CareEdge RATINGS AFRICA
A subsidiary of CARE Ratings Limited, India

Leal & Co. Ltd

CRAF assigns 'CARE MAU A+' rating to the proposed term loan MUR 500 million of Leal & Co. Limited

30 September 2021

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Proposed term loan	500	CARE MAU A+; Stable [Single A Plus; Outlook: Stable]	Assigned
Total	**500**		

Rating Rationale

The rating assigned to the proposed term loan of MUR 500 million of Leal & Co. Ltd ("Leal") derives strength from the long & satisfactory track record of the promoter in auto dealership business, Leal Group's leadership position in automobile dealership in Mauritius, Leal Group's engagement in distribution of branded products across various industries in Mauritius, Leal being the sole dealer of BMW, Mini, Renault and Mitsubishi in Mauritius and the preferred dealer amongst Corporates, Ministers, and Govt. bodies, Leal's relationship with BMW, Germany 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 Leal (Standalone) and Leal Group's (Consolidated) 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

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

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

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 (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 group (Leal and its subsidiary company United Motors Ltd.-engaged in distribution of KIA cars), is currently the largest car dealer of Mauritius with 28.78% share of the passenger & commercial vehicle market of Mauritius (based on CY2020 (January to December 2020) sales). Leal Group registered the highest sales of passenger cars in Mauritius in recent years (2014-2020), with 1,548 units sold in 2020 (July 2019 to June 2020 and 2,355 units from January 2020 to December 2020).

Standalone: Total income witnessed a dip of 12.6% in FY 20 due to 3 months lockdown period and with the closed frontiers from importing new cars. Despite all those shortfalls, the company remained the main leader in the automobile industry with a market share of 29%.

Consolidated: At the group level, Leal posted a PAT of MUR 217 million on a turnover of MUR 11,300 million in FY20. Interest coverage was 4.18x. Overall gearing was 1.52x as on June 30, 2020.

On the September 1, 2021, Leal had an aggregate working capital limit of MUR 1,044 million from various banks in the form of overdraft, money market line and import line. The average utilisation of these facilities was around 57% during the last 12 months ended June 2017. Additionally, the company has secured term loan of MUR 77 million from various banks

Purpose of Bond: In September 2021, Leal issued a bond of 500 million and will be utilising the proceeds for the acquisition of land in Montebello Smart city by Leal Property Ltd for MUR 90 million, and for the construction of a new showroom with workshop and service facilities for Mur 300 million and the acquisition of 'Ex Iframac' building from National Property Fund ltd for Mur 158 million.

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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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