Brief Rating Rationale

CRAF reaffirms the rating assigned to Bond Issues & bank facilities of CIM Financial Services Ltd with change in outlook from Negative to Stable

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Green Bond Issue	500	CARE MAU AA; Stable [Double A; Outlook: Stable]	Rating Reaffirmed with change in outlook from Negative to Stable
Bond (March 2019) – Long term	3,500	CARE MAU AA; Stable [Double A; Outlook: Stable]	Rating Reaffirmed with change in outlook from Negative to Stable
Bond (October 2019) – Long term	1,900 (reduced from 2,000)	CARE MAU AA; Stable [Double A; Outlook: Stable]	Rating Reaffirmed with change in outlook from Negative to Stable
Bond (July 2020) – Long term	2,089	CARE MAU AA; Stable [Double A; Outlook: Stable]	Rating Reaffirmed with change in outlook from Negative to Stable
Bank Facilities – Long Term/Short Term	5,733	CARE MAU AA; Stable / CARE MAU A1+ [Double A; Outlook: Stable /A One Plus]	Rating Reaffirmed with change in outlook from Negative to Stable

Rating Rationale

The ratings assigned to the bond issues and bank facilities of CIM Financial Services Ltd ("CFSL"), has been reaffirmed at CARE MAU AA/ CARE MAU A1+ with change in outlook from Negative to Stable.

The change in outlook is in line with resumption of tourism industry on a full-fledged basis due to opening of the international borders in Mauritius from October 01, 2021, leading to an improvement in cash flow of individuals employed in tourism industry and car rental companies, which in turn will have a positive impact on the receivables of CFSL. In addition, exit of Mauritius, from the Grey List of FATF and Blacklist of European Union, is believed to be positive for the Financial Institutions operating in Mauritius. CFSL also succeeded in achieving stable collection efficiency in FY21 and Q1FY22.

The ratings continue to derive strength from experienced & resourceful promoters, professional & qualified management team, CFSL's long & satisfactory track record, dominant market share in Credit Facility Agreement ("CFA") and well diversified asset portfolio. The ratings also take into consideration moderate asset quality & satisfactory collection efficiency, comfortable capital adequacy ratio ("CAR") & overall gearing ratio, adequate liquidity, satisfactory financial position, stringent NPA recognition norms (due above 90 days) and no cumulative mismatch in asset-liability maturity profile. The ratings also consider the possible impact of the proposed acquisition of Tsusho Capital (Mauritius) Limited on the financials of CFSL.

The long-term 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. CFSL's profitability was impacted in FY20 (October 1 to September 30) as the management adopted a stringent provisioning/write-off policy and created additional provisions in anticipation of lower collections due to Covid-19 pandemic. However, profitability improved in FY21 (October 1 to September 30) primarily due to higher revenue and lower provisioning, in line with better collection efficiency. CFSL has a prudent provision cover on gross stage 3 assets at 58.5% as on September 30, 2021.

The ability of the company to successfully merge Tsusho Capital (Mauritius) Limited and grow the loan book from focused products while achieving the envisaged asset quality and profitability parameters, maintaining healthy capitalization and diversifying its liability mix will be a key rating monitorable. However, the downside risks to the business plan are likely to be mitigated by strong parentage, strong equity base and low leverage along with a professional management team.

Rating Sensitivities:

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

- Improvement in disbursement & profitability on a sustained basis along with improvement in asset quality.

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in asset quality of GNPA/Stage 3 Assets.
- Weakening of profitability, collection efficiency and capital adequacy levels.
- Moderation in liquidity profile and increase in the share of high yield products.
- Negative cumulative mismatch in asset-liability maturity profile between 3 months to 5 years.

BACKGROUND

Since 1987, CIM Financial Services Ltd. ("CFSL") (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.

CFSL 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. It is the largest Non-Banking Institution in Mauritius in terms of Asset under Management.

On August 14, 2019, Board of CFSL communicated 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 licence with the Bank of Mauritius. Furthermore, the Board of CFSL has also 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). Effective October 1, 2020, the aforementioned companies got amalgamated with and into CIM Financial Services Ltd. Post-amalgamation, CFSL continues to 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 local and regional market.

In Dec. 2021, CFSL announced its intent to acquire Tsusho Capital (Mauritius) Limited engaged in offering vehicle finance and insurance agency services since 2009.

Disbursement in CFSL witnessed moderate growth till FY19 with a slight decline in FY20 due to COVID-19 pandemic. Due to the COVID-19 pandemic effects on the economy, CFSL adopted a cautious approach on disbursement given the closure of the international borders until September 2021, impacting the tourism & aviation sector directly and in-direct impact of the pandemic on various sectors of the economy translating to future job losses. Accordingly, disbursement increased by 5% in FY21 majorly due to increase in Loans & Advances portfolio.

In FY21, CFSL's interest income has increased by 13% (19% in FY20). Total income grew by 6% over FY20 (14% in FY20) due to higher interest income. Total PAT (before provision) increased by 7% in FY21 over FY20. In FY21, GNPA has marginally increased from 15.4% in FY20 to 15.78% in FY21. Despite the improved economic conditions, CFSL preferred to adopt a prudent approach in terms of provisioning on its financial assets and has made a provision of MUR 540 million in order to mitigate the possible delay/default in repayment by its clients due to the impact of COVID19. The collection efficiency of CFSL has improved from 90% in FY20 to 94.3% in FY21.

For Q1FY22, CFSL booked a total revenue Mur 704 million and posted a PAT of Mur 116 million (vis-à-vis total revenue of Mur 627 and PAT of Mur 83 million in Q1FY21).

CFSL's CAR as on September 30, 2021 was satisfactory at 31.42% (28.45% as on Sept 30, 2020) well above the Regulatory norm of 10% (stipulated by Bank of Mauritius for NBDFIs). Overall gearing of CFSL as on September 30, 2021, was 2.19x. NIM was hovering in the range of 13-14% during last 2 years.

CFSL has gap in 0-3-months' time bucket, primarily considering repayment of overdraft amounting to Mur 2,000 million. Post which CFSL does not have any cumulative negative mismatch.

CFSL has raised MUR 250 million and proposes to raise additional green bond of Mur 250 million for 13 months and utilize it to finance hybrid and electric vehicles and other green equipment.

CFSL has adequate unutilized working capital limits which can be utilized to meet the working capital gap. This apart as on December 31, 2021, CFSL has Mur 1,389 million of cash/fixed deposits which can be utilized for meeting any liquidity mismatch.

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.