Brief Rationale

CRAF reaffirms ratings assigned to the bond issues of MaxCity Property Fund Ltd ("MPFL")

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue (Senior Tranche) *	600	**CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]**	**Reaffirmed**
Bond Issue**	USD 11.1 million@ (MUR 444 million)	**CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]**	**Reaffirmed**

** Total bond issue size was MUR 800 Mn; however, rating is assigned to the senior tranche of MUR 600 Mn only. ** Total bond issue size was USD 26.1 Mn & MUR 300 Mn; however, rating is assigned to USD 11.1 Mn only. *Bond Issue (Senior Tranche) of MUR 600 million, USD 26.1 million and MUR 300 million is backed by the first charge on the six leased properties. Interest payment on these Bonds have priority on lease rentals received by MPFL. @1USD=MUR40*

Rating Rationale

The ratings are 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 it is not a standalone rating of MaxCity Property Fund Ltd (MPFL).

Bond (Senior Tranche) – MUR 600 million rated CARE MAU A (SO) Stable

The structure involves pooling of six commercial properties under MPFL which has issued 10 years bond in May 2017 of MUR 800 million (including MUR 600 million of senior tranche and MUR 200 million of junior tranche) whereby the proceeds were utilized for repayment of its existing high-cost debt and investment in development of 1 CyberCity Phase 2. MPFL is servicing the bondholders through the receipt of lease rentals (in a designated escrow account) from its six properties (including 1 CyberCity – Phase I & 2) having proven track record of lease rentals. The rating also derives comfort from the fact that MPFL must build up MUR 300 million of cash from its surplus cashflow for repayment of 50% of the Senior Tranche Bond issue (MUR 600 million).

Bond of USD 11.1 million (MUR 444 million) rated CARE MAU A- (SO) Stable

The structure involves pooling of six commercial properties under MPFL which has issued MUR 1,200 million of multicurrency bond (USD 26.1 million and MUR 300 million for 5 & 7 years) in July 2019, whereby the proceeds were utilized for buying out 50% stake of HVOM Ltd in MaxCity Ebene Limited (MEL) and repayment of existing loan of MUR 400 million in MEL. MPFL is servicing the bondholders through the receipt of lease rentals (in a designated escrow account) from its six properties (including 1 CyberCity Phase 1 & 2) having proven track record of lease rentals.

The ratings continue to derive strength from lease rentals being generated from properties at prime location, with reputed and diversified tenant base, continued high occupancy ratio & retention rate of tenants in these properties and comfortable coverage ratios. The ratings also derive strength from experienced promoters and MPFL being a part of MaxCity group which has an established track record in real estate development in Mauritius. The reaffirmation of the ratings has taken into consideration that 1 CyberCity Phase 2 became operational in July 2018 and the occupancy rate reached 83% in November 2020. The occupancy rate of all the properties together was around 87% in November 2020.

The ratings are constrained by shorter lease tenure compared to bond tenure, vacancy in the buildings, worsening of the global situation from the pandemic affecting collection of rentals, refinancing risk at time of redemption of bonds and foreign exchange fluctuation risk. Timely renewal of lease agreements with existing tenants to maintain high occupancy in the existing properties, successful leasing of entire Phase 2 of 1 CyberCity and finalization of mode of arrangement of funds for redemption of both the Bonds within stipulated time are the key rating sensitivities.

Update since last Rating exercise in March 2020

- **Impact of COVID-19**: MPFL maintained its overall occupancy post the lockdown and COVID-19 pandemic at 87%, the same level in March 2020 and in November 2020. MPFL has been resilient to the covid-19 pandemic and lockdown, cash inflow from rentals was insignificantly impacted. Almost 100% of rental income from offices were collected between April 2020 to November 2020. Out of total rental income from offices of MUR 181 million (January 2020 to November 2020), only MUR 1 million is yet to be collected (provision). Rental income of Centre Commercial Emerald Park (only retail property), between January 2020 to November 2020, is MUR 36 million - of which MUR 6 million is yet to be collected. Total provision for the year is expected to be MUR 7 million. As per the agreements, MPFL will receive MUR 215 million full year rental income in FY20. Annual escalation is expected to be around 3% to 5% annually for most tenants going forward.
- In November 2020, the occupancy in Phase 2 (Towers B&C in 1 CyberCity) was 83% (81% in FY19). As of December 2020, Overall Average Occupancy of the six properties is 87% (increase from December 2019 – 85%). 1 CyberCity (Phase 1 & 2) witnessed an increase in occupancy (from 75% in FY19 to 85% in FY20 for Phase 1 and increase from 81% in FY19 to 83% in FY20 for Phase 2).
- The average rent per sq. ft (MUR 49 for FY20) is also in line with the projected rate considered during the last review.

Background

Incorporated in April 2017, MPFL is a wholly owned subsidiary of MaxCity Properties Limited ("MPL"). MPFL owns six properties - two Grade-A prime properties namely 1 CyberCity and One Cathedral Square, one operating in a niche segment, designed, and built specifically for retail operators in the Home DIY/Housewares sector namely Centre Commercial Emerald Park and the three other properties are Court View Building, Max Tower Building and Max Plaza. Following the amalgamation of MEL into MPFL, 1 CyberCity (Phase 1 – 105,946 sq. ft and Phase 2 – 164,242 sq. ft), a Grade A prime property, is now under the ownership of MPFL. Accordingly, the total leasable area is 441,777 sq. ft.

As per Audited Annual Report (January - December 31), Total income of MPFL is Mur 200.7 million with a PBT of Mur 108.4 million. The occupancy ratio is around 87%. Cash Interest coverage for Mur 600 million and Mur 1,200 million Bond issue is expected to remain comfortable for the projected period i.e., between 2.69-3.92x times reflecting the ability to absorb non-receipt of some of the lease rentals due to delay in renewal of lease post expiry.

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.