

**Rating Rationale  
Leal & Co. Ltd**

**Ratings**

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

*\*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 794 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 (32% of Leal’s net worth is invested in group companies), foreign exchange fluctuation risk on its 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 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.

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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.

Leal is governed by an eleven-member Board of Directors comprising of professionals with wide range of experience and expertise. Mr. Eric Georges Michel Leal (49 years), son of the founder Mr. Michael Joseph Clency Leal, took over as the Chairman and Group Chief Executive officer in May 2014, post the demise of his father. Mr. Eric 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, who is the Deputy Chief Executive officer, and Mr. Yousouf Rehmalli, the 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, the Leal family, through various companies, is the main shareholder (78%) in Leal. The remaining 22% shareholding is shared among insurance companies, corporates and individuals. Leal together with United Motors Ltd (Leal's subsidiary company engaged in distribution of KIA cars), are currently the largest car dealers in Mauritius with 30% share of the passenger & commercial vehicle market of Mauritius in CY18. Leal Group registered the highest sales of passenger cars in Mauritius in recent years (2014-2018), with 3,168 units sold in 2018.

### ***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 various 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 Group is also present in Reunion Island, where it is the dealer of BMW & Mini cars, Apple products & accessories. The main subsidiaries of the group are Pharmacie Nouvelle Limited (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 (FY18)	Stake (%)	Turnover	PAT	Total Debt	Net worth	Overall gearing
Leal Reunion*	100	2,331	11	525	96	5.46
Pharmacie Nouvelle Limited (“PNL”)	57.68	1,942	50	655	305	2.15
United Motors Limited	100	1,236	77	64	108	0.59
DistriPc Ltd	75	506	15	22	27	0.84
Leal Communications & Informatics Ltd	94	428	3	51	12	4.21
Leal Equipements Compagnie Ltee	75	338	22	6	73	0.09
SARL Solinfo*	50	397	6	25	24	1.02

\*Converted at rate: EUR 1 = MUR 39.4

**Significant investment in group companies; albeit performance of some of these companies improved during FY18**

In FY18, Leal had investments of MUR 318.3 million (MUR 318.8 million in FY17) in subsidiaries and associates, implying that 32% of Leal’s net worth is invested in group companies (35% in FY17). Most of the group companies are profit-making; few of the group companies were loss making in FY17 (Leal Equipment) and FY16 (United Motors and Leal Equipment), which have however turned profitable in FY18. The management has stated there are no plans of further investment in group companies. Leal has not provided any guarantee for debt availed by any group entities.

**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 over the past 40 years (BMW Germany renews its various contracts with its dealers across the globe on a 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, Porsche and Land Rover), unit sales of BMW have consistently been high in last 5 years.

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Passenger Cars Sold (Units)	2014	2015	2016	2017	2018
<b>BMW</b>	513	627	661	657	667
<b>Mercedes</b>	317	157	410	413	325
<b>Audi</b>	142	209	242	271	270
<b>Land Rover</b>	29	68	49	36	22
<b>Mini</b>	28	42	33	28	47
<b>Porsche</b>	25	45	61	48	52
<b>Jaguar</b>	30	50	80	78	77

*Source: National Transport Authority and Leal Annual Report*

The wide variety of models of BMW cars (Series 1-8, X1-X6, i3 & i8) offered in the price range of Mur.1.5 to 11 million provides Leal with the leverage to cater to its different customers.

In CY18, sale 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 in Mauritius. All these dealerships are strong and generate 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.

Passenger Cars Sold (unit wise)	2014	2015	2016	2017	2018
KIA (Leal Group)	955	682	960	1,242	1,317
Renault (Leal)	288	297	570	533	487
Mitsubishi (Leal)	311	124	184	187	245
MINI	23	6	2	1	9

*Source: National Transport Authority and Leal Annual Report*

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

***Preferred dealer aided by its very 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:

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	<b>FY16</b>	<b>% of</b>	<b>FY17</b>	<b>% of</b>	<b>FY18</b>	<b>% of</b>
	<b>MUR Million</b>	<b>Revenue</b>	<b>MUR Million</b>	<b>Revenue</b>	<b>MUR Million</b>	<b>Revenue</b>
Sales of new vehicles	1,801	74.4%	2,296	76.2%	2,197	73.40%
Sales of spare parts	342	14.1%	413	13.7%	469	15.67%
Sales of services	173	7.1%	188	6.3%	217	7.24%
Car Rental Services	96	4.0%	102	3.4%	100	3.33%
Others	10	0.4%	13	0.4%	11	0.36%
<b>Total Revenue</b>	<b>2,422</b>	<b>100.0%</b>	<b>3,012</b>	<b>100.0%</b>	<b>2,993</b>	<b>100%</b>

Revenue from sale of new vehicles witnessed a marginal decline in FY18 over FY17, despite higher number of units sold due to change in product mix (sale of more low value cars vis-à-vis higher value cars). BMW relaunched new models of 5 series, 7 series, X3 and X5 in FY18. Accordingly, the sales of these high-end cars were low and the company also sold existing models at higher discounts, to reduce inventory.

In 1974, Leal started its operations with Europcar, to provide car rental services. With a large fleet of vehicles ranging from the small Kia Picanto to the luxurious BMW X3, Europcar is a leading rental car company in Mauritius and offers driver and passenger insurance coverage in line the European standards. Leal derives around 25% share of its revenue from the sales of spare parts and other related operations.

#### ***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 a credit facility of Euro 10 million (MUR 400 million) from BMW AG and Euro 5 million (MUR 200 million) from Renault for 60 days, mitigating impact of fluctuations in the Euro. The company also 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 6 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.

#### ***Stable Financial position with satisfactory debt coverage indicators***

Leal's total income has increased steadily between FY15-FY18, which was primarily driven by continuous marketing endeavour and steady growth in sale of BMW cars & significant increase in sales of Mitsubishi cars as Leal being the authorized dealer of BMW, Renault and Mitsubishi in Mauritius; thereby increasing the sale of vehicles, spares & accessories and servicing higher number of vehicles. Accordingly, EBITDA grew by 8% from FY17 to FY18. During FY16-FY18, GCA was comfortable in the range of MUR 170 - 250 million vis-a-vis debt repayment obligation. GCA was MUR 249 million in FY18 vis-à-vis debt repayment obligation of MUR 53 million in FY18. Overall gearing ratio has remained range bound (0.73-0.96x) as on last 3 account closing dates. Total debt/EBIDTA was comfortable, improving from 3.46 in FY16 to 2.54 times in FY18.

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Current ratio has been above unity over the last 3 financial years, since the company uses advance from customers to part finance its inventory. 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 AG 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 January 31, 2019, Leal had an aggregate working capital limit of MUR 794 million from various banks in the form of overdraft, money market line and import line. The average utilisation of these facilities was around 53% during the last 12 months ended January 31, 2019. Additionally, the company has secured term loan of MUR 127.3 million from various banks.

At the group level, Leal posted a PAT of MUR 250 million on revenue of MUR10.2 billion in FY18. Interest coverage was 3.85x and overall gearing was 1.83x as on June 30, 2018.

Further, Leal has stated to have achieved revenue of Mur 1,800 million and PAT of Mur 66 million in H1FY19 (July 1 - Dec 31, 2018).

#### ***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 4 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 have an influence on the automotive sector in Mauritius. 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 reduced the gap in the price between new and second-hand cars creating a level playing ground for car dealers. In 2018 registration of new cars was around 10,700 units and imported cars were around 8,500 units. The second-hand car sales increased by 8% in FY18 over FY17 vis-à-vis growth in new car sales of 6% during the same period.

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### ***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. In 2019, the Mauritian automotive industry is expected to grow by around 3.0%, with GDP growth projected at 3.9%. Decline in petrol prices mirroring global trends (MUR 47.00/L in Jan-19 compared to MUR 49.65/L in Oct-18) is not likely to be reversed in 2019 due to reduction in demand from developed countries as environmental standards get tougher and electric vehicles spread. While a reduction of the Repo Rate is highly unlikely for 2019 given the current economic scenario in Mauritius, a rate hike may hamper the automobile industry by pushing up lending rates of banks for automobile sector. The threat of new entrants in the industry remains quite low as Mauritius is small market and almost all the big brands are already represented in the market. Furthermore, with the current legislation not allowing on-demand ride-sharing transportation companies (such as Uber, Lyft, Ola etc) to operate in Mauritius, close alternatives that may dent the demand for automobile remain limited.

### ***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-16</b>	<b>Jun-17</b>	<b>Jun-18</b>
	<b>12M, A</b>	<b>12M, A</b>	<b>12M, A</b>
Revenue	2,422.4	3,012.1	2,992.5
Total Income	2,498.7	3,136.2	3,148.4
EBITDA	204.9	259.8	280.6
Depreciation	72.7	80.7	85.2
Interest	51.4	60.5	52.6
Non-operating income/expenses (incl. gain on foreign exchange)	45.1	57.5	42.4
PBT	125.9	176.1	185.2
PAT	101.7	148.3	163.8
Gross Cash Accruals (GCA)	174.3	229.0	249.1
Dividend paid	43.9	55.1	55.1
Equity share capital	279.8	365.9	365.9
Tangible net worth	738.6	897.3	981.2
Total debt	709.4	770.7	713.5
Cash & Bank balances	24.1	52.2	40.9
<b>Key Ratios</b>			
<b><i>Profitability (%)</i></b>			
EBITDA / Total income	8.46	8.63	9.38
PAT / Total income	4.07	4.73	5.20

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For the year ended as on	Jun-16	Jun-17	Jun-18
	12M, A	12M, A	12M, A
ROCE- operating (%)	3.95	3.29	2.17
RONW (%)	14.96	18.13	17.44
<b>Solvency</b>			
Debt equity ratio	0.44	0.34	0.30
Overall gearing ratio	0.96	0.86	0.73
TOL (including total debt, bills payable and sundry creditors)/TNW	1.71	1.56	1.24
Interest coverage (times)	3.99	4.30	5.34
Long term Debt/ GCA	1.84	1.34	1.17
Total debt/ GCA	4.07	3.37	2.86
Total debt/EBIDTA	3.46	2.97	2.54
<b>Liquidity</b>			
Current ratio	1.02	1.05	1.10
Quick ratio	0.43	0.48	0.52
Avg. Collection Period (days)	44	40	37
Avg. Inventory (days)	100	106	86
Avg. Creditors (days)	53	58	42
Op. cycle (days)	91	88	81

#### **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.
3. Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Net worth.
4. Total Operating Income includes revenue from others (Dividend income, rental income, Management fees, rebate on purchase, etc.)

#### **Details of Bank Facility**

Bank	Facilities/Instruments	Credit Rating	Size of the Issue (MUR Million)
AfrAsia Bank	Short-term loan – carved out of working capital facilities*	CARE MAU A1+ [A One Plus]	200

**\*\*Maturity not exceeding 364 days**

#### **Disclaimer**

CARE Rating (Africa) Private Limited (“CRAF”)’s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security or to invest in or withdraw funds from deposits. CRAF has based its ratings/outlook 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/deposit programme.

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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**Annexure I**

**Rating Symbols  
Short term Instruments**

<b>Symbols</b>	<b>Rating Definition</b>
<b>CARE MAU A1</b>	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.
<b>CARE MAU A2</b>	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.
<b>CARE MAU A3</b>	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.
<b>CARE MAU A4</b>	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.
<b>CARE MAU D</b>	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.*