Brief Rating Rationale
CIM Finance Ltd. ("CFL")
Ratings

Facility/Instrument	Amount (MUR Million)	Rating	Rating Action
Long term Bank Facilities	1,308	**CARE MAU AA; Negative [Double A; Outlook: Negative]**	**Reaffirmation with change in outlook from Stable to Negative**
Long term/Short term bank Facilities	2,725	**CARE MAU AA; Negative/ CARE MAU A1+ [Double A; Outlook: Negative /A One Plus]**	**Reaffirmation with change in outlook from Stable to Negative**
Short Term loan	1,000	**CARE MAU A1 + [A One Plus]**	**Reaffirmed**
Bank Facilities – Long term Bond from MCB	3,500	**CARE MAU AA; Negative [Double A; Outlook: Negative]**	**Reaffirmation with change in outlook from Stable to Negative**

Rating Rationale

The ratings assigned to the bank facilities, short term loans and bond issue of CIM Finance Ltd. ("CFL") was reaffirmed with change in outlook from Stable to Negative due to uncertainty in collection of receivables over next few months, in view of the negative impact of lockdown on the economy and employment rate in Mauritius, leading to increase in provisioning and NPAs.

CRAF expects the projected contraction (projected at around 7% by IMF) in GDP growth of Mauritius in CY20, due to prolonged impact of the lockdown in various businesses, will transmit into job losses, which will have an impact on the collection efficiency of CFL over next 6 months. However, under the current scenario neither CRAF nor CFL are in position to evaluate the magnitude of the actual impact of the same on CFL's collection efficiency over next six months. CRAF will continuously monitor the collection efficiency of CFL over next few months and any significant dip in collection efficiency may trigger a rating downgrade.

The ratings continues to derive strength from long & satisfactory track record of CFL & CIM group, experienced & resourceful promoters, professional and highly qualified management team, dominant market share in Credit Facility Agreement ("CFA"; previously termed as Hire Purchase), well diversified asset portfolio, consistent growth in disbursements, moderate asset quality with high collection efficiency, satisfactory financial position with moderate gearing, stringent NPA recognition norms (due above 90 days) and comfortable asset-liability maturity profile, capital adequacy ratio ("CAR") & liquidity profile.

The ratings are however 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.

Ability of CFL 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% - well above Regulatory norm of 10% and continued support from promoters are the key rating sensitivities.

Successful completion of the proposed amalgamation of CFL 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

CIM Finance Ltd. (CFL) was incorporated, in 1987, by the Taylor family and Rogers group of Mauritius as CIM Ltd. The main objective was to provide hire purchase/credit facilities to the customers of the retail outlets (selling electronic goods/furniture) of the group. In April 1996, the company was rechristened as CIM Finance Ltd. CFL is regulated by the Financial Services Commission of Mauritius. CFL was also regulated by Bank of Mauritius, till the company refunded all its deposits and surrendered its Deposit taking license in August 2019 and the same being cancelled by Bank of Mauritius effective February 10, 2020.

In July 2005, CIM Financial Services Ltd. (CFSL) ("CFSL" rated CARE MAU AA; Negative), was incorporated, to manage the global business, finance business and property business of CIM group. Subsequently, CFL was made a wholly owned subsidiary of the CFSL, a company listed in the Stock Exchange of Mauritius.

Till 2012, Rogers group and Taylor family (through CIM holding Ltd.) were holding majority stake in CFSL. However, post restructuring in 2012, CFSL came under the fold of Taylor family. At present, Taylor family through CIM Holding Ltd owns majority share (53%) of CFSL. The balance 47% is held by corporate bodies, Insurance Companies, pension funds and individuals. In May 2017, CFSL sold its Global Business cluster. In August 2018, CFSL acquired Mauritius Eagle Leasing Co Ltd ('MELCO') – a company engaged in leasing business from IBL group.

Proposed amalgamation of CFL into CFSL

In August 14, 2019, Board of CFSL communicated in public that both CFL and MELCO have 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.

In August 14, 2019, Board of CFSL communicated in public that CFSL had approved the 'in principle' amalgamation of Cim Finance Ltd (CFL), Mauritian Eagle Leasing Company Limited (MELCO), Cim Agencies Ltd, Cim Management Services Ltd and Cim Shared Services Ltd. with and into CFSL (subject to Regulatory Approval). On February 10, 2020, Bank of Mauritius cancelled the deposit taking license of CFL. Subject to obtaining the final relevant regulatory approvals, the company expects the amalgamation to be completed by July/August 2020.

Activities of CFL

CFL is the leading provider of Credit Facility Agreement ("CFA"; previously termed as Hire Purchase), leasing, unsecured loans, credit cards, factoring in Mauritius and operates around 100 counters and a network of more than 700 merchants in Mauritius and Rodrigues. The main services offered are CFA, leasing, unsecured loans, credit cards and factoring.

CFL witnessed a moderate growth in total Assets under Management (AUM) to MUR 14,482 million in H1FY20 from MUR 12,522 million in FY19 (MUR 10,376 Million in FY18). CFL holds 90% market share in CFA market. Traditionally, it was a high yielding product for CFL. In September 30, 2015, charges were reduced from 19% p.a. to 12% p.a.

Since October 1, 2018, CFL has changed its NPA recognition policy and has started recognizing NPA above 90 days for all types of advances - Finance lease, factoring portfolio CFA, loans & advances and credit cards portfolio and writes off (specific provisions) 100% of loan overdue beyond 90 days. This apart it also makes specific provisioning and portfolio provisioning (1.00% of the portfolio value) in line with the Guideline on Credit Impairment Measurement and Income Recognition of BoM.

GNPA was 8.81% as on September 2019 and 9.04 as on March 2020 (9.71% as on September 2018). Net NPA to net worth was 33% as on September 2019 and 39% as on March 2020 (37% as on September 2018).

The collection efficiency has remained stable at 97% (96% in FY18). CFL has written of provision for NPAs of MUR 157 million in FY19 (MUR 219 million in FY18).

CFL's CAR as on March 31, 2020 was 12.80% (14.93% as on Sept 30, 2019) well above the Regulatory norm of 10% (stipulated by Bank of Mauritius for NBDFIs).

Overall gearing of CFL as on March 31, 2020 was 5.80x (5.87x as on Sept 30, 2019). The same is expected to hover in the range of 6.0-6.8x during the projected period. Overall gearing of CFSL (CFSL, CFL, Melco and other companies to be amalgamated) as on March 31, 2020 was 2.50x (2.18x as on September 2019).

Since the company is not a deposit taking institution, it does not require to have a minimum balance as fixed deposit. Despite of this, the company is continuing with the fixed deposit account for a better liquidity position.

CFL has cumulative negative mismatch in 1-3-months' time bucket, primarily arising out of repayment of cash credit, WCDL and OD availed from banks, which are rollover in nature. This apart the company has adequate unutilized working capital limits which could have been utilized to meet the working capital gap of Mur 969 million (0-3 months) as on March 31, 2020. However, CFSL proposes to raise a long-term bond of Mur 2,000 Million to partly repay the utilized overdraft, money market lines (MMLs) and short-term loans in CFL in order to boost the liquidity position of CFL and benefit from lower interest rate in current scenario.

Average utilization of fund based working capital limits & short-term loans in the 12 months ended December 2019 was about 70% - and as on the same date, 30% remained unutilized, providing liquidity cushion to the company. CFL also had cash & bank balance of Mur 270 million and deposit of Mur 454 million on Sept 30, 2019.

In FY19, (Oct 1 – Sept 30), CFL reported a PAT of MUR 279 million (MUR 250 million in FY18) on a total income of MUR 1,778 million (MUR 1,543 million in FY18).

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.

Short term Instruments

Symbols	**Rating Definition**
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.