

Leal & Co. Ltd
17 May 2023
Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Bank Facilities	600	CARE MAU A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed

Rating Rationale

The rating assigned to the bank facilities of Leal & Co. Ltd ("Leal") continue to derive strength from the long & satisfactory track record of the promoter in auto dealership business, Group's leadership position in automobile dealership in Mauritius, Leal being the sole dealer of BMW, Mini, Renault and Mitsubishi in Mauritius and the preferred dealer amongst Corporates and Govt. bodies, long association with BMW group 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 the group's presence in distribution of branded products across various industries in Mauritius, 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 leadership position in the automobile dealership market of Mauritius
- Effective working-capital management
- Significant reduction in debt at consolidated level

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 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 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

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

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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.

Management: 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 took over as the Chairman and Group Chief Executive officer in May 2014. 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 and Mr. Yousouf Rehmalli, the Group CFO. is a professionally managed company.

Performance of Leal & Co. Ltd

Standalone: In FY22, Leal witnessed a 9% increase in revenue, bolstered by an overall improvement in the revenue streams of the company. Leal recorded the highest EBITDA and PAT hiking at MUR 420 million and MUR 322 million respectively in FY22. The company has been able to maintain its position as market leader in the automobile industry with a market share of 26.1%.

Consolidated: In FY22, total income grew by 11% and PAT increased to MUR 561 million (MUR 385 million in FY21). The 11% increase in group's total income was mainly driven by a concurrent and commendable year-on-year turnover growth of Pharmacie Nouvelle Limited (PNL) and Leal's IT cluster. Leal Group had a cash balance of MUR 402 million as of June 30, 2022. Overall consolidated debt increased by around MUR 385 million in FY22 which led to a higher gearing of 0.92x times (from 0.87x times in FY21).

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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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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. CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

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

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