BH Property Investments Limited
14 August 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Term Loan	**200 (Reduced from MUR 280 million)**	**CARE MAU A; Positive [Single A; Outlook: Positive]**	**Reaffirmed with change in outlook from stable to positive**

Ratings Rationale

The rating assigned to the bank facility of BH Property Investments Limited ("BH Property Investments") continue to derive strength from experienced promoters with satisfactory track record in handling rental income generating properties, prime location of the properties, steady demand for Grade A office properties in Ebene, reputed anchor tenant – ABSA Bank with low counterparty risk and strong financials, comfortable occupancy rate of 91% with retention of tenants and lease agreement for ten years which matches the debt repayment tenure. The rating also draws comfort from the moderate cash coverage ratios, reduction in debt and the presence of a Debt Service Reserve Account providing comfort for liquidity.

The rating is, however, constrained by renewal risk of the lease, concentration of revenue from single property, interest rate risk, new office developments coming up in and around Ebene and refinancing risk of the remaining amount in the 10th year of maturity of the debt facility.

Rating Sensitivities

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

- Ability to achieve above 95% occupancy and retain ABSA Bank as tenant
- Ability to sign lease agreements with new tenants
- Reduction of debt on a sustainable basis

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

- Non- renewal of lease agreement by ABSA Bank
- Additional debt by BH Property Investments
- Difficulty in filling the vacant space.

BACKGROUND

Incorporated on October 16, 2015, BH Property Investments Limited ("**BH Property Investments**") is a 100% subsidiary of Lavastone Ltd (rated CARE MAU A-; Stable). BH Property Investments was fully acquired in July 2022 by Lavastone for a total purchase consideration of MUR 207 million from Grit Services Limited.

The core activity of BH Property Investments includes renting of investment property (office building). Its portfolio comprises of only one standalone building located in Ebene named ABSA House which was built in the early 2000s. As on July 2023, Absa House has a total gross lettable area (GLA) of 8,268.70 sqm with 91% occupancy generating a rental income of around MUR 44 million annually. Among the most eminent tenants, ABSA Bank (Mauritius) has been occupying space in the building for around 13 years. ABSA House has a Weighted Average Lease Expiry (WALE) of 6.59 years.

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

Management: BH Property Investments is a professionally managed company, with experienced management. It is governed by a 2-member Board of Directors (Mr. Colin Taylor – non-executive director and Mr. Nicolas Vaudin – executive director). Mr. Colin Taylor is the Chairman of Lavastone, KAML and Taylor Smith Investment – a diversified group engaged in Marine Services, logistics and distribution, manufacturing, services, and property. Mr. Nicolas Vaudin joined Lavastone in 2017 and has around 15 years of established track record in the Mauritian real estate industry. He is assisted by a team of qualified professionals.

CREDIT RISK ASSESSMENT

Experienced promoters with satisfactory track record and experience

BH Property Investments Limited was fully acquired by Lavastone Limited in July 2022. Lavastone is the holding company for the property cluster of Derek Taylor family. The Taylor family is present in Mauritius for more than 100 years. The Taylor family has set up Taylor- Smith Investment Company which has interest in the port, logistics and distribution, distribution of retail products, financial services, and manufacturing industries with a team of 700 people across various business units. Taylor family through KAML holds 60.82% of Lavastone Ltd.

Lavastone Ltd (**"Lavastone")** previously known as CIM Property Development Ltd, is a holding company having investments in real estate (office space, commercial space, hotels) through its 7 subsidiaries and 1 associate. Lavastone derives its revenue as dividend from subsidiaries and associate, which in turn derives revenue by way of rentals from different properties. In FY22, Lavastone has posted a revenue of MUR 293 million and PAT of 180 million.

Lavastone Ltd (Consolidated Financials) as on September 30, 2022, are as under: *MUR Million*

For the year ended as on	Sep-20	Sep-21	Sep-22
	12M, Audited		
Total Income	197	217	293
EBITDA	99	112	180
Depreciation	1	3	5
Interest	18	16	35
Profit on land sales	-	124	-
PBT	-106	198	209
PAT	-104	162	180
Gross Cash Accruals (GCA)	67	188	132
Dividend paid/proposed	14	29	27
Equity share capital	1,721	1,721	1,721
Tangible networth	2,744	2,876	3,013
Total debt	437	665	857
Cash/Bank	29	63	80
Key Ratios			
EBITDA margin	50.13	51.54	61.41
PAT / Total income	-52.94	74.77	`61.50
ROCE- operating (%)	3.10	3.13	4.55
RONW (%)	-3.72	5.77	6.12
Overall gearing	0.16	0.23	0.28
Interest coverage (times)	5.57	7.17	5.16
Long-term Debt/EBITDA	0.64	3.11	3.86
Total debt/EBITDA	2.79	4.93	4.23

Prime location of property

The property is located in a highly strategic region and in the new business district, Ebene, where most of the big companies and banks are located. Ebene hosts majority of offices in Mauritius – area of 312,000 sqm of office spaces closely followed by Port Louis. There is high demand for grade A offices and houses in Ebene. This area is preferred because of the ease of commuting, lesser traffic congestion and access to daily amenities. It is centrally based and well reachable from any point of the island and more than 30% of the inhabitants of Mauritius reside in Plaines Wilhems. ABSA House currently hosts three tenants, ABSA Bank (Mauritius) Limited, a reputed banking institution in Mauritius and worldwide, Capstock is a Broker that specializes in online trading and investment across Global Financial Markets. The third tenant is Dever Investment Ltd which is a specialized financial partner.

Stable occupancy with established track record and high retention rate of tenants

The occupancy rate for ABSA House has increased from 86% in September 2022 to 91% as of July 2023. While ABSA Bank has vacated one floor, the company has brought in two new tenants Capstock and Dever Investment who have already moved in the building and lease agreements have been signed with four new tenants, Amadeus, Oasis Crescent, BDCA and Five Comply to take over the fifth floor which has been vacated by ABSA Bank. Since inception, there has been limited movement of tenants in the property. The risk of tenant leaving the property before the end of the lease agreement is also very low as the tenants have to pay rentals for the property until the end of their agreed ending date on their contract which ensures a good cashflow and consequently debt servicing. The main tenant, ABSA Bank has been in the property for more than 13 years. It initially entered into a lease agreement with BH Property Investments in August 2010 for a period of five years. In May 2014, ABSA Bank renewed their lease agreement with BH Property Investments for an additional 4 years until 2018 and subsequently renewed their lease agreement until May 2028 for another 10 years. In July 2021, ABSA Bank has extended the lease period for a further period of four years now expiring in May 2032. **However, the same has been renewed only for four floors out of five floors which are currently occupied by ABSA Bank. ABSA Bank vacated the 5th Floor on May 31st, 2023, upon expiry of lease agreement for this floor. ABSA Bank had the right to end its agreement without serving any notice and without undergoing any judicial or extra-judicial formality for the 5th floor. Further to this, ABSA Bank has the right to vacate one additional floor, thirty months as from 31st May 2023 by way of a written notice of at least 6 months.**

BH Property has already signed lease agreements with four new tenants namely, Amadeus, Oasis Crescent, BDCA, Five Comply who will move in the property as from September 2023.

There is a strong demand for office space in Ebene being the second main business district, and ABSA House is a Grade A property. The prime office areas in Mauritius are Ebene, Port-Louis and Moka. The overall occupancy rate for offices in Mauritius is around 90%. **The current rental for office buildings in Port Louis ranges between MUR 495 per sqm for a basic office to MUR 1,100 for grade A modern office buildings. The rental for office properties in Ebene ranges from MUR 330 per sqm for basic office to MUR 900 sqm for the grade A modern office properties.** The overall average rent of ABSA House is competitive at MUR 528.9 per sqm.

Property	Annual rent – FY22	Monthly rent	GLA Leased
	MUR	MUR	Sqm
ABSA House	43,509,899.40	3,625,824.95	6,855.47

The Average Occupancy rate of ABSA House was 91% as at July 2023 (86% as at September 2022). The property-wise occupancy trend of 2019 to July 2023 is as follows:

Occupancy Trend (Year end – June)					
Properties	**2019**	**2020**	**2021**	**2022**	**July-23**
ABSA House	95.6%	97.8%	99.9%	86.0%	91%

Reputed lessee with low counter party credit risk

Area-wise, property owned by BH Property Investments is rented as office spaces. In April 2022, Information Technology ELCA Ltd who was occupying 885 sqm of GLA in ABSA House (for five years) vacated the building and at end of August 2022, another tenant, Orezone Drilling (Mauritius) Ltd who was occupying 241 sqm of GLA (for two years) vacated the building. ABSA House was occupied by a single tenant – ABSA Bank (Mauritius) Limited (ABML) which has been in the property for the past 13 years. During the period of April to July 2023, Capstock and Dever Investment Ltd moved in the property and have been occupying an area of 162 sqm and 840 sqm respectively. The four new tenants will move in September 2023. As at June 2023, WALE was at 6.59 years compared 6.80 years as on June 2022.

Lease profile of the existing tenant as at July 2023 is as follows:

Tenant	Start Date	End Date	Annual Rental (MUR Mn)	Area (Sqm)
ABSA BANK (Mauritius) Ltd	01/05/2024	31/05/2032	5.39	993.80
ABSA BANK (Mauritius) Ltd	01/05/2024	31/05/2032	30.8	4859.20
Capstock	01/04/2023	15/03/2026	1.24	162.06
Dever Investment Ltd (Unit 6)	01/04/2023	31/03/2028	2.95	351.63
Dever Investment Ltd (Unit 7)	01/05/2023	09/05/2024	1.64	194.78
Total (at 79%)			**42.02**	**6561.47**
WALE as of June 2023 is 6.59 years				
New tenants (joining in September 2023)				
Amadeus	01/09/2023	30/09/2028	0.78	110.78
Dever Investment Ltd	01/09/2023	30/06/2026	2.26	294.00
Oasis	01/09/2023	30/09/2028	1.09	153.58
BDCA	01/09/2023	30/09/2028	1.51	169.93
Five Comply	01/09/2023	30/09/2028	1.84	198.90
Total (at 91%)			**49.47**	**7,488.66**
Total (at 100%)			**-**	**8,268.70**

ABSA Bank is part of ABSA Group Limited which is an African financial services group. It is one of Africa's largest diversified financial services groups and is present in 12 countries within Africa. It also operates international representative offices in London and New York. It is a commercial bank in Mauritius.

As On / Period Ended	**31/12/2020**	**31/12/2021**	**31/12/2022**
MUR Million		**Audited**	
Total interest income	4,532	3,819	5,663
Total income	4,572	4,729	5,679
Interest expenses	874	416	1,540
EBITDA	2,152	2,287	3,918
PAT	938	1,537	1,997
Deposits from banks & customers	110,481	136,366	115,825
Other borrowed funds	9,701	18,975	64,557
Loan and advances to Banks & Customers	70,693	72,669	98,292
Tangible Net worth	16,488	18,270	16,734
Cash and balances with banks	36,454	38,521	11,896
Key Ratios			
PAT margin	20.52	32.50	35.16
Overall gearing ratio	**7.29**	**8.50**	**10.78**
Interest Coverage - after provisions (times)	2.46	5.50	2.54
Total Income /Av. Total Assets	3.16	2.93	2.97
ROTA	0.65	0.95	1.04
Net Interest Margin	2.53	2.11	2.15
Capital adequacy (%)	20.32	23.13	16.78
Tier I Capital Adequacy Ratio	19.01	21.80	16.25

Performance in FY22: ABSA Bank reported satisfactory results on an overall basis in FY22**.** Revenue grew by 20% in FY22 to MUR 5,679 million (MUR 4,729 million in FY21) and PAT for the year was MUR 1,997 million (MUR 1,537 million in FY21). Deposits from banks have witnessed a downturn of 15%, whilst loans and advances to customers have increased by 35%.

Tenure of lease compared to term loan tenure
The weighted average lease expiry of ABSA House was 6.59 years as at July 2023, compared to tenure of the proposed term loan of 10 years. However, BH Property Investments Limited has guaranteed rental income of around MUR 44 million (without yearly escalation) for the next 10 years from ABSA Bank (Mauritius) Ltd. ABSA Bank has been occupying space in the building for more than 13 years. There is very low risk of ABSA Bank vacating four floors before end of May 2032. The company has also welcomed two new tenants since April 2023 namely Capstock and Dever Investment Ltd. Additionally, the company has already signed lease agreements with four new tenants who will move in the property in September 2023.

DSRA for three months' interest payment
There is further comfort derived from the presence of a funded DSRA with the bank equivalent to three months of interest payment of the term loan i.e., around MUR 3-4 million. The company shall always maintain this minimum amount. Additionally, there is restriction on payment of the shareholders' loans and dividend without prior written consent of the bank.

Refinancing Risk
Interest on the term loan will be serviced from rental received from ABSA House. The main tenant, ABSA Bank has signed lease agreement until FY32 which will ensure rental income of at least MUR 36 million annually (increasing annually – escalation of 3-5%). New tenants have moved in the property post April 2023 and four more tenants will move in September 2023. The coverage ratio will remain comfortable throughout the tenure of the facility for repayment of interest and principal except for the 10th year when the company will have to make a bullet repayment of the outstanding amount. In that case, the company can refinance around MUR 100 million in FY33.

Industry Risk
Real Estate in Mauritius (office properties)
The majority of offices is currently based in Ebene occupying some 312,000 sqm GLA out of which 80% are Grade A properties (as of FY21). Port-Louis ranks second with a total GLA of 174,000 sqm out of which only 31% are Grade A properties. In the recent past the Mauritian real estate scenery has been experiencing a decentralization of office spaces from Port Louis to areas like Ebene and Vivea Business Park in Moka Smart city. Vivea business Park has existing Grade A office property of 25,000 sqm from which they are generating steady rentals. The main drivers of this trend have been the lack of parking spaces, increasing traffic congestion to move in and out of Port Louis & Ebene and increasing prices. The current total operational office stock situated in the main business nodes (Ebene, Port-Louis, Phoenix and Quatre Bornes) is 535,000 sqm of GLA – 75% are Grade A properties.

With the introduction of smart cities, a number of companies have started to relocate across the various smart cities being built. The most advanced projects as on date is Vivea Business Park (Moka) and Uniciti each with operational GLA of 25,000 sqm and 15,000 sqm respectively. Expansion plans are ongoing. The current operational office space within the smart cities is 58,400 sqm of GLA, with all Grade A properties. This brings the total existing office stock in Mauritius at 600,000 sqm GLA.

Office Stock in Smart Cities					
	Smart City	Opera-tional	Existing (sqm GLA)	Ongoing (sqm GLA)	Planned (sqm GLA)
1	Uniciti	Yes	15,000	-	150,000
2	Moka Smart City	Yes	29,700	25,000	100,000
3	Mon Tresor Smart City	Yes	4,500	-	20,000
4	Beau Plan Smart City	Yes	2,500	-	72,700 – 131,400*
5	Jin Fei Smart City	Yes	6,700	-	50,000 – 100,000*
6	Cap Tamarin Smart City	Yes	-	1,200	12,000
7	Trianon Smart City	No	-	-	104,600*
8	Saint Felix Smart City	No	-	-	4,900
9	Yi Hai Gardens Smart City	No	-	-	3,500
10	Cote d'Or Smart City	No	-	-	26,000
11	Mont Choisy Smart City	No	-	-	0
	Total		58,400	26,200	543,700 – 652,400

Source: Google Maps, JLL

Demand-Supply- As per Jones Lang LaSalle (JLL), the total office space in Mauritius is expected to increase by 15% annually over the next three years. On average, some 30,000 sqm of office spaces are being built yearly. The construction of offices is expected to grow further by 64,000 sqm of GLA after three years to meet the high demand for business parks and modern Grade A offices. ***Over the past five years, demand for office space has been growing at an increasing pace and has exceeded the supply of Grade A office properties.*** The trend is expected to continue. The main drivers for demand are steady GDP growth, currency, political stability, and favourable investment incentives. However, the land available for office buildings construction around Ebene Cybercity and Port Louis is limited with the significant increase in offices built during the past few years. Developers will resort to development in the smart cities. Office developments in Mauritius is considered to be potentially lucrative.

Rentals: The current rental for office buildings in Port Louis ranges around MUR 495 per sqm for a basic office to MUR 1,100 for grade A modern office buildings. The rental for office properties in Ebene ranges from MUR 330 per sqm for basic office to MUR 900 sqm for the grade A modern office properties. We have seen that tenants are willing to pay higher rentals for Grade A modern office buildings. The main requirements of these tenants are offices being strategically situated mainly in the centre of the island, flexible layout within the building to cater for future expansion, sufficient parking spaces and attractive work environment (which is catered by business parks with green spaces, daily conveniences within reach and modern spaces).

Performance in FY22: BH Property posted a revenue of MUR 45 million in FY22 (MUR 43 million in FY21). Rental income was higher at MUR 44 million compared to MUR 42 million in FY21. EBITDA was at MUR 35 million (MUR 37 million in FY21). In FY22, BH Property posted an exceptional income, shareholders loan written off amounting to MUR 61 million. As a result, there was a significant improvement in PAT from negative MUR 37 million in FY21 to MUR 33 million in FY22. In FY22, the company had an outstanding debt of MUR 306 million (existing loan). Debt to rental for the year was 6.76x times and interest coverage was 1.67x times. Occupancy rate as of July 2023 was 91% and WALE was 6.59 years. The properties were valued at MUR 535 million.

Financial Performance of BH Property Investments Limited MUR Million

For the year ended as on	**Jun-20**	**Jun-21**	**Jun-22**
Occupancy rate	**97.8%**	**99.9%**	**86.0%**
		12M, Audited	
Total Income	41	43	45
EBIDTA	35	37	35
Depreciation	1	1	1
Interest	23	23	21
PBT	0	-34	52
PAT	-3	-37	33
Gross Cash Accruals (GCA)	-2	-36	-7
Dividend paid/proposed	0	0	0
Financial Position			
Equity share capital	0	0	0
Tangible networth	236	196	164
Total debt	287	319	306
- Long term debt	287	319	0
- Short term debt	0	0	306
Cash & cash equivalents	0	0	1
Key Ratios			
EBIDTA / Total income	86.19	86.91	77.59
PAT / Total income	N.M	N.M	72.61
Debt equity ratio	1.21	1.63	1.87
Overall gearing ratio	1.21	1.63	1.87
Interest coverage (times)	1.55	1.60	1.67
Total Debt/ EBIDTA	8.10	8.55	8.72
Current ratio	0.43	0.35	0.01
Quick ratio	0.43	0.35	0.13
Cash coverage ratio	2.03	2.13	2.97
Debt to rental	6.98	7.43	6.76

N.M – Not meaningful

Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve and 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 including lease liabilities) / Tangible Networth.

Annexure I

Details of Instrument

Investor	Particulars	Amount (MUR Million)	Repayment (MUR Million)	Interest Rate
ABSA Bank (Mauritius) Limited	Term Loan	200 (Reduced from MUR 280 million)	Repayable in 40 quarterly instalments (MUR 2.5 million) starting 3 months after the first drawdown and bullet repayment of the MUR 110 million on the final repayment date on the 10th year (2033).	6.15%

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Annexure II

Rating Symbols

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.