Mammouth Trading Co. Ltd

23 August 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Proposed Bond Issue	**650**	**CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]**	**Assigned**

Ratings Rationale

The rating assigned to the proposed bond issue of Mammouth Trading Co. Ltd ("MTL") derives strength from the leading position of the Company in the commercial retail market in Mauritius, its well established track record of almost four decades of operations in the country, increasing trend in sales across all product categories over the past two years indicative of its resilience, tie up with the leading Mauritian consumer credit provider, and the long- track record of the shareholders who have promoted MTL in Mauritius in 1985.

The rating is however constrained by the low net worth base and leveraged capital structure, decline in profitability in FY23 over the previous financial year, elevated inflation and interest rate environment affecting the purchasing power of customers and limiting access to consumer credit finance facilities, and fierce competition from other players.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in net worth and gearing level below 2.5x
- Growth of 20% in revenue while maintaining EBITDA and PAT margins above 10% and 4% respectively
- Improvement in liquidity management with cash conversion cycle being reduced to 45 days

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Additional debt taken to fund expansion
- Decline in profitability, affecting the cash generating capacity and margins of the Company
- Dividend payment to parent company resulting in a weaker net worth and higher gearing from current level

BACKGROUND

Mammouth Trading Co. Ltd ("MTL"), is a limited liability company incorporated in Mauritius in August 2015, which is into retailing of home furniture, consumer electrical appliances, electronics and mobile phones and is the largest retailer in Mauritius. The company operates a network of 22 stores in Mauritius and 2 stores in Rodrigues Island. The Company trades under the name of Courts Mammouth.

The history of MTL dates back to the 19th century when William Henry Court opened the first retail store in Canterbury, England in 1860, and sold to three brothers from the Cohen family in 1946. From 1950 to 1980, the Cohen family rapidly grew and expanded the business locally and internationally with opening of stores across the Caribbean, Asia-Pacific and northwestern Europe regions.

In 1985, the first Courts store was opened at Bell Village in Mauritius. Courts (Mauritius) Ltd was incorporated and traded under the name of 'Courts Mammouth', reflecting the store's large size and diversified product mix. At the beginning of

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

the 1990s, Courts (Mauritius) Limited was listed on the Stock Exchange of Mauritius (SEM). The Company quickly grew to become the largest retailer of furniture, electrical and IT products in Mauritius with its offer of lowest prices, easy credit and focus on customer service.

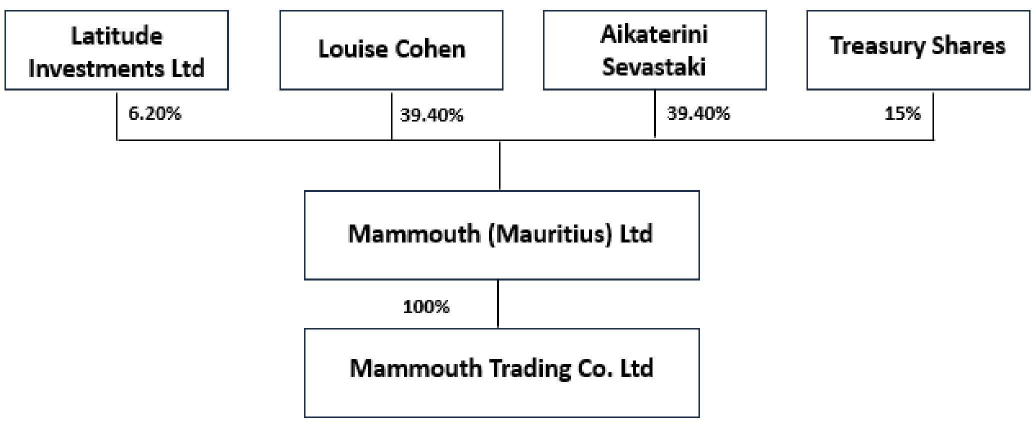
In December 2005, Courts (Mauritius) Limited was taken over by the BAI Group and following the collapse of BAI in 2015, all the assets of the Group (including Courts) were placed under Special Administration, and Courts was subsequently acquired by a consortium led by its previous owners, the Cohen family, forming a new company, Mammouth Trading Co. Ltd.

At 31 March 2023, MTL was a wholly owned subsidiary of Mammouth (Mauritius) Ltd ("MML"). MTL is governed by 6-member board of directors with Mr. Alexander Winston Lynford as Chairperson. The day-to-day running of the Company is entrusted to Mr. Andrew Cohen, the son of late Mr. Bruce Cohen.

CREDIT RISK ASSESSMENT

Promoters with long track record in the business

Incorporated in August 2015, following its acquisition from the defunct BAI Group, MTL is a 100% subsidiary of MML, which is an investment holding company. The ownership structure of MTL and MML at 31 March 2023 was as depicted below:



The main shareholders are Mrs. Louise Cohen and Mrs. Aikaterini Sevastaki who both hold 39.40% each and collectively control 78.80% of MML. Mrs. Cohen is a non-executive member on the Board of MTL.

Mrs. Aikaterini Sevastaki is the spouse of and nominee shareholder for the CEO of MTL, Mr. Andrew Cohen.

A minority stake of 6.2% is held by Latitude Investments Ltd, a private equity firm which partnered with the shareholders of MTL to acquire back the Company in August 2015. With a combined 78.80% shareholding, the majority ultimate owners of MTL remain members of the Cohen family which has historically grown and supported the business since its inception.

MTL is governed by 6-member board of directors with Mr. Alexander Winston Lynford as Chairperson. Mr. Lynford has a long career having occupied various senior management roles in South America, principally for the petrochemical industry and in Lithuania for the George Soros Foundation.

The day-to-day running of the Company is entrusted to Mr. Andrew Cohen, the son of late Mr. Bruce Cohen. Mr. Andrew Cohen is a qualified Chartered Accountant (England & Wales) and a Law Graduate from the University of Cambridge. Mr. Andrew Cohen joined MTL in March 2016 and was appointed as COO in 2017 where he was responsible for furniture buying, Human Resources, store refurbishments, E-commerce, and other Innovation projects. In 2019, he became CEO of the Company.

BUSINESS AND OPERATIONAL RISK

Diversified Retail segments supporting the resilience of MTL

MTL operates a simple business model which involves the purchasing of large quantities of goods from local and foreign suppliers at a discount and retailing them in the Mauritian market via its stores across the country. While at its earliest stage the Company was involved mainly in furniture retailing, over the past three decades it has expanded and diversified its operations in other areas of the retail segment and it now sells four categories of products classified into Furniture, Electrical, Technology and Transport & Leisure segments. The performance of each segment and their contribution to the Company's total sales over the past four years is given below:

Product category	Furniture	Electrical	Technology	Transport & leisure	Total
Year ended 31 March	**Sales Revenue (MUR million)**				
FY23	884	1,341	810	167	3,202
FY22	686	1,185	764	123	2,757
FY21	510	813	514	96	1,933
FY20	621	872	536	133	2,162
	Contribution to total sales (%)				
FY23	28%	42%	25%	5%	
FY22	25%	43%	28%	4%	
FY21	26%	42%	27%	5%	
FY20	29%	40%	25%	6%	

The Electrical segment comprises of home appliances products such as TV sets, fridges & freezes, washing machines & dryers, cooking appliances and air conditioners, amongst others. This segment, on average, contributed to around 41% of the total sales of MTL over the period FY19 to FY23 and registered a cumulative 59% growth over the past two years. The Furniture and Technology products segments are the second and third largest contributors to the revenue of MTL. With sales revenue spread across three major segments, it can be observed that MTL has a comfortably diversified revenue stream which makes the Company less vulnerable to factors such as downturn in the economic cycle, sudden changes in consumer behaviour and supply chain disruption.

Stable Performance with strong presence in Malls and populated areas

The strength of MTL is demonstrated by its large chain comprising of 24 stores, 22 in Mauritius and 2 in Rodrigues. For FY23, seven stores contributed to more than 5% of the total company revenue. The performance of these stores over the past four years and their size is provided below:

Year ended 31 March	FY20	FY21	FY22	FY23		
	MUR million			MUR	% of total	Size in
Riche Terre (Ascencia mall)	234	222	310	336	10%	21,678
Phoenix (Ascencia mall)	214	194	296	324	10%	21,108
Rose Hill	177	155	217	234	7%	41,710
Grand Baie (Super U Complex)	127	108	175	222	7%	27,219
Curepipe	184	159	215	209	7%	35,674
Flacq	143	122	191	208	6%	16,469
Bagatelle (Ascencia mall)	111	110	154	186	6%	9,225
Total	**1,190**	**1,070**	**1,558**	**1,719**	**53.00%**	

Barring FY21, a Covid-19 affected period, all the above stores have registered consistent growth in their sales over the past five years. Another exception was the Curepipe store in FY23 where renovation works were being undertaken but now the store is fully operational.

In addition to malls and large surface shopping spaces, MTL is also present in certain rural areas which have the benefit of being extremely dense in terms of population and customers. For stores located in some of these regions, despite contributing less than 5% of total Company sales, MTL instead optimizes on available space as illustrated by history of sales per square foot below:

	Year ended 31 March	FY20	FY21	FY22	FY23	Sales per ft^2 in FY23 (MUR)
		MUR million				
1	Lallmatie	29	29	39	43	20,875
2	Bagatelle (Ascencia mall)	111	110	154	186	20,158
3	Goodlands	77	61	85	102	15,940
4	Riche Terre (Ascencia mall)	234	222	310	336	15,483
5	Phoenix (Ascencia mall)	214	194	296	324	15,367
6	Triolet	45	39	53	68	15,097
7	Rose Belle	48	42	86	164	12,696
8	Flacq	143	122	191	208	12,638
9	Quatre Bornes	58	54	68	77	11,486
10	Port Louis	105	93	128	153	11,151
	Total	**1,064**	**966**	**1,410**	**1,661**	

Credit Financing tie up with leading NBFC

A key feature of MTL is the Credit Sales Financing also referred to as Hire Purchase (HP), which was a pioneering product introduced by the Company to the Mauritian market back in 1985. This facility allows the lower- and middle-income

Mauritians to make large ticket purchases and make fixed monthly repayments over a period of 24 to 30 months, which otherwise, they could not afford.

MTL has partnered with CIM Financial Services Limited ("CFSL", rated CARE MAU AA; Stable/ CARE MAU A1+) to sell goods on credit terms to customers. For each credit sale via CFSL, MTL receives a lump sum payment of the total credit financed sales from CFSL two weeks after submission of the transaction, less a 2.50% discount.

In, Mauritius, the Credit Sales Financing business is regulated by the Government under the HP & Credit Sales Act, and the rate charged by credit finance providers it is capped at 12.0%.

The distribution of sales by cash and Credit Financing over the past five years is provided below:

Year ended 31 March	**FY20**	**FY21**	**FY22**	**FY23**	**FY20**	**FY21**	**FY22**	**FY23**
	MUR million				**% of total sales**			
Cash sales	687	845	1,258	1,407	32%	44%	46%	44%
Credit sales financing with CFSL	1,452	1,014	1,380	1,585	67%	52%	50%	50%
In-house credit sales financing	23	74	120	210	1%	4%	4%	6%
Total	**2,162**	**1,933**	**2,758**	**3,202**	**100%**	**100%**	**100%**	**100%**

On average, 50% of the Company's sales are made on HP through CFSL, around 6% in-house credit financing while the rest is settled in cash by customers.

Efficient Working Capital and Liquidity Management

Given the business model of MTL, liquidity is a key factor in the Company's day-to-day operations. At 31 March 2023, the Company had a collection period averaging 37 days. MTL also closely monitors its inventory levels and ensures that no unnecessary buildup of inventory occurs which can result in cash trap if same is not sold in due time. Over the past year, it took MTL an average of 87 days to dispose of its inventories. Meanwhile, through the establishment of long-standing relationships with suppliers, MTL can comfortably negotiate for extended credit periods on its purchases with an average payables period of 54 days. Overall, MTL had an average cash operating cycle of 70 days during FY23, which marks a considerable improvement from 94 and 98 days during FY22 and FY21 respectively.

MTL also has overdraft facilities of MUR 220 million available from banks, for which the average utilization over the past 12 months stood at around 69%.

Industry Risk

For a small market with a population size of approximately 1.3 million inhabitants and 369,000 households, the commercial retail market in Mauritius is extremely competitive, with both large scale and smaller players participating in the market. While there are very few companies which specialize in retailing solely one product category from the four segments listed above, it is more common to find companies operating two to three of these product categories under one roof.

Furniture Market Segment

With total revenue of MUR 884 million from its furniture segment, Mammouth Trading Co. Ltd ("MTL") is the segment leader in Mauritius. Other major players in the sector include J. Kalachand & Co. Ltd (total revenue of MUR 1,237 million) and Galeries Fokeerbux Ltee (MUR 312 million) which also sell other products apart from furniture. With a turnover of MUR 221 million, TFP Ltd is another furniture retailer which deals exclusively one product line.

Home Appliances & Technology products Segment

This market segment in Mauritius is dominated mainly by MTL, The BrandHouse Ltd, Le Warehouse Limited and Dragon Electronics Ltd.

The BrandHouse has two lines of business. The first one involved the importation and distribution of top international branded electronic products such as Samsung, Panasonic and Galanz to local retailers. The other business line is the operation of 'Galaxy' which is a chain of 28 stores across Mauritius which retails exclusive and non-exclusive branded electronic products. The BrandHouse registered a turnover of MUR 2,876 million for its year ended 30 September 2022.

Le Warehouse Limited operates a total of 24 retail stores in Mauritius under the name of '361'. The Company retails electronic products which are branded as Samsung, Huawei, Westpoint and Philips, amongst others. For the financial year ending 31 December 2021, Le Warehouse registered a revenue of MUR 1,848 million. With a network of 12 stores across the island, Dragon Electronics Ltd which sells only 'LG' branded products is also a key market component in the electronics segment. The Company earned a revenue of MUR 710 million for its financial year ended 30 June 2021.

For MTL, turnover achieved in the segment was MUR 2,151 million for FY23 (MUR 1,949 million in FY22).

All the segments combined, MTL stands first followed by The BrandHouse Ltd, Le Warehouse Ltd and Dragon Electronics Ltd, in turnover terms.

Financial performance – Decline in Profitability and Leveraged Capital structure

The increased demand, post Covid-19, coupled with higher prices led MTL to register two consecutive years of high revenue growth of 41.88% and 15.46% in FY22 and FY23 respectively. While the EBITDA of MUR 340 million in FY22 was the highest recorded over the past five years, same was reduced to MUR 290 million in FY23 on the back of increased cost due to inflation and currency depreciation increase import costs. Further, the Company granted a 10% salary increase to all its staff to help them meet the persistently higher cost of living. PAT fell by 17.81% from MUR 95 million to MUR 78 million in FY23 but remains well above levels prior to FY22.

At 31 March 2023, MTL had an overall gearing of 3.98x (end of FY22: 1.60x). The total debt of the Company consisted of MUR 483 million of overdraft and ST facilities and MUR 124 million LT loans.

In FY23, MTL declared a dividend of MUR 100 million to its parent company MML. The dividend payment, which is a one-off transaction, was utilised to repay debt at the holding company which was used to buy back 15% of the outstanding shares in MML, and no dividend were paid to individual promoters.

During FY23, MTL has been more efficient in managing its working capital as shown by its Cash Conversion Cycle (CCC) which improved from 94 days in FY22 to 70 days. With Quick ratio increasing from 0.49x to 0.69x, it is overserved that the Company was better at turning its inventory into receivables, which are more liquid assets.

Summary of financial performance for Mammouth Trading Co. Ltd **MUR million**

For the year ended/ as on 31 March	FY21	FY22	FY23
		Audited	
Total Revenue	2,037	2,891	3,338
Total Income	2,100	2,933	3,441
EBITDA	222	340	290
Depreciation	139	163	145
Profit before Tax	45	136	88
Profit after Tax	30	95	78
Gross Cash Accruals (GCA)	168	258	223
Dividend Paid	-	-	100
Equity share capital	50	50	50
Tangible net worth	102	226	153
Total debt	150	361	607
- Long term debt	33	28	124
- Short term debt	118	333	483
Cash & Bank balances	7	20	7
Key Ratios			
Growth (%)			
Revenue (%)	(9.39)	41.88	15.46
EBIDTA (%)	4.72	53.18	(14.69)
PAT (%)	12.67	219.65	(17.81)
Profitability (%)			
EBITDA margin (%)	10.88	11.75	8.68
PAT margin (%)	1.41	3.24	2.27
ROCE- operating (%)	3.41	9.40	6.13
RONW (%)	37.07	57.98	41.24
Solvency			
Long Term Debt equity ratio (times)	0.32	0.12	0.81
Overall gearing ratio (times)	1.48	1.60	3.98
Interest coverage (times)	16.24	18.66	8.27
Long term Debt/ EBITDA (times)	0.15	0.08	0.43
Total debt/ EBITDA (times)	0.68	1.06	2.10
Liquidity			
Current ratio (times)	1.23	1.26	1.18
Quick ratio (times)	0.47	0.49	0.69
Average Collection Period (days)	20	25	37
Average Inventory (days)	143	123	87
Average Creditors (days)	65	54	54
Operating cycle (days)	98	94	70

Details of Rated Instrument

Instrument	Amount	Repayments
Proposed Bond Issue	MUR 650 million	MUR 150 million – August 2026 MUR 500 million – August 2028

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Annexure I

Rating Symbols

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.

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.
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CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.