CRAF reaffirms 'CARE MAU A- (SO); Stable' rating to the bond issue of MUR 400 Million of Commercial Investment Property Fund Limited (CIPF)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond - Senior Tranche	400	**CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]***	Reaffirmed

**Bond Issue (Senior Tranche) is backed by the first charge on the leased properties of CIPF. Interest payment on the Senior Tranche of Bonds has first priority on lease rentals received by CIPF in an escrow account as per waterfall mechanism. Further, a funded Debt Service Reserve Account (DSRA) equivalent to one semi-annual interest payment to Senior Tranche bondholders has been created and will be maintained during the tenure of the Bond.*

Rating Rationale

The rating is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Bonds, as per the terms of the transaction and this is not a standalone rating of Commercial Investment Property Fund Limited (CIPF).

The structure involved pooling of the various properties previously under ENL Commercial Limited (ENLC) and its subsidiaries into an SPV - Commercial Investment Property Fund Ltd. (CIPF; a wholly owned subsidiary of ENLC) which has issued 10 year bonds of MUR 560 mn (including MUR 400 million of senior tranche and MUR 160 million of junior tranche) the proceeds of which were utilized for buying the properties from ENLC and its subsidiaries which in turn used the sale proceeds to repay their existing debt (i.e. debt in ENLC and its subsidiaries). CIPF has entered into lease agreements with the subsidiaries/associate concerns of ENLC and lease rentals are utilized towards maintenance of properties and debt servicing of the bond issue. Further, ENLC has provided shortfall undertaking to CIPF for replenishment of DSRA within a month of its utilization in case of any shortfall in lease rental for interest payments on the bond issue.

The rating is based on the strong parentage of the ENL group, more than 70% of the lease rentals being received from profitable subsidiaries (Axcess, Grewals, Plastinax and Nabridas) of ENLC, long lease tenure compared to bond tenure with low exit risk, moderate financial risk profile of the lessee's-belonging to diverse industries, financial support from ENLC in the form of funded DSRA for one semi-annual interest payment & shortfall undertaking to maintain the same over the tenure of the bond.

The rating is, however, constrained by the subdued financial performance of some of the lessees [Box Manufacturing, Indoor & Outdoor living (erstwhile Pack Plastic) and JMD (erstwhile Lepongerie] & of ENLC in FY17, interest rate risk and refinancing risk at the time of bond redemption.

Improvement in the performance of the loss-making subsidiaries during the tenure of the instrument, timely receipt of lease rentals, continued maintenance of funded DSRA equivalent to one semi-annual interest payment by ENLC and mode of arrangement of funds for redemption of bonds within stipulated time are the key rating sensitivities.

CRAF has received a letter from the Trustee to the rated bond issue confirming Transfer of Properties to CIPF, signed copy of the lease agreement between CIPF and the rent paying subsidiaries of ENLC, letter from MCB confirming creation of requisite DSRA, shortfall undertaking for replenishment of

DSRA by ENLC and fulfilment of other terms and conditions which were part of the Private Placement Memorandum to the satisfaction of CRAF, on the basis of which, the final rating has been assigned.

Current Transaction

In May 2018, CIPF has informed CRAF about an ongoing merger between Cogir (one of the tenants of CIPF) and Building and Civil Engineering Ltd. This merger, once completed, will result in Cogir moving out of its existing premises in Moka to Building and Civil Engineering Ltd's offices.

Cogir is a building and civil engineering contractor with track record of over three decades and is a wholly owned subsidiary of ENL Property Ltd. It contributes MUR 6.5 million to CIPF's yearly rental income (Mur 44 million) and has been a loss-making entity. The property (leased to Cogir) was purchased by CIPF at a cost of MUR 75 million. The management has informed that once the property is vacated by Cogir, ENL Property Ltd., will acquire Cogir's premises for a consideration of MUR 88 million by June 30 2018, subject to the approval of its Noteholders.

CIPF shall then lend the proceeds (MUR 88million) to ENL Commercial Limited ("ENLC") for a period of two years, at MCB PLR (currently at 5.75% p.a.). ENLC shall channel the proceeds towards construction of a new showroom for Jaguar/Land Rover at Bagatelle. The latter shall be tenanted to Axess Ltd (authorised distributor of Jaguar/Land Rover; and already its tenant) and transferred to CIPF upon completion and is expected to command a rental in the range of MUR 10-12 million. Due to fall in asset value of CIPF, ENLC will provide a corporate guarantee of MUR 75 million over the duration of the Bonds, to maintain value of property at Mur 635 million and meet the covenant that value of the property should not fall below 1.1 times of senior tranche bond.

Impact of transaction

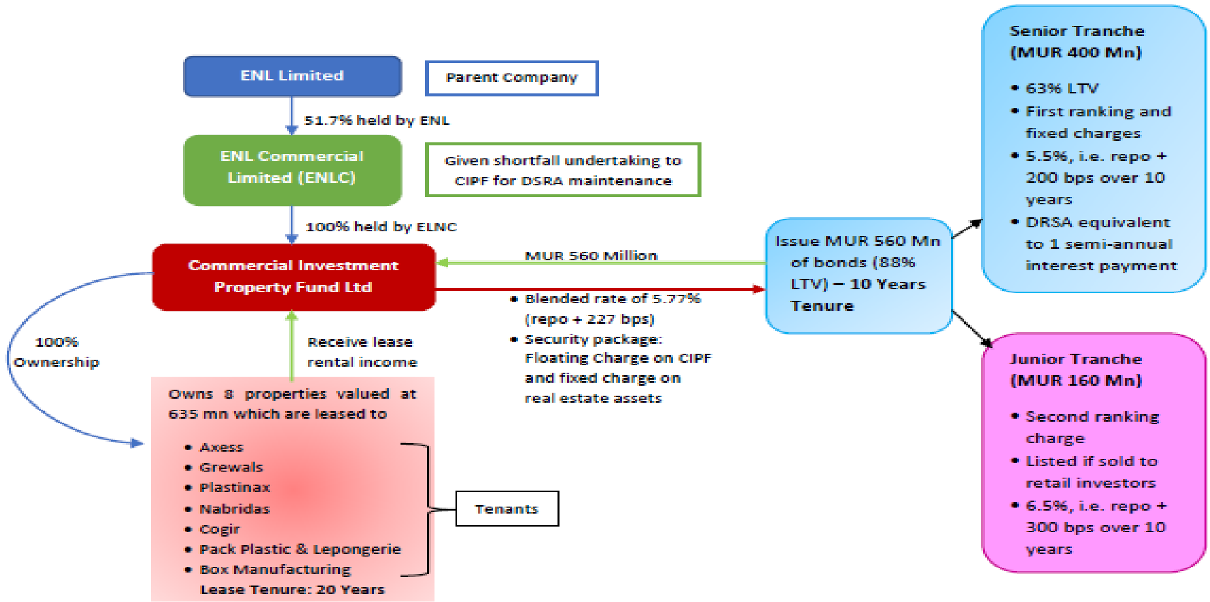
Disposal of the property leased to Cogir will result in a direct reduction in rental income of CIPF by MUR 6.5 million p.a. The loan extended to ENLC will earn interest of MCB PLR in FY19 and FY20 – expected to be around MUR 5.1 million given current rate of 5.75% p.a. After that, upon transfer of the new showroom to Axess, a rent of MUR 10-12 million is expected to be earned by CIPF from FY21.

Background

Incorporated in 2016, Commercial Investment Property Fund Limited (CIPF) is a property fund. It is a wholly owned subsidiary of ENL Commercial Limited (ENLC) and owns eight offices/industrial assets located predominantly in the Moka/St. Pierre region of Mauritius. These properties were previously owned & used by ENLC and its subsidiaries. The properties have now been transferred to CIPF and the earlier users have entered enter into a new 20 years lease agreement with CIPF.

CIPF has issued bond of MUR 400 mn [Senior Tranche rated **CARE MAU A- (SO); Stable**] and MUR 160 million (Junior Tranche: **unrated**) backed by the lease rentals to be received from its let-out properties which are being utilized for interest payment and bond repayments.

Transaction Structure



The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders from lease rentals.

As per provisional results for 9MFY18, CIPF reported a total operating income of MUR 33 Mn and interest coverage of 1.20 times.

Note: Ms. Aruna Radhakeesoon, employed as Attorney-at-Law/Executive Director/Chief Legal Executive by Rogers and Company (an ENL Group company), is one of CRAF's Rating Committee Members. To comply with the regulations, the member has not participated in the rating process and in the Rating Committee Meeting.

Annexure I

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.