Brief Rationale

CRAF reaffirms CARE MAU A+; Stable rating to the Bond issue of CIEL Finance Limited

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	500	**CARE MAU A+ Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**

Rating Rationale

The rating assigned to the bond of MUR 500 million of CIEL Finance Limited ("CFL") has been reaffirmed at CARE MAU A+ Stable. The rating continues to derive strength from a strong parentage of CIEL and Amethis group, experienced and resourceful promoters, professional and experienced management team, satisfactory performance of various affiliates in banking & financial sector of Mauritius and Madagascar, strong operational and financial parameters of major dividend (80-90%) paying company - BNI Madagascar, successful performance of KIBO Funds with track record of profitable exit from majority of the investments in KIBO Fund I and satisfactory financial performance with low gearing & high debt service coverage indicators.

The rating is however constrained by high dependency on dividend income from affiliates – which is primarily contingent on the performance of BNI Madagascar, high level of competition in Mauritian and Madagascar banking segment, low penetration rate of banking operations in Madagascar, dependency of the operations of BNI Madagascar to the political and economic environment of the country and its exposure to foreign currency fluctuation risk and interest rate risks.

The rating is sensitive to operational & financial performance of major dividend paying bank – BNI Madagascar, turnaround in performance in Bank One, political & economic stability in Madagascar and successful exit from the KIBO funds in timely manner.

BACKGROUND

CIEL Finance Limited ("CFL"), incorporated in February 2013, is the investment holding company for the Finance cluster of CIEL group. CFL is engaged in banking, fiduciary services, private equity investment and asset management services.

At the time of inception, CFL was wholly owned, controlled and managed by CIEL Limited. CIEL group is one of the largest industrial and investment groups based in Mauritius with operations across African and Asian countries. In 2015, Amethis Africa Finance Limited acquired 24.9% stake of CFL. Amethis is one of the leading investment fund managers dedicated to the African continent, with an investment capacity exceeding €725 Million and is led by a team of experienced investors and bankers.

In 1992, CIEL group ventured into the financial sector by setting up Investment Professionals Limited (IPRO), which is engaged in providing discretionary portfolio management (pension funds and private clients) and fund management services (Mauritius and India). Mauritius International Trust Company

Limited (MITCO) is another subsidiary of CFL which is one of the Tier 2 players in the offshore sector of Mauritius.

In 2008, CIEL made an entry into the banking sector through the acquisition of First City Bank Limited (subsequently renamed as Bank One) in a joint venture with I&M Holdings of Kenya. Bank One (rated CARE MAU A+ Negative) is among the fastest growing bank in Mauritius.

In 2014, CIEL acquired a controlling stake in BNI Madagascar, the oldest and second largest commercial bank of Madagascar. In 2015, CIEL transferred the stake in BNI Madagascar to CFL.

CFL also owns a 39.7% stake in KIBO Fund LLC (KIBO I), 8.3% stake in KIBO Fund II LLC (KIBO II) and a 50% stake in KIBO Capital Partners Limited which manages the two private equity funds (KIBO I and KIBO II). It holds 23% in a stockbroker, LCF Securities Ltd. (along with the IBL group) and 100% in CIEL Finance Data Services Ltd.

CFL is a professionally managed company. It is currently governed by a Board of 9 Directors, comprising of 1 Executive Director, 7 Non-executive directors and 1 Independent Non-Executive Director. The day to day operations of the company are looked after by Marc Emmanuel Vives and assisted by a team of experienced professionals.

During FY19 and FY20, total dividend received by CFL was MUR 238 Million and MUR 199 Million respectively.

In FY20 (July 1-June 30), CFL (standalone) posted a profit after tax of Mur 103 Million (Mur 130 Million in FY19) and revenue of Mur 203 Million (MUR 234 million in FY19). Dividend from various group companies are the major source of income of CFL. Revenue has increased steadily up to FY19 with a decrease of 14% in FY20 mainly due to non-distribution of dividend by Bank One Limited. Dividend income from BNI Madagascar has increased significantly over the last 3 years with an increase of 28% in FY20 (16% in FY18) amounting to Mur 170 Million. EBIDTA level & margin has remained stable with the decrease in expenses by 26% in FY20. With decrease in revenue, PAT & GCA also witnessed a decrease of around 15% compared to FY19. Company has paid an interim dividend of Mur 22 Million and did not declare any final dividend for the year.

As on June 30, 2020, CFL had a total investment of MUR 3,853 million (MUR 3,886 million as on June 30, 2019) in its various business verticals.

In FY19, BNI Madagascar's Net interest income went up by 15% and PAT was MUR 753 Million. As on December 31, 2019, gross NPA was MUR 1,273 Million. Impairment ratio was 8.06% as at December 31, 2019. As at December 31, 2019, BNI`s CAR was comfortable at 9.5% (regulatory requirement of 8.00%), and Common Equity Tier I (CET I) ratio was 8.3%. CAR as on June 30, 2019 was 10.5%.

BNI has a stable deposit base and the term deposits have witnessed good rollover rate (75%) in recent years. Total deposits, which remain the Bank`s core source of funding, grew by 19% in FY19 (13% in FY18) with CASA proportion at 88% as on December 31, 2019. As at June 30, 2020, BNI offered interest in the range of 1% - 4%, depending on tenure of maturity. The Bank's credit to deposit ratio has also remained stable over the past years.

In FY19, Bank One posted a PAT of MUR 630 million. As at December 2019, the Bank One`s CAR stood comfortable at 14.71% (against a regulatory requirement of 11.875%), and Common Equity Tier I (CET I) CAR was 10.97% (against regulatory requirement of 6.5%). Bank One has a stable deposit base and the term deposits have witnessed good rollover rate (75-80%) in last 2-3 years. Total deposits which remain the Bank`s core source of funding grew by 44% in FY19 (18% in FY18) with CASA proportion at 71% as on December 31, 2019.

In H1FY20, Bank One posted a loss of Mur 427 Million, mainly due to the provisioning of Mur 823 Million due to default by clients and general provisioning for COVID-19. This was expected to impact the CAR of the company. In order to mitigate the same, Bank One's shareholders infused equity of MUR 300 million (CFL infused MUR 150 million out of the dividend received from BNI Madagascar) and the Bank raised Mur 600 Million of Tier 2 capital through a local bond issue. Accordingly, the Bank's capital ratios have strengthened over the period. CAR as on June 30, 2020 was 17.09% (against a regulatory requirement of 11.875%).

In FY14, CFL invested in KIBO Fund II for 10 years, and the latter invests in various countries and industries in Africa. The fund is projected to mature in FY24 and FY25, and the proceeds will be utilized for refund of the capital received from its shareholders, including CFL. KIBO Fund II is already profitable and CFL has track record of exiting from the majority of KIBO Fund I assets at a profit.

Utilisation of the Bond proceeds:

As in September 2019, CFL issued a Bond of MUR 500 million and utilised the proceeds for repayment of existing high cost borrowings (5.75%) of MUR 175 million (was due in September 2022) with Mauritius Commercial Bank, capital contribution of MUR 150 million in Bank One Limited and refinancing / investing in KIBO Fund II LLC for an amount of MUR 175 million.

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.