Brief Rating Rationale
CIM Financial Services Ltd. ("CFSL")
Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond I	2,000	**CARE MAU AA; Negative [Double A; Outlook: Negative]**	**Reaffirmation with change in outlook from Stable to Negative**
Bond II	2,000	**CARE MAU AA; Negative [Double A; Outlook: Negative]**	**Assigned**

Rating Rationale

The rating assigned to the existing bond issue of Mur 2,000 Million of CIM Financial Services Ltd. (CFSL) 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 ongoing lockdown on the economy and employment rate of Mauritius, leading to increase in provisioning and NPAs. CRAF has also assigned **CARE MAU AA; with outlook Negative t**o the proposed Bond issue of Mur 2,000 million of CFSL. CRAF, based on its discussion with management of CFSL, understand that the proceeds from the Bond issue will be utilised to repay part of the high cost overdraft/MML from banks in CFSL and CIM Finance Ltd (CFL). This will effectively improve the liquidity position in CFL and CFSL, enabling the company to bear the impact of lower collection (if any) for next few months and also benefit the companies by securing funds for longer terms from the current low interest rate environment.

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 CFSL over next 6 months. However, under the current scenario neither CRAF nor CFSL are in position to evaluate the magnitude of the actual impact of the same on CFSL's collection efficiency over next six months. CRAF will continuously monitor the collection efficiency of CFSL over next few months and any significant dip in collection efficiency may trigger a rating downgrade.

The rating continues to derive 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, increase in exposure to relatively riskier segments such as unsecured lending and uncertainty related to the collection efficiency of the company over next few months.

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 well above the Regulatory norm of 10% 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.

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

CFSL witnessed a moderate growth in total Assets under Management (AUM) from MUR 11,069 million in FY18 to MUR 13,148 million in FY19. CFSL holds 90% market share in CFA market. Traditionally, it was a high yielding product for CFSL. In September 30, 2015, charges were reduced from 19% p.a. to 12% p.a. GNPA was 9.19% as on March 31, 2020 (8.39% as on September 2019).

CFSL's collection efficiency was 95.94% in H1FY20 (Sept – March 2020) vis-à-vis 97.30% in FY19.

CFSL's CAR as on September 30, 2019 was satisfactory at 25%, which is well above the Regulatory norm of 10% (stipulated by Bank of Mauritius). Overall gearing of CFSL (Consolidate) as on March 31, 2020 was 2.50x (2.18x as on September 2019).

In FY19, (Oct 1 – Sept 30), CFSL reported a PAT of MUR 383 million (MUR 352 million in FY18) on a total income of MUR 2,198 million (MUR 1801 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.