Ascencia Limited – Brief Rationale

CRAF assigns CARE MAU A+ Stable rating to the bank facilities and proposed Bond issue of Ascencia Limited

Ratings

Facilities/ Instruments*	Amount (MUR Million)	Rating	Rating Action
Proposed Bond	1,500 (enhanced from MUR 1,000 million)	CARE MAU A+; Stable	Assigned
Bank facilities	4,400	CARE MAU A+; Stable	Assigned

* Details in Annexure I   * MUR Million = Mauritian Rupee Million

Rating Rationale

The rating assigned to the proposed bond issue of MUR 1,500 million and the bank facilities of MUR 4,400 million of Ascencia Limited derives strength from satisfactory track record of Ascencia Group and the experienced & resourceful promoters – ENL Group, the experienced management team in handling the rental generating properties, satisfactory loan to value (LTV) ranging between 38-40%, stable portfolio of rental generating properties located in prime location of the island with consistent footfalls, steady operation of all the malls with high occupancy levels (more than 95%), lease agreements with assured annual rental escalation clause and strong financial position of the reputed lessees including well-known food chains, luxury brands and supermarket outlets. Ascencia has a steady source of income from lease rentals of the retail space with comfortable revenue visibility and enjoys a steady financial position with satisfactory debt coverage indicator. The rating is however constrained by the concentration in the commercial retail sector, tenant concentration risk in the malls, the risk of non-renewal of lease agreement by the tenants after the lock-in period, longer debt maturity profile (around 7-15 years) vis-à-vis the weighted average lease expiry period (4.7 years), liquidity risk due to the company's dividend distribution policy (5% of NAV) vis-à-vis minimal debt repayment over last few years, project execution risk and the risk of competition from the new malls, being constructed in near vicinity to Bagatelle mall.

The rating is sensitive to the Mauritian economy entering into a prolonged economic downturn, which can have a negative impact on the retail spending – and accordingly the revenue of the malls, interest rate risk, the timely receipt of lease rentals, the ability of the company to maintain the high occupancy level and footfalls in the malls, renewal of lease agreements well before the lease expiry date and successful execution of projects within the envisaged cost and timelines without affecting the cash flow and coverage indicators.

Background

Incorporated in June 2007, Ascencia Limited ("**Ascencia**"), a subsidiary of ENL & Rogers, is the largest listed retail property company in Mauritius. Its primary activities include acquisition, investment, and management of prime real estate. Ascencia's portfolio of assets comprises of the largest shopping malls of the island with a total of 129,571 square meters (sqm) shopping space. Ascencia owns and manages three regional malls –

Phoenix Mall (opened in 1994 but acquired by Ascencia in 2008), Riche Terre Mall (opened in 2003 but acquired by Ascencia in 2008) and Bo'Valon Mall (opened in November 2019), three convenience shopping centers – Kendra (opened in 2013), Les Allées (opened in 2013) and So'Flo (opened in 2017) and the largest and most visited mall (22 million people annually) of Mauritius – Bagatelle Mall (opened in 2011).

Riche Terre Mall, Phoenix Mall, Kendra and Les Allées are the assets under Ascencia Limited. Ascencia Limited owns 100% stake in Bagaprop Ltd (owning Bagatelle Mall) and The Floreal Commercial Centre Ltd (owning So'Flo Mall). This apart Ascencia Limited holds 33.3% in The Beauvallon Shopping Mall Limited (joint venture between Atterbury and EnAtt).

Ascencia's main source of revenue is rental income from the 7 malls. It also benefits from capital appreciation, rental recoveries, interest income and other operating income such as revenue from exhibitions and marketing. The sustained high overall occupancy levels (more than 95%) in the past years have contributed to stable cash flow of the company.

Impact of Covid-19 Pandemic on the FY20 Financials of Ascencia

In CY20, Covid-19 Pandemic slowed down the economic activities across the island and worldwide. The economy in Mauritius contracted by 2% year-on-year during the first quarter of 2020. Ascencia's portfolio features the most visited malls of the island. During the lockdown, malls in general, reported a lower physical footfall since all outlets other than those classified as essential services (e.g., grocery stores and pharmacies), were closed. The impact of this lockdown on Ascencia's revenues are as follows: almost all of the tenants have paid their basic rental with some discounts and with the closure of most outlets, the turnover rental has only been paid by the essential services tenants. Supermarkets however witnessed mass purchases. As such, the EBITDA is expected to be impacted by (i) one-time cost of fumigation, cleaning of the mall before reopening, purchase of masks and sanitizers and setting up temperature control access, and (ii) the foregone income during the lockdown period.

Despite Agreements being in place to pay the rentals, even during a force majeure situation, the tenants (whose shops were closed), disputed to pay the rentals for the lockdown period in view of the measures announced by GOM for tenants - in case a tenant is not able to pay rental from April-August it should not be constituted as a breach of tenancy Agreement provided that rent due is fully paid in installments by December 2021. The management, considering its long association with majority of the non-essential tenants, loss of revenue of these non-essential tenants during lockdown and GOM measures for non-essential tenants, came up with a proposal to offer rebates (30-70%) to the non-essential tenants if they pay the two months arrears (April and May) by end of October 2020. More than 80% of the tenants accepted the offer and Ascencia is currently negotiating for the balance. The tenants, who will not pay the discounted rent, will have until 2021 to repay the full amount of 2 months rentals. In between July-November 2020, the mall operated normally.

In between July-September 2020, the malls have witnessed stable demand for consumer electronics, groceries, health, and sport goods due to the change in lifestyle of people after the pandemic (shifting to healthier lifestyle, conscious buying and working from home). Cumulative average footfall in September 2020 was 1,680,974 (7% drop from 1,807,019 recorded in September 2019). As of 30 September 2020, the occupancy of all the malls were at 98%.

In FY20, the malls reported satisfactory performance with a posted revenue of MUR 1,339 million (from MUR 1,402 million in FY19) which was slightly impacted by the pandemic. EBIDTA for FY20 is MUR 838 million and PAT was MUR 407 million. Overall gearing has remained satisfactory at 0.58x. Total debt/EBIDTA at 5.0-6.0x is satisfactory considering the longer maturity profile of the term loans of the company (stated below). Loan to value of the company is 37%. Total debt in FY20 is MUR 4,461 million and cash and bank balance was MUR 166 million.

Proposed Bond issue: As of June 30, 2020, Ascencia Limited has long-term debt of MUR 1,868 million and a bond of MUR 211 million. The wholly owned subsidiaries, Bagaprop Limited has long-term debt of MUR 2,228 million and Floreal Commercial Centre Limited has long-term debt of MUR 375 million which were both used in financing construction/acquisition of the malls.

In December 2020, Ascencia proposes to issue a Bond of MUR 1,500 million to finance its ongoing projects.