

Brief Rationale
CRAF assigns CARE MAU A (Stable) rating to the Proposed Bond Issue of
Attitude Hospitality Ltd (“AHL”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	1,000.00	CARE MAU A; Stable [Single A; Outlook: Stable]	Assigned

Rating Rationale

The rating derives strength from the satisfactory track record of Attitude Hospitality Ltd (AHL), vast experience of its 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, stable performance of major dividend paying group companies, high occupancy and stable Average Room Rate (ARR) in most of the hotel properties, comfortable cash flow along with low gearing in subsidiary companies & moderate gearing at consolidated level and its presence in 3/4-star hotels (Euro 100-120 per night) which is popular 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 & interest rate risks and sensitivity of the Mauritian hotel industry to air access.

Ability to maintain occupancy rate over 80% & projected ARR in hotels, improvement in operational & financial performance of dividend-paying companies, successful completion of renovation in different hotels within the envisaged cost & timelines and reduction of debt at group level are the key rating sensitivities. The rating is also sensitive to any new debt funded acquisition and renovations.

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.

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 8 operational hotels along the north and east coast of Mauritius with 974 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 8 hotels, are partly owned, some fully owned whilst remaining are leased to subsidiaries and associates. There is huge demand for Attitude hotels among the African, Asian, European and South African tourists given its attractive price range (Euro 70-120 per night).

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 (56 years).

Purpose of the proposed Bond issue: AHL currently has a long-term debt of Mur 515 million from The Mauritius Commercial Bank Ltd. (“MCB”). In April 2019, the company proposes to issue a Bond of Mur 1,000 million (to be subscribed by MCB) for a period of 5 years and utilize the proceeds for repayment of existing high cost debt (Mur 515 million) in AHL and high cost debt in subsidiaries.

Repayment Terms of the Bond Issue: As per the Term Sheet of MCB, the Bond is proposed to be repaid at maturity (bullet repayment at the end of 5 years).

Prepayment option available to AHL management - However, given possibility of excess cashflow in various subsidiaries & associate companies, AHL management has kept an option to make early repayment [Repayment 20% in FY21 (2nd anniversary), 30% in FY22 (3rd anniversary) and 50% in FY23 (4th anniversary)]. The cashflow will come as dividend from the various subsidiaries and repatriation of loans from subsidiaries to which AHL will extend the proceeds from the Bond issue.

In case, the Bond is not prepaid (FY21-23) then the excess cashflow (received from group companies) cannot be utilised for dividend payment in between FY21-24.

In FY18 (July 1 – June 30), AHL on a standalone level posted a PAT of MUR 65 million on a revenue of MUR 93 million. Interest coverage was 1.12x during FY18. Overall gearing was 0.36x as on June 30, 2018.

At a consolidated level, AHL posted a PAT of MUR 295 million on a turnover of MUR 1,678 million in FY18. Interest coverage was 3.40x during FY18. Overall gearing was 0.88x as on June 30, 2018.

Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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.