the Mauritian automobile market almost every brand has only one authorized dealer, hence competition from another dealer representing the same brand is unlikely.

***Authorized dealer of Renault, Mitsubishi and Mini in Mauritius***

Leal is also the authorized dealer of Renault, Mitsubishi and Mini in Mauritius. United Motors Limited (a subsidiary company) is the distributor of KIA cars. All these dealerships are strong and generates high and consistent revenue for the company and the group. It helps Leal in establishing its dominant position in the automobile sector in Mauritius. Mini and BMW vehicles are displayed in the same showroom whilst Renault, Mitsubishi and Kia are sold through different showrooms.

<b>Passenger Cars Sold (unit wise)</b>	<b>CY 2014</b>	<b>CY 2015</b>	<b>2016-17</b>
KIA (Leal group)	955	682	960
Renault (Leal)	288	297	570
Mitsubishi (Leal)	311	124	184

The significant increase in sales of Renault and Mitsubishi (Leal became authorized dealer in 2015), reduced the dependence of the company on BMW for revenue from sale of cars.

***Preferred dealer for good after sales service in luxury car segment***

Leal’s customers are mainly Corporates, Government bodies and individuals, with corporates & individuals comprising for majority of the turnover. Leal’s overall excellent sales trend is attributed to its good after sales service facility. Leal’s workshop & capacity to hold inventory of spare parts is amongst the best in the automobile industry of Mauritius.

***Diversified revenue stream leading to good profitability margins***

Leal generates revenue from distribution of cars, sale of spare parts, pre-owned cars, revenue from service (repairing of cars in workshop) and car rental services. The revenue stream of Leal is as under:

	<b>FY15 MUR Million</b>	<b>% of Revenue</b>	<b>FY16 MUR Million</b>	<b>% of Revenue</b>	<b>FY17 MUR Million</b>	<b>% of Revenue</b>
Sales of new vehicles	1,539	74.8	1,801	74.4%	2,217	73.6%
Sales of spare parts	276	13.4	342	14.1%	422	14.0%
Sales of services	140	6.8	173	7.1%	211	7.0%
Car Rental Services	94	4.6	96	4.0%	151	5.0%
Others	7	0.4	10	0.4%	12	0.4%
<b>Total Revenue</b>	<b>2,057</b>	<b>100.0%</b>	<b>2,422</b>	<b>100.0%</b>	<b>3,012</b>	<b>100.0%</b>

In 1974, Leal started its operations with Europcar, to provide car rental services. With a large fleet of vehicles (89) ranging from the small Kia Picanto to the luxurious BMW 7 series, Europcar is a leading rental car company in Mauritius and offers driver and passenger insurance coverage in line the European standards. Leal derives approximately 25% share of its revenue from the sales of spare parts and other related operations.

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***Foreign exchange fluctuation risk***

Leal is exposed to foreign exchange fluctuation risk by virtue of purchase price of cars & spare parts in Euro (BMW, Mini & Renault), Yen and USD (Mitsubishi) and selling price in MUR. The company has an active Treasury desk which monitors the movement of Euro/MUR & Yen/MUR closely and the credit facility is repaid on the favourable Euro/MUR rate. During last 5 years, the company has always realised foreign exchange gain. The company also follows a stringent policy to cover its foreign exchange risk through forward cover in case of more than 8% adverse movement of currency.

***Growth in total operating income along with satisfactory debt coverage indicators***

Leal's total operating income has increased steadily between FY14-FY17. This was primarily driven by continuous marketing endeavour and steady growth in sales of BMW cars & significant increase in sales of Renault & Mitsubishi cars. This led to an increase in sales of spares & accessories and servicing of higher number of vehicles. However, Leal's PBIDT margin has declined over FY14-16 and this is due to higher employee cost (new business activities and employee benefits to retain the best employees), higher promotional expenses and lower dividend income from group companies. However, improvement was noted in FY17 (Prov.) due to lower cost and higher dividend income (better performance of group companies). During FY14-FY16, GCA was comfortable in the range of MUR 170 -180 million vis-a-vis debt repayment obligation of MUR 50 million in all 3 years. GCA has improved to MUR 237 million in FY17 vis-à-vis debt repayment obligation of MUR 51 million. Overall gearing ratio has remain range bound (0.83-0.96x) as on last 4 account closing dates. Total debt/GCA was also comfortable at 3-4 times.

Leal maintains a relatively higher inventory (around 2-3 month period) to ensure timely availability of its products so as 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. The company has a credit facility of Euro 10 million (MUR 400 million) from BMW and Euro 5 million (MUR 200 million) from Renault for 60 days. Part advance payments are also normally requested from its customers at the time of initial booking. Accordingly, the inventory is financed by a mix of creditors, advances from customers and bank borrowings.

Leal effects delivery of the vehicle only after receipt of full payment or against the release order from financial institution (funding the vehicle); however the financial institution takes around 30-40 days' time to release the funds. Apart from this, 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.

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.

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***Competition from the other automobile dealers of other cars and secondary market***

Mauritius automobile industry remains a moderately concentrated market and the number of new car dealers on the island is approximately 20. Leal faces competition from dealers of other luxury & premium cars in Mauritius but remained the largest car dealer of Mauritius (in terms of units sold), for last 3 years.

Although Leal is the only new car dealer of BMW, it faces competition from second hand car dealers who import cars of various brands including BMW from Japan & Europe. The second-hand car dealers has an influence on the automotive sector in Mauritius and they have maintained their sales at the same level in FY15 & FY16 despite an appreciation of JPY vis a vis the Mauritian rupee. However, the Government of Mauritius came with new regulations in the budget 2016-2017 where the adjustment factor (depreciation on cars) used at customs to determine import value of a second-hand car is being decreased from 25% to 5%. This has further reduced the gap in the price between new and second-hand cars creating a level playing field for car dealers. This has regulated the market share in Mauritius in June – Sept 2017.

***Cyclical nature of the auto industry***

The automotive sector is inherently vulnerable to the economic cycles and is highly sensitive to interest rates and fuel prices. The automotive industry is expected to grow moderately due to the rising fuel prices in Mauritius, sluggish global automotive industry performance and MUR depreciation. The growth in the automobile sector is forecasted in line with the projected GDP growth of 3.7%. The growth rate of new vehicles put on road in FY16 was around 9%. The threat of new entrants in the industry is quite low as Mauritius is small market and almost all the big brands are already represented on the market.

Recently, Bank of Mauritius has reduced the repo rate by 50 basis point. In case the same gets effected in the lending rates of banks for automobile sector, it can add a fillip to the industry. However, a part of such positive impact gets negated by the rising fuel prices (increased by Mur 3.50 per litre in CY17).

***Prospects***

Going forward, the prospects of Leal will depend on its ability to sustain profitability, maintain leadership position in the automobile market of Mauritius and general economic outlook. Effective working-capital management, improvement in capital structure and performance of group companies is critical for Leal.

**FINANCIAL PERFORMANCE**  
**Standalone Financial performance of Leal**

*MUR Million*

<b>For the year ended as on</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17</b>
	<b>12M,A</b>	<b>12M, A</b>	<b>12M, A</b>	<b>12M, Prov</b>
Revenue	1724.0	2056.5	2422.4	3012.0
Total Operating Income	1840.8	2143.2	2498.7	3142.4
PBIDT	209.3	203.9	204.9	264.7
Depreciation	59.9	63.5	72.7	80.0
Interest	39.1	39.6	51.4	60.5
PBT	124.0	124.3	125.9	175.5
PAT	111.8	108.5	101.7	156.8
Gross Cash Accruals (GCA)	171.7	171.9	174.3	236.8
Dividend paid	43.9	43.9	43.9	55.1
Equity share capital	279.8	279.8	279.8	365.8
Tangible networth	587.4	620.9	738.6	818.9
Total debt	536.4	517.1	709.4	770.7
Cash & Bank balances	20.7	19.7	24.1	52.2
<b>Key Ratios</b>				
<b>Profitability (%)</b>				
PBIDT / Total operating income	12.14	9.92	8.46	8.79
PAT / Total income	6.07	5.06	4.07	4.99
ROCE- operating (%)	2.09	3.38	3.16	3.31
RONW (%)	15.22	14.36	11.97	20.13
<b>Solvency</b>				
Debt equity ratio	0.33	0.32	0.44	0.37
Overall gearing ratio	0.91	0.83	0.96	0.94
Interest coverage (times)	5.35	5.15	3.99	4.38
Long term Debt/ GCA	1.11	1.17	1.84	1.28
Total debt/ GCA	3.13	3.01	4.07	3.26
<b>Liquidity</b>				
Current ratio	1.09	1.10	1.02	1.05
Quick ratio	0.46	0.53	0.43	0.48
Avg. Collection Period (days)	?	59	75	58
Avg. Inventory (days)	?	70	100	85
Avg. Creditors (days)	?	41	53	52
Op. cycle (days)	?	88	122	90

**Adjustments**

1. Tangible networth 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 Networth.
4. Total Operating Income includes revenue from others (Dividend income, rental income, Management fees, rebate on purchase, etc.)

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**Consolidated financial performance of Leal group**

MUR Million

For the year ended/ as on	Jun-15 12M, A	Jun-16 12M, A
Revenue	7,199.2	7,927.6
Total Operating Income	7,359.0	8,097.4
PBIDT	364.2	377.0
Interest	111.4	136.2
PAT	121.7	134.7
Gross Cash Accruals (GCA)	256.2	276.8
Dividend paid	54.5	50.9
<b>Financial Position</b>		
Equity share capital	279.8	279.8
Tangible networth	627.7	779.7
Total debt	1,491.1	1,907.7
Cash & Bank balances	87.4	81.6
<b>Key Ratios</b>		
PBIDT / Total operating income	5.06	4.76
PAT / Total income	1.65	1.66
RONW (%)	15.54	15.32
Debt equity ratio	0.70	0.75
Overall gearing ratio	2.38	2.45
Interest coverage (times)	3.27	2.77
Long term Debt/ GCA	1.72	2.12
Total debt/ GCA	5.82	6.89
Current ratio	1.06	1.03

**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

**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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