

Brief Rationale
CRAF assigns CARE MAU BBB+; Stable rating to the proposed Bond issue of
Investcorp (Holdings) Ltd (“IHL”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Proposed Bond Issue	1,000	CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]	Assigned

Rating rationale

The rating assigned to the proposed bond issue of MUR 1,000 million by Investcorp (Holdings) Ltd – IHL derives strength from prime location of the properties (Ebene, Port Louis & Grand Baie), diversified & established tenants with 17% of existing tenants being part of HYVEC Group, 14,474 sqm of Gross leasable office area (GLA) out of 22,075 sqm GLA has already been rented leading to an avg occupancy of 66% in the office portfolio as on June 30, 2021 (existing office buildings fully occupied), DSRA of one semi-annual repayment, no dividend payment and withdrawal of shareholders loan till full Bond repayment and steady demand for Grade A office properties in Ebene. The rating also takes into consideration that IHL is part of HYVEC Group and the promoter’s experience in real estate development.

The rating is, however, constrained by the risk of tenancing the new office properties in Ebene (GLA of 12,306 sqm with current occupancy of 38%), relatively low interest coverage ratio (1.52x times) till 100% occupancy is achieved in all the properties, short tenure of lease compared to bond tenure, refinancing risk at maturity and ability to maintain 100% occupancy in the wake of new office developments in & around Ebene. In terms of cumulative cash balance in IHL, it would be around MUR 300 million at end of bond tenure, thereby requiring minimum MUR 700 million (around 70% of the bond issue) which will be dependent on property sale or refinancing.

Rating Sensitivities

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

- Ability to increase occupancy ratio to 100% for new properties.
- Timely disposal of the buildings as envisaged by FY26/27, well before maturity
- Ability to achieve the projected occupancy and rentals in the new buildings

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

- Non- renewal of lease agreements
- Additional debt by IHL
- Difficulty in tenancing the new office properties in Ebene
- Dip in occupancy of existing buildings

Background

Incorporated in June 2008, Investcorp (Holdings) Ltd - IHL is a 100% subsidiary of Blue Valley Limited which is fully owned by Mr. Nawaz Khan Chady. Mr. Chady is the founder and CEO of the HYVEC Group.

As on June 30, 2021, IHL owns nine commercial properties directly and indirectly through various wholly owned subsidiaries. The holding structure is as under:

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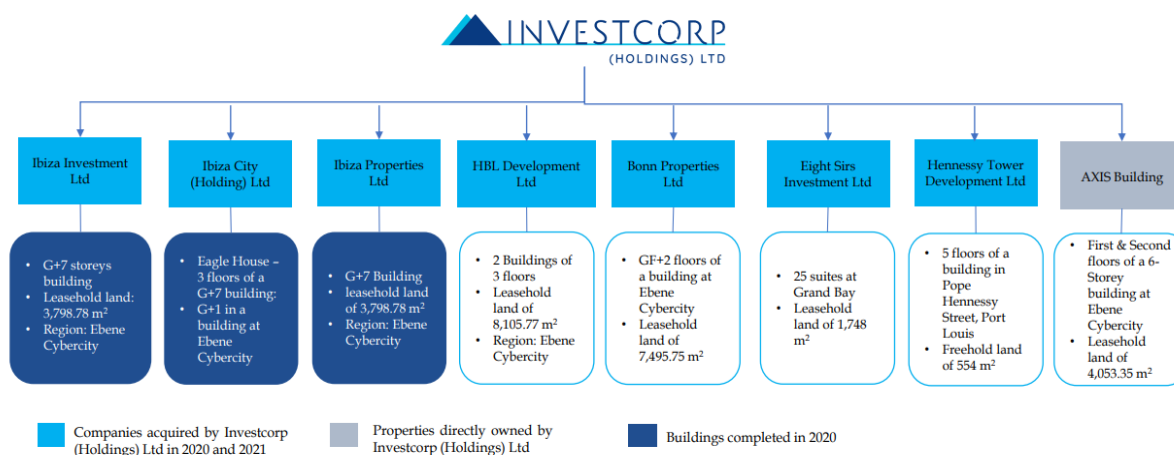
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IHL's Board has decided to amalgamate all the wholly owned subsidiaries into IHL. The management has submitted a Board Resolution (dtd. July 8, 2021) which states that there will be an amalgamation of the various subsidiaries into IHL, and all the properties will be directly owned by IHL.

Rental Yielding Properties (office space and premium luxury apartments)

As on August 4, 2021, IHL has a portfolio of nine properties (mix of new & mature properties) with gross leasable area (GLA) of 23,945 sqm into operations with 68% occupancy and a rental of MUR 67 million for FY21. These rentals are underpinned by MUR denominated rentals from office space and premium luxury apartments for vacation residence. The Weighted Average Lease Expiry (WALE) as on June 30, 2021, was 5.3 years.

The eight properties, rented for office space (GLA - 22,075 sqm with occupancy of 66% as on August 4, 2021) are located in prime office area of Ebene and Port Louis. While the four mature office properties (GLA – 9,769 sqm) are 100% occupied by reputed tenants for more than 4 years, the four new office properties (GLA – 12,306 sqm) launched in September 2020 are 38% occupied as on August 4, 2021.

Office Properties - Hennessy Tower (completed in 2011) is based in Port Louis. The remaining seven office properties are in Ebene namely AXIS house – completed in 2013 (under IHL), SANNE House – completed in 2008 (HBL Development Ltd), HYVEC House – completed in 2016 (Bonn Properties Ltd), Maison Sasha and Eagle House (Ibiza City (Holdings) Ltd), SBM building (Ibiza Investment Ltd) and Quantum building (Ibiza Properties Ltd). Maison Sasha, Eagle House, SBM building and Quantum building (i.e., all the Ibiza properties) were completed in September 2020. In the short span of time, some tenants have already moved in the properties.

Luxury Apartments - The premium luxury apartments (Grand Bay suites - completed in 2009 with GLA of 1,870 sqm), of 25 suites with swimming pool & spa, is rented to one of the group companies of Mr. Chady for a period of 15 years. The rentals are irrespective of the occupancy of the apartments and full rentals have been received during last 18 months.

Management: The strategic affairs of the company are looked after by the Executive Management Team which comprises of the CEO, Mr. Raju Jadoo and the Deputy CEO, Mrs. Christine John Chuan. They are assisted by a team of qualified and experienced professionals. Mr. Raju Jadoo is a professional accountant with over 30

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years of experience having worked for DCDM, MCCI and BOI. Mrs. Christine John Chuan has more than 40 years of experience with SBM and ABSA bank at various management positions.

Standalone: In FY20 (January - December 31), total income of IHL is MUR 12 million with a PAT of MUR 28 million (including gain on disposal of property).

Consolidated: The total income of IHL and the various subsidiaries for FY20 are MUR 48 million (excluding disposal of property). The average occupancy for FY20 is 68% for the nine properties and LTV is currently at 52% despite the portfolio including 3 newly constructed properties.

Interest of the proposed Bond can be serviced from the rentals received from the properties with an interest coverage ratio of 1.52-3.72x. The surplus cashflow (difference between rental received and operational cost & interest expenses) can be utilized for part repayment of the principal amount subject to no dividend payment being made. In case of dividend payment, more than 80% of the Bond needs to be paid out of disposal of property or refinancing.

Bond Issue: As on December 31, 2020, term loans and overdraft from banks in IHL and various subsidiaries amounted to MUR 534 million and loan from promoters was MUR 797 million.

In between January – June 30, 2021, the company availed a term loan from MauBank and repaid the entire bank debt outstanding in Ibiza City, Eight Sirs, IHL and Bonn Properties. Accordingly, as on June 30, 2021, the term loan from banks was MUR 687 million and loan from shareholders was MUR 665 million. The said shareholder loan is subordinated to the Bond and is payable within a period of 10 years but not earlier than the repayment of the totality of the Notes to all Noteholders. In August 2021, IHL proposes to raise a bond of MUR 1,000 million over a period of 7 years. The proceeds will be used for repayment of bank debt (MUR 687 million), amount due to related parties (MUR 307 million) and for listing expenses & payment of lease liabilities (MUR 6 million).

The Bond has LTV of 52% which is secured by a First Rank Fixed charge on immovable properties held by the company for a value of up to MUR 1.928 billion, valued in November 2020 and June 2021.

Disclaimer

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Annexure I

Rating Symbols

Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
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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