Brief Rationale

CRAF assigns 'CARE MAU AA; (Stable)' rating to the proposed Bond issue of MUR 2,000 million of CIM Financial Services Ltd.

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	2,000 (enhanced from Mur 1,200 million)	**CARE MAU AA; Stable [Double A; Outlook: Stable]**	**Assigned**

Rating Rationale

The rating assigned to the proposed bond issue of CIM Financial Services Ltd. ("CFSL") takes into account the proposed amalgamation of its wholly owned subsidiaries - CIM Finance Ltd. (CARE MAU AA Stable/CARE MAU A1+), Mauritian Eagle Leasing Company Limited (MELCO), CIM Agencies Ltd, CIM Management Services Ltd. and CIM Shared Services Ltd. into CFSL. The rating derives strength from experienced & resourceful promoters, professional and highly qualified management team and strong financial position of CFSL as a consolidated entity. The rating also takes into account CIM Finance Ltd.'s ("CFL") long and satisfactory track record, dominant market share (90%) in Credit Facility Agreement ("CFA"; previously termed as Hire Purchase), well diversified asset portfolio, consistent growth in disbursements, moderate asset quality, satisfactory financial position, satisfactory asset-liability maturity profile, capital adequacy ratio ("CAR") & liquidity profile and stringent NPA recognition norms (due above 90 days).

The rating is constrained by risk associated with increasing competition in the financial services business, entry of new players in CFA segment, exposure to regulatory risks, risk associated with volatility in interest rates and increase in exposure to relatively riskier segments such as unsecured lending.

Successful completion of the proposed amalgamation of CFL, MELCO and other group companies into CFSL within envisaged timelines, ability of CFSL (merged entity) to maintain asset quality and profitability while increasing asset size, improving asset liability maturity profile, maintain CAR in the range of 11.50% to 12.00% and continued support from promoters are the key rating sensitivities.

BACKGROUND

Since 1987, CFL (operating within the Rogers Group) has been engaged in providing hire purchase/credit facility agreements (CFA) in Mauritius and expanded its activities to leasing, deposit taking, unsecured loans, credit cards and factoring over the years.

In July 2005, CIM Financial Services Ltd (CFSL) was incorporated to regroup and manage the finance business (including CFL), global business, and insurance business of Rogers group.

In 2012, the controlling shareholders of Rogers namely the Espitalier Noel family and the Taylor family (each controlling 26.5% of the Rogers Group) restructured the Rogers which led to the Taylor Family exiting Rogers and taking control of CFSL with a holding of 53%. The balance 47% was held by corporate bodies, Insurance Companies, pension funds and individuals. At the same time CFSL was listed in the Stock Exchange of Mauritius and was composed of the finance business (i.e CFL), the global business and some real estate assets. In March 2017, CFSL disposed of its global business activities and in January 2019, the property activities were spun off via a dividend in specie to the shareholders of CFSL, resulting in CFSL becoming focused on financial services as its main business activity.

In August 14, 2019, Board of CFSL has communicated to the public that both CFL and MELCO has successfully refunded all the deposits, availed from the deposit holders, and has lodged an application for the surrender of the deposit taking license with the Bank of Mauritius. Furthermore, with the objective of streamlining the structure of the group and improving efficiency, the Board of CFSL had approved the 'in principle' amalgamation of CFL, MELCO, CIM Agencies Ltd, CIM Management Services Ltd and CIM Shared Services Ltd. with and into CFSL (subject to Regulatory Approval). Post-amalgamation of these companies into CFSL, CFSL will focus on its strategy to strengthen its core consumer finance lending business within an improved governance framework and through securing more opportunities as a lender on both the local and the regional markets.

Disbursement in CFSL (CFL & MELCO) witnessed a moderate growth during last 2 years, with a y-o-y growth of 8% in FY18. The total Assets under Management (AUM) has shown an increasing trend over the years (18% growth in FY18). AUM has increased by 18% to around Mur 13 billion in June 2019 over Sept 2018, primarily due to higher disbursements in CFA and loans & advances, in line with higher demand.

In 9MFY19, GNPA was around Mur 1.0 billion and GNPA was around 8.40%. In 9MFY19, the collection efficiency of CFSL group companies (CFL and MELCO) has remained stable at 96%.

CFL's CAR as on September 30, 2018 was satisfactory at 14.31% and well above the Regulatory norm of 10% (stipulated by Bank of Mauritius). CAR as on June 30, 2019 was 12.47%. CAR of MELCO as on June 30, 2019 was 25.00%. As indicated by the management, CAR is expected to be above 12.00% during the projected period.

Overall gearing of CFSL group (including CFL and MELCO) as on September 30, 2018 was 1.45x. The same is expected to hover in the range of 2.30-3.50x during the projected period.

CFSL (CFL and MELCO) has cumulative negative mismatch in 0-3-months' time bucket, primarily considering repayment of cash credit and short-term loans from banks. The overdraft/short term loans and Money market lines from banks are generally rolled over during maturity. This apart as on June 30, 2019, CFL and MELCO has Mur 866 million of cash/fixed deposits and CFL has unutilized working capital line, which can be utilized for meeting the mismatch.

Average utilisation of fund based working capital limits & short-term loans in CFL, during 12 months ended August 2019, was about 75%. Average utilisation of fund based working capital limits & short-term loans in CFSL, during 12 months ended August 2019, was about 80%. MELCO is a debt free company with borrowings from CFSL.

In February 2019, CFL has availed long-term bond of Mur. 3,500 million (Mur 2,000 million payable after 2 years and Mur 1,500 million payable after 4 years).

In FY18, (Oct 1 – Sept 30), CFSL earned a total income of MUR 1,939 million and PAT of MUR 352 million. In 9MFY19 (Oct 1- June 30), CFSL earned total income of MUR 1,602 million and PAT of 282 million.

Purpose of the Bond issue

CFSL has raised long-term bond of MUR 2,000 million and will utilize the same to refinance part of its debt and advance the balance amount to CFL and MELCO, so that they can repay outstanding short-term debt facilities. This will help CFSL to align the borrowing and lending schedule at group level, because H.P. portfolio is for 24-30 months and lease portfolio is 4-5 years. Till date a significant portion of the funding in CFSL (CFL/MELCO) was done through short term loans. This Bond will reduce the dependency on short term borrowings and also allow the Group to tap into a new and well diversified source of funding. However, the working capital lines of CFSL and CFL from different banks will be also available.

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.

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.