

Rating Rationale
Attitude Hospitality Ltd (“AHL”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	1,000	CARE MAU BBB+; Negative [Triple B Plus; Outlook: Negative]	Rating reaffirmed with removal of Credit Watch

Rating Rationale

The rating assigned to the Bond Issue of MUR 1,000 million of Attitude Hospitality Ltd (AHL) has been reaffirmed with the removal of credit watch due to re-opening of the international borders as from October 01, 2021 and increase in arrival of tourists in Mauritius between October - December 21.

The rating continues to derive strength from the satisfactory track record of Attitude Hospitality Ltd (AHL), experience of the promoters in the hotel sector, professional and qualified management team, established track record of the promoters in acquiring loss-making hotels and successfully turning them profitable, low gearing in subsidiary companies & at consolidated level and popularity of 3/4-star hotels (pre covid - EUR 100-120 per night) among budget conscious tourists.

The rating is, however, constrained by project risk associated with capacity addition programme in some hotels, direct competition from local budget accommodation, foreign exchange risks and sensitivity of the Mauritian hotel industry in respect of air access, more so in post COVID-19 era.

Rating Sensitivities:

Positive factors that could, individually or collectively, lead to positive rating action/upgrade

- Ability to maintain the pre-Covid ADR and ARR and occupancy rate post opening of the international borders & pickups in reservation that matches pre-covid level
- Restoring the pre-covid business performance
- Higher than projected revenue and PAT

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Any new debt funded acquisition or renovations
- Higher than projected debt level and lower than projected profitability at Consolidated level.
- Lower than projected dividend receivables from the subsidiaries, post resumption of profitability in hotels.

BACKGROUND

Attitude Hospitality Ltd (“AHL”) was incorporated, as Jason Hotels Company Ltd in May 2008, by Mr. Marie Adrien Robert and his son Mr. Jean Michel Pitot. In July 2010, the company was renamed as Attitude Resorts Ltd. and subsequently rechristened as Attitude Hospitality Ltd in July 2014. Since inception, AHL’s focus has been to position itself as a mid-market (3/4-star category) hotel player in the Mauritian tourism sector.

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AHL commenced operations in 2008 with two hotels: Coin de Mire Attitude and Blumarine Attitude which, combined, have 210 rooms. From 2010 to 2014, the company acquired 7 hotels (3-4 stars) and did renovation and expansion in existing and new hotels.

AHL currently owns and manages 9 properties along the north and east coast of Mauritius with around 1,207 rooms. It has also established itself as a leading brand in the mid-market segment (3/4-star category) hotels in Mauritius within a price range of Mur 3,000- 6,000 per night. All the 9 hotels are partly owned, some fully owned whilst remaining are leased to subsidiaries and associates.



In 2021, AHL through its 100% owned subsidiaries Cie Marmites des Iles Limitee has entered into a long-term lease agreement of 15 years with Lavastone to lease its hotel complex next to existing Émeraude Beach Attitude. The hotel was rebranded as Sunrise Attitude 4* (153 rooms) which was opened last year in October 2021.

AHL was initially promoted by Pitot family. In October 2010, United Investment Limited acquired 39.4% stake in AHL. At present, Pitot family through various companies owns majority share (59%) of AHL. The balance 39.4% is held by United Investment Limited and 1.6% by directors.

AHL is a professionally managed company. It is governed by a 9-member Board of Directors comprising of 2 members from the Pitot family, 2 Executive Directors and a number of eminent industrialists and professionals. The strategic affairs of the company are looked after by the Chief Executive officer - Mr. Jean-Michel Pitot.

Mr. Jean-Michel Pitot has more than 30 years of experience in hotel industry. He was Managing Director in Veranda Resorts before venturing into setting up AHL in 2008. He is assisted by Mr Vincent Desvaux De Marigny (Executive Director and Chief Operating officer) and Mr. Deenesh Seedoyal (Executive Director and Chief Financial Officer) and a team of experienced and qualified professionals for managing day-to-day affairs. Both Mr. Vincent and Mr. Seedoyal have been looking after the marketing and finance function of the group for more than 9 years.

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CREDIT RISK ASSESSMENT

Long track record of the group & experienced promoters

Incorporated in 2008, AHL is the investment & holding company of Attitude hotels group. The promoters, Pitot family was engaged in managing one of the biggest and finest hotel chains of Mauritius – New Mauritius Hotels and later Veranda Resorts Limited for more than 50 years, before setting up AHL. The other promoter, United Investment Limited (39.4% stake in AHL) is an investment firm. AHL derives its entire revenue as dividends from the various group companies (owning the 8 hotels and engaged in managing these hotels). During FY19 and FY20, dividend received by AHL was MUR 160 million and MUR 96 million respectively.

Professional and qualified management team

AHL has qualified employee pool having experience in the hotel Sector. The Group follows centralized decision making. The Group employs around 1,600 people and has a quite low attrition level, with key professionals having long association with the group.

Established group owning 8 operational hotels & 1 hotel under management agreement

AHL owns and manages 9 hotels through different group companies (6 subsidiary, 2 associate and 1 under a 10-year management agreement). In addition, AHL also owns Attitude Hospitality Management Ltd (“AHML”), which manages all hotels of the group, and Attitude Property Ltd, which is the only listed company (Stock Exchange of Mauritius) of the group. APL is a real estate income-driven company, holding properties of Ravenala, Recif and Tropical hotels, which has been leased back to the respective group companies (Rivière Citron Ltée, Pointe Aux Piments Hotel Ltd and Tropical Hotel Ltd. which are running the hotels) against rentals.

Investment in group companies

As on June 30, 2021; AHL had a total investment of MUR 2,365 million (MUR 2,131 million in Subsidiaries and MUR 234 million in associated companies) in group companies.

Flow of dividends from various group companies

AHL’s entire revenue is generated in the form of dividends received from various group companies engaged in the Hotel sector. However, for FY21, the company has not received any dividend income due to the business effected by COVID-19 pandemic: *MUR Million*

Companies	Business Verticals	% Holding	MUR Million		
			FY18	FY19	FY20
Marina Village Hotel Limited (Blumarine Attitude)	Hotel	88.8%	0.0	44.4	0.0
Compagnie Marmites Des Iles Limitée (Emeraude Beach Attitude)	Hotel	100.0%	0.0	0.0	20.0
Pointe Aux Piments Hotel Ltd (Récif Attitude)	Hotel	100.0%	0.0	0.0	0.0
Tropical Hotel Ltd (Tropical Attitude)	Hotel	100.0%	0.0	0.0	0.0
East Water Ltd (Friday Attitude)	Hotel	100.0%	0.0	0.0	0.0
Rivière Citron Ltée (Ravenala Attitude)	Hotel	100.0%	0.0	0.0	0.0

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Companies	Business Verticals	% Holding	MUR Million		
			FY18	FY19	FY20
<i>Water Sports Village Limited (Paradise Cove Boutique Hotel)</i>	<i>Hotel</i>	24.5%	0.0	0.0	0.0
<i>Zilwa Resort Ltd (Zilwa Attitude)</i>	<i>Hotel</i>	24.0%	14.4	9.6	0.0
<i>Attitude Property Ltd (Revenue: Lease Rentals for 3 properties - Ravenala, Recif and Tropical)</i>	<i>Investment</i>	48.7%	50.7	53.8	58.5
<i>Attitude Hospitality Management Ltd (Revenue: Mgt Fees)</i>	<i>Managing Co.</i>	80.0%	28.1	52.6	17.7
Total			93.2	160.3	96.2

Debt servicing of the Bond in AHL: In June 2019, AHL issued a fixed-rate Bond of MUR 1,000 million (subscribed by The Mauritius Commercial Bank Ltd (“MCB”)) for a period of 5 years. Bond proceeds were used to prepay the bank debt of AHL (MUR 515 million from MCB) and lend to the following subsidiaries for repayment of their existing debt: Marina Village Hotel Limited (MUR 280 million), Compagnie Marmites Des Iles Limitée (MUR 86 million) and East Water Ltd (MUR 21 million). The balance MUR 98 million is being used by AHL to manage its liquidity.

As per the Term Sheet of MCB, the Bond is proposed to be repaid at maturity (bullet repayment at the end of 5 years. i.e., June 2024).

Prepayment option available to AHL management - Given possibility of excess cashflow in various subsidiaries & associate companies, AHL management has kept an option to make early repayment [Repayment 20% in FY21, 30% in FY22 and 50% in FY23]. AHL management has now ruled out possibility of early repayment given the developments regarding COVID-19 and has stated that the Bond will be repaid in June 2024 (FY24), with a possibility of 25% prepayment in June 2023 (FY23). AHL has raised new debt amounting to MUR 275m with MCB to finance its working capital during the period of closure of the hotel. The repayment of the term loans with start as from 2024 onwards.

Hotel Industry in Mauritius

Mauritius has a relatively diversified economy with the tourism and hospitality industry being one of the main economic pillars. The country welcomed 1.3 million tourists in 2019 with a total tourism earnings of MUR 63, 107 million the same year. At the end of 2019, Mauritius had 112 hotels in operation with a total of 73% room occupancy rate.

Impact of Covid-19 pandemic

The tourism and hospitality industry has been facing severe hardship since the beginning of the COVID-19 pandemic, with reduced international travel, closure of borders and lockdown periods. Tourist arrivals decreased with only 308,908 arrivals in 2020 compared to 1.3 million in 2019.

To support the industry, Government of Mauritius introduced several measures to support economic operators across all sectors impacted by COVID-19. An amount of MUR 5 billion was earmarked to provide financial support at macroeconomic and cross sector level including tourism sector. A special relief fund of Mur 5 billion has been extended till June 2022 to economic operators at a discounted interest rate of 1.5% with 6 months moratorium on capital and interest repayment. Until December

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2021, a special Wage assistance scheme was provided by the government of Mauritius, whereby Government provided a wage subsidy to Employers, to ensure that all employees are duly paid their salary. Following the outbreak of the Covid-19 pandemic, the national borders of Mauritius were closed twice (2020 and 2021) to control the propagation of the virus. In October 2021 Mauritius re-opened its borders to all vaccinated travellers and welcomed 170,000 tourists in the month of October -December 21.

Outlook on the tourism

- MUR 420 million is being allocated to the Mauritius Tourism Ports Authority (MTPA) for the Promotion and destination marketing in France, Reunion, UK, Germany, Italy, South Africa and China. Several cultural tourism events are being organised locally and internationally and E-promotion through e-marketing, online events, and virtual road shows.
- Strong demand to travel to Mauritius is prompting Air Mauritius to increase its flights. Air Mauritius is operating a daily flight from Paris to Mauritius since November 2021 and three weekly flights to and from London, which is likely to increase to five weekly flights during Christmas and New Year period.
- New flights scheduled from European countries serving the destination.

Liquidity Risk

As informed by the management, after incurring a loss in Q1FY22 (July – Sept 2021), the company has become profitable and posted positive cashflow in October & November and is expected to post better profitability in December 2021 based on current booking trend. The company is using the excess cash to reduce its overdraft facility. The company also has Mur 200 million of undisbursed COVID loan to meet its working capital requirement, if necessary. This apart, the company is expected to receive Mur. 150 million from MIC which it proposes to use in recurrent capital expenditure (regular maintenance of 8 hotels) projected at MUR 110 million. This is in line with sanction terms of MIC.

In FY21, AHL signed a subscription agreement with the Mauritius Investment Corporation Ltd (“MIC”) to issue redeemable convertible bonds for MUR 500 million to help mitigate the financial impact of Covid-19. As at June 30, 2021, AHL has drawn down an amount of MUR 200 million from MIC. This apart, MCB sanctioned a term loan of MUR 475 million (@1.5% p.a.) under the Bank of Mauritius COVID-19 Support Programme. The company utilized Mur 275 million of COVID loan and MUR 350 million of MIC facility to fund its cash losses and make schedule interest payment. AHL didn’t have any capital repayment both at company or at group level. This apart the company had unutilized overdraft facility of Mur 170 million (June 30, 2021).

The total subscription of MIC bonds will be completed by 15th March 2022 at latest. As at date of this report, the subscribed amount is MUR 350 million.

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The management has stated that they will not announce any dividend for next few years and will utilize the cashflow for repayment of the Bond and MIC facility.

Prospects

The prospects of AHL depends on operational & financial performance of dividend paying hotels/companies, ability to maintain the pre-Covid occupancy rate of its hotel post opening of the international borders and restoring the pre-covid business performance for the hotels.

The rating is also sensitive to any new debt funded acquisition & renovations and dividend pay-out over next 3 years.

FINANCIAL PERFORMANCE

Standalone Financial performance of AHL

MUR Million

For the year ended as on	Jun-18	Jun-19	Jun-20	Jun-21
	Audited			
Revenue	93	160	96	-
Total Income	93	162	116	19
EBITDA	35	153	109	4
Depreciation	-	-	27	67
Interest	31	27	51	56
PBT	65	139	30	(120)
PAT	65	139	30	(120)
Gross Cash Accruals (GCA)	65	139	58	(52)
Dividend paid/proposed	76	136	-	-
Financial Position				
Equity share capital	1,297	1,297	1,297	1,297
Quasi Equity from MIC		-	9	209
Tangible net worth	1,419	1,424	1,393	1,473
Total debt	516	1,000	1,000	1,275
- Long term debt	516	1,000	1,000	1,275
- Short term debt	-	-	-	-
Cash & Bank balances	1	1	1	7
Key Ratios				
EBITDA / Total operating income	37.07	94.62	94.24	19.00
PAT / Total income	69.69	86.00	26.28	-619.00
ROCE- operating (%)	1.74	6.93	3.38	-2.48
RONW (%)	4.62	9.78	2.16	-8.35
Long-term debt to equity ratio	0.36	0.70	0.72	1.01
Overall gearing ratio	0.36	0.70	0.72	1.01
Interest coverage (times)	1.12	5.58	2.12	0.07
Long-term Debt/EBITDA	16.23	4.96	9.18	309.69
Total debt/EBITDA	16.52	4.96	9.18	309.69

AHL is an investment company, and its only source of revenue is dividend received from its subsidiary and associate companies. In FY18, FY19 and FY20 the company has received dividend from APL, Attitude Hospitality Management Ltd., Zilwa Resort and Marina Village Hotel. This is because other subsidiary and associate companies are either too small or has debt repayment (interest & principal) liability.

In FY21, AHL has not received any dividend from its subsidiaries and has earned a nominal total revenue of MUR 19 million as interest payment from the subsidiaries. Total debt as on June 30, 2021, was MUR 1,275 million. As stated by the management, the company will not announce any dividend for next few years and will utilize the cashflow for repayment of the Bond and MIC facility.

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Consolidated financial performance of AHL group
MUR Million

For the year ended as on	Jun-18	Jun-19	Jun-20	Jun-21
	Audited			
No. of Rooms	995	1,085	1,085	1,085
Avg. Occupancy	85%	88%	65%	10%
Revenue	1,678	1,743	1,346	154
Total Income	1,684	1,754	1,371	381
EBITDA	417	494	294	(224)
Depreciation & amortisation	148	154	226	194
Interest	122	117	133	127
PBT	317	315	(83)	(716)
PAT	295	232	(104)	(663)
Gross Cash Accruals (GCA)	442	386	121	(468)
Dividend paid/proposed	136	211	70	1
Financial Position				
Equity share capital	1,297	1,297	1,297	1,297
Quassi Equity from MIC				200
Tangible net worth	2,257	2,300	2,068	1,588
Total debt	1,986	1,938	2,636	2,906
- Long term debt	1,855	1,919	2,504	2,809
- Short term debt	291	19	132	96
Cash & Bank balances	67	129	125	73
Key Ratios				
Profitability (%)				
EBIDTA / Total income	24.74	28.18	21.48	(58.74)
PAT / Total income	17.52	13.22	(7.62)	(173.98)
ROCE- operating (%)	5.86	7.15	0.92	(13.08)
RONW (%)	13.65	10.18	(4.78)	(36.25)
Long term debt to equity ratio	0.82	0.83	1.22	2.04
Overall gearing ratio	0.88	0.84	1.28	2.11
Interest coverage (times)	3.40	4.22	2.21	(1.76)
Total debt/EBITDA	4.77	3.92	8.95	(12.99)

AHL (Consolidated) reported a revenue of MUR 155 million whilst loss after tax stood at MUR 689 million. Cash loss was Mur 468 million in FY21. The loss is attributed to the ongoing Covid-19 pandemic and closure of borders for nearly two years until October 2021. During the discussion, management informed that 6 out of 8 hotels were used as quarantine centres, generating revenue sufficient to meet the operating fixed cost of the group. The other 2 hotels i.e., Zilwa and Tropical were opened for the residents generating room revenue to meet the operating cost of the hotels. AHL receive total Government Wages Assistance scheme of MUR 207 million for FY21.

Adjustments

1. Tangible networth is calculated by netting off revaluation reserve, and non-purchased intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Networkth.
4. Total Income includes revenue from others (Management fees/Interest Income, rental income, etc.)

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Details of Instrument

Proposed Long-term Bond

Particulars	Amt. (Mur Million)	Repayment (Mur Million)
Long term Bond	1,000	5 th year – 1,000 <u>Put option with AHL:</u> FY 23 - 500 (4 th Anniversary) FY 24 - 500 (5 th Anniversary)

Disclaimer

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