Rating Rationale

Commercial Investment Property Fund Limited ("CIPF")

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond (Senior Tranche) *	400	CARE MAU A Stable [Single A Outlook: Stable]	Rating Upgraded from CARE MAU A- (SO); Stable
Proposed Bond $ (Senior Tranche)	1,000	CARE MAU A; Stable [Single A; Outlook: Stable]	Assigned
Proposed Bond $ (Junior Tranche)	350	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Assigned

**Total existing bond issue = MUR 560 million. Rating assigned to only Senior Tranche of MUR 400 million.*
$Existing Bond issue of Mur 560 million to be repaid from proposed Bond issue of MUR 1,350 by Jan 2022.
$New Bond Issue is backed by the first charge on the leased properties owned by CIPF. Interest payment on the Senior Tranche of Bonds have first priority on lease rentals received by CIPF in an escrow account as per waterfall mechanism. Further, a Debt Service Reserve Account (DSRA) equivalent to one quarterly interest payment for all Bondholders has been created and will be maintained during the tenure of the Bond.

Existing Bond: - The rating of existing Bond issue of Senior Tranche (MUR 400 million) is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Senior Tranche Bonds, as per the terms of the transaction and this is not a standalone rating of Commercial Investment Property Fund Limited ("**CIPF**").

The structure involves pooling of the various properties into Commercial Investment Property Fund Ltd. (CIPF; a wholly owned subsidiary of ENL Commercial). CIPF has entered into 20 years lease agreement, in 2017, with the subsidiaries/associate of ENLC and lease rentals are utilized towards debt servicing of the bond. ENLC has provided shortfall undertaking to CIPF for replenishment of DSRA within a month's time of its utilization.

New Bond: **-** CIPF proposes to issue a Bond (floating rates linked to Repo Rate) of MUR 1,350 million for a period of 15 years (Annual repayment ranging between Mur 60 million- Mur 125 million between 5th **-**15th year) in two Tranches – Senior Tranche (Mur 1,000 million) and Junior Tranche (Mur 350 million). Interest payment on the Senior Tranche of Bonds have first priority on lease rentals received by CIPF in an escrow account as per waterfall mechanism. CIPF will utilise the part proceeds to repay the existing Bonds of MUR 560 million and balance to acquire the following: -

- ✓ Purchase new showrooms of Jaguar /Land Rover at Bagatelle from ENLC.
- ✓ Purchase showrooms of Citroen/Suzuki/Peugeot, at Bagatelle Motor City, from Officea.
- ✓ Purchase Decathlon building, at Bagatelle, from Ascencia (CARE MAU AA- Stable). Decathlon provides the largest sportswear in Mauritius. Tenancy Agreement is for 10 years.
- ✓ Purchase Nabridas showroom, at Pailles, from ENLC.

Rating Rationale

The rating factors the strong parentage of the ENL group, more than 85% of the proposed lease rentals to be received from profitable subsidiaries [Axess Limited (CARE MAU A+ Stable), Ensport (Decathlon), Grewals and Nabridas) of ENLC, similar lease tenure compared to bond tenure with low exit risk, satisfactory financial risk profile of the lessee's belonging to diverse industries, financial support from ENLC in the form of funded DSRA for one semi-annual interest payment & shortfall undertaking to maintain the same over the tenure of the bond.

The rating is, however, constrained by the volatile financial performance of some of the tenants during last 3 years including FY21, future performance of the rental paying subsidiaries and their ability to pay rental in timely manner, interest rate risk and refinancing risk at the time of bond redemption.

Rating sensitivities

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

- Timely receipt of lease rentals
- Improvement in performance of subsidiaries /lessees

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Additional debt by CIPF
- Higher than projected dividend payout to group companies' vis a vis profit
- Non increase in annual rentals by 5%
- Operational and financial performance of Axess and any downward revision in rating of Axess

BACKGROUND

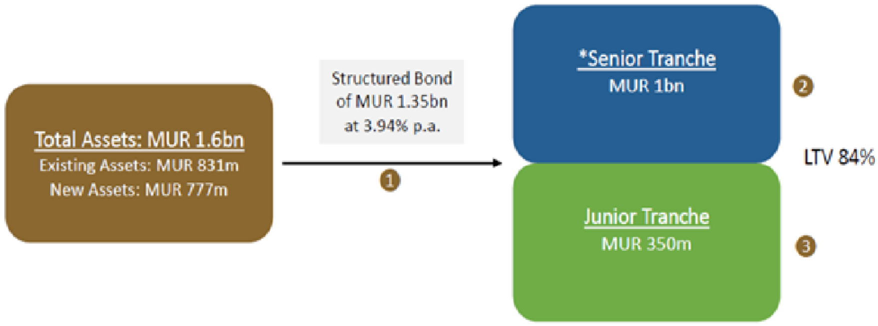
Incorporated in 2016, CIPF is a property fund. It is a wholly owned subsidiary of ENLC and owns seven offices/industrial assets located predominantly in the Moka/St. Pierre region in Mauritius. These properties are occupied and currently used by the subsidiaries of ENLC.

In January 2017, CIPF has entered into 20 years lease agreement with all the tenants (subsidiaries of ENL Commercial). ENLC had infused equity of MUR 112 million in FY16-17 and additional equity of MUR 50.2 million in FY20 (transfer of land and buildings located at Pailles -mainly Axess Central Warehouse, Michelin and Agro Building).

Post new Bond issue and acquisition of the targeted properties (as stated above), CIPF will enter into 20 years Agreement with Axess (JLR and Citroen/Suzuki/Peugeot showroom) and 10 years Agreement with Ensport (Decathlon).

As per the early redemption clause in the previous bond issue Memorandum- on the 5th year, the company is entitled to an early call option to repay the bond. Accordingly, the company proposes to issue a new Bond at a cheaper rate & repayable in 14 variable tranches (unlike bullet repayment).

Proposed Bond structure



The notes shall be structured into - Senior Bond (MUR 1,000 million) and Junior Bond (MUR 350 million). Both the Bonds will share an identical security package; however, the Junior Tranche shall be subordinated to the Senior Bonds.

The senior secured Bond shall have maturity between 5Y and 15Y. To optimise the borrowing costs, each maturity will be between MUR 60M and MUR 125M. The targeted floating rate of interest for the senior bond shall be between 3.45% and 4.15% per annum

The junior secured bonds shall have a maturity of between 13Y and15Y. Each maturity will be between MUR 100m and MUR125m and the target floating rate shall be between 4.15%-4.25%

Strong parentage of ENL Group

CIPF is a 100% subsidiary of ENLC, which is a wholly owned subsidiary of ENL Limited (ENL: rated **CARE MAU A; Stable**). ENL is one of the large conglomerates in Mauritius having diverse business interest from Land and Investment, Commerce and Industry, Real Estate, Agro-Industry hospitality, logistics, Fintech to IT & ITeS domain. Land & Investment and Real Estate and Commerce & Industry are major business segments of ENL. ENL is controlled and managed by the Espitalier Noel family.

The group owns around 23,000 arpents (acres) of land in Moka (Centre of the island and most populated & one of the posh areas of Mauritius), Savannah (South) and Bel Ombre/Case Noyale (South-West). It grows sugar cane on 15,000 arpent of land and have earmarked about 5% of this area (around 1,000 arpent near Moka) for real estate development over next 10 years. Since the group has been holding such land for more than 100 years, its cost is almost negligible as compared to its current value. In 2011, the group inaugurated the Bagatelle Mall which is the most popular mall of Mauritius and has increased the land value in Moka region. The group's strategy for growth has remained virtually unchanged over time: it leverages its significant land assets, to create cash-generating businesses that participate in building up modern-day Mauritius.

The promoters of ENL group hold their stake in various group entities through L'Accord. Four of the group's companies (ENL Limited [CARE MAU A Stable], Rogers, Ascencia [rated CARE MAU AA-Stable] and Commercial Investment Property Fund) are listed on SEM, with a market capitalization exceeding MUR 25 billion (against total debt of MUR 24 billion).

ENL Limited (Standalone Financials) as on June 30, 2020 are as under: *MUR Million*

For the year ended as on June 30,	2019	2020
	Audited	
Total Income	255	226
EBIDTA	60	(92)
Interest	199	389
Fair value gain on revaluation of investment properties	282	1,869
Profit on sale of land	43	872
PAT	189	2,640
Gross Cash Accruals (GCA) (Net of fair value gain in FY19, FY20 & 9MFY21)	189	771
Dividend paid/proposed	195	169
Tangible networth	17,348	19,656
Total debt	7,223	7,336
Investment in Subsidiaries	14,685	13,661
Cash & Bank balances	609	789
PAT (after defd. tax) / Total income	74.12	1170.71
Overall gearing ratio	0.42	0.37
Interest coverage (times)	NM	NM

Tenure of lease Agreements matching bond tenure with low exit risk

The tenure of lease Agreement for all properties/proposed properties is 15 years or more (as on January 2022; signed for 20 years in January 2017) and the tenure of proposed Bond to be issued in January 2022(Mur 1,350 million) will be also 15 years providing stability of cash flows in form of lease rentals. The lease rentals are triple-net (lessee would bear real estate taxes, building insurance and maintenance) and inflation indexed. Increase in lease rentals is linked to increase in inflation from FY20 (with cap of 10%) with minimum escalation of 5%. It mitigates the inflation risk to lease rentals to certain extent. Further, the risk of early termination of the lease agreement is low given that the lessees are the subsidiaries of ENL and part of same group.

Prior to the transfer of the properties to CIPF the same was being utilized by these tenants for over last 10-15 years. Post transfer, the properties have been used by these tenants for 5 years. Given that these are all ENL group companies, the management has indicated that all Agreements will be renewed well before maturity. Annual Rental for FY20, FY21 and post new acquisition in FY22 is as under:

No.		Property Type	Annual rental				Property Valuation
			(FY20)	(FY21)	(FY22)	(FY23)	
			(MUR Million)				
1	Axess Limited	Showroom	21	27	45	69	912
2	Grewals (Mauritius) Ltd	Industrial	8	8	9	10	192**
3	Plastinax Austral Ltd	Industrial	5	6	6	6	95
4	Nabridas Limited	Industrial / Warehouse	5	5	6	6	88
5	Box Manufacturing	Industrial	2	2	2	2	25
6	JMD	Industrial	2	2	2	2	
7	Rennel Ltd	Industrial	3	3	3	3	47
8	Ensport Limited	Sports warehouse			8	18	250
9	Interest from group companies		3.5	0.64	1		
	Total		49	53	**82**	**120**	**1,608**

Note: Overall valuation of property to bond issue is 1.20 times (LTV of 84%)
***** Includes valuation of properties leased to JMD***

Key features of the Lease Agreement

Feature	Details
Lease Rentals	The Basic Monthly Net Rental payable excludes 1. Value added tax and the Lessee shall be liable to pay value added tax at the current rate of 15% or such other rate as may be applicable from time to time. 2. Charges payable for services rendered in respect of the Leased Property 3. Payments of insurance, electricity, water, sanitation fees and other utilities However, Lessee will deduct TDS payable by lessor (currently 5%).
Rental payment terms	Lessee shall pay the Basic Monthly Net Rental in advance on or before the fifth day of each month upon receipt of a monthly invoice to be issued by the Lessor. All payments made by the Lessee to the Lessor in terms of this Agreement shall be effected by cheque or by electronic payment directly into the Lessor's nominated bank account or by such other means as the Lessor may from time to time by notice in writing direct.
Maintenance and other charges	Lessee would be required to pay the cost of all electricity, water, gas and other amenities consumed by the Lessee in or on, or attributable to, the Leased Property directly to lessor or the utility provider. Also, all refuse removal charges, sewerage, sanitary fees and domestic and industrial effluent fees levied from time to time in respect of the Leased Property are to be paid by lessee. Throughout the duration of this Lease, the Lessee shall maintain and repair the interior and exterior of the Premises and all parts thereof, together with all fixtures, fittings and the Appurtenances, in good order and condition and for such purpose shall attend to such repairs and provide such replacements as may be required.
Lock In Period	No lock-in period. However, lease agreement is between the subsidiaries of ENLC and CIPF wherein former has established track record of operations and is currently utilizing that property and on early termination entity has to pay rent for entire lease period.

Satisfactory financial risk profile of Lessee's (Axess Limited, Decathlon, Grewals and Nabridas) to pay more than 80% of future rentals

All the tenants are part of ENL group and are direct subsidiaries of ENLC and step-down subsidiaries of ENL. All the tenants have established track record of operations of over 15 years having business interest in diverse industries viz. Automobile dealership, Eyewear manufacturing and Construction. This reduces the industry specific risk to overall cash flow in form of lease rentals owing to the inter group financial support as all tenants being part of ENL Group and there has been past instances of financial support from ENLC to its subsidiaries. Total rental from Axess will be MUR 69 million in FY23 (to be increased by 5% annually), which is adequate to cover interest payment of the Bond (MUR 54 million). This apart, rentals will be received from Ensport (Decathlon), Grewals, Plastinax and Nabridas which were profitable during past years. However, timely receipt of rentals is exposed to the volatility in performance of these subsidiaries.

All the tenants are the part of ENL group and are direct subsidiaries of ENLC and step-down subsidiaries of ENL Limited. All the tenants have established track record of operations of over 15 years having business interest in diverse industries viz. Automobile dealership, Fashionable Eyewears, Construction, Textile, Plastic products and carton packaging products. This reduces the industry specific risk to overall cash flow in form of lease rentals owing to the inter group financial support as all tenants being part of ENL Group and there has been past instances of financial support from ENLC to its subsidiaries. Total rental from Axess will be MUR 68 million in FY23 (to be increased by 5% annually), which is adequate to cover interest payment of the Bond (MUR 54 million). This apart, rentals will be received from

Decathelon, Grewals and Nabridas which has posted profit during last 2 years. However, timely receipt of rentals is exposed to the volatility in performance of these subsidiaries.

As on Sep 30, 2021, CIPF has extended loans of MUR 24.7 million to ENLC, MUR 9.2 million to Grewal's and MUR 0.4 million to JMD, which are receivable on demand.

Funded DSRA for 1 quarterly interest payment for new Bond issue of Mur 1,350 million

CIPF already maintains DSRA equivalent to 1 semi-annual coupon payment for Sr Tranche of Bond issue of 2017, which is Mur 12 million (based on initial interest rate). DSRA has been set up by way of a bank guarantee from ENLC in favour of CIPF. The bank guarantee has been carved out by The Mauritius Commercial Bank Ltd ("MCB") by blocking/reducing the sanctioned fund based working capital limit of ENLC with MCB. MCB, has confirmed that – ENLC has issued a bank guarantee in favour of CIPF and that the bank guarantee is part of ENLC's overall credit limit with MCB.

CIPF proposes to provide DSRA equivalent to 1 quarterly coupon payment for proposed Bond issue (Mur 1,350 million) in January 2022, which is Mur 14 million (based on initial interest rate). Given the excess cash of Mur 34 million in CIPF as on September 30, 2021 (parked with group companies), the management stated that they will be providing funded DSRA. However, there can be a possibility of a non-funded DSRA by way of a bank guarantee from ENLC in favour of CIPF. The bank guarantee (like earlier Bond issue) will be carved out by The Mauritius Commercial Bank Ltd ("MCB") by blocking/reducing the sanctioned fund based working capital limit of ENLC with MCB.

Interest rate risk

Bonds were issued in 2017 with interest rate of Repo rate + 200 bps (Senior Tranche) and Repo Rate + 300 bps (Junior tranche) thereby directly linked to repo rate which is fixed by Bank of Mauritius and reset on a quarterly basis. Accordingly, interest servicing obligation of CIPF is floating. Repo rate was reduced to 1.85% in April 2020 and has been maintained at the same level. The company has significantly benefited from the reduction of Repo rate. This coupled with minimum 5% increase in rentals for all tenants led to higher profitability and mitigated interest rate risk. Interest coverage ratio improved from 1.2x in FY19 to 1.5x in FY20 to 2.1x in FY21.

CIPF now proposes to issue another Bond of Mur 1,350 million in January 2022 (repayable between 5-15 years) with interest rate of Repo rate + 160 – 230 bps (Senior Tranche- based on tenure 5-15 years) and Repo Rate + 230-240 bps (Junior tranche – based on tenure 13-15 years). While Repo rate is expected to remain at the same level for at least next 1 year and may increase thereafter, the company will benefit from the minimum 5% increase in annual rentals. Interest coverage for proposed Bond issue is more than 2.8 times for senior tranche (FY23 onwards) and more than 2.00 times (FY23 onwards) for overall interest payments to absorb any adverse movements.

Refinancing risk at the time of redemption

CIPF's existing Bond issue of MUR 560 million was repayable at the end of 10th year, leading to a refinancing risk on maturity. CIPF now proposes to issue a new Bond and prepay this Bond.

For the proposed Bond issue of MUR 1,350 million, the repayment of the Senior Tranche will happen annually (MUR 70-125 million) after a moratorium of 5 years (i.e between FY27-37) and Junior Tranche after a moratorium of 13 years (between FY34-37). The annual cashflow projected to be generated by CIPF is adequate enough to repay the Sr. Tranche. Annual Coverage for Sr. Tranche Bond repayment is more than 1.2x. (FY27-37) and cumulative coverage is more than 3.8x (FY27-37).

Annual Coverage for Total Bond repayment is more than 1.1x. (FY27-37) and cumulative coverage is more than 3.0x (FY27-37).

The management indicated that given the long-term lease Agreement they will/can refinance part of the Bond well before maturity. Given the and strong cashflow of the leases, increase in property value, positive outlook of real estate in Mauritius and minimum 5% increase in rentals of the leases the refinancing risk is low. The same is partly mitigated considering the company being part of ENL group. Finally, the sale of real estate is the last resort.

This apart Property value provided for the total Bond issue = MUR 1,608 million (1.2x) and in case if property value falls below 1.10 times, the Issuer shall, within 30 days, take all necessary steps to restore the property value to more than 1.10 times. For Senior Tranche property value to be maintained over 1.55x. This also provides cushion to the company.

Financials of Commercial Investment Property Fund Limited *MUR Million*

CIPF	FY19	FY20	FY 21	Q1FY22
	12 M (Audited)			
Rental Income	37.6	45.3	52.6	13.8
Other Income (Straight line rental income accrual + Interest income)	29.0	26.2	24.4	5.3
Total income	66.6	71.6	77.1	19.2
EBITDA	62.7	67.4	73.0	18.6
Depreciation	10.8	11.8	14.2	3.5
Interest	32.5	29.7	23.9	5.9
PBT	19.4	26.0	35.0	9.2
PAT	16.0	17.6	28.9	7.6
GCA	26.8	29.4	50.0	11.2
Share Capital	112.3	162.5	162.5	162.5
Tangible Networth	132.1	199.9	228.7	236.4
Total Debt:	560.0	560.0	560	560
EBITDA Margin	94.2%	94.2%	94.8%	96.8%
PAT Margin	25.7%	26.1%	39.5%	39.5%
Cash & cash equivalents	11.0	0.0	0.1	0.7
Gearing	4.2	2.8	2.4	2.4
Interest Coverage (EBITDA/Interest expense)	1.9	2.3	3.1	3.1

- Performance of CIPF has improved in FY21 compared to FY20. As per Rental Agreement, Rental for all tenants has been increased by 5% since July 2021. CIPF also posted higher PBT of MUR 35 million in FY21 compared to MUR 26 million in FY20. Henceforth, annual escalation will be in line with the % increase in CPI subject to min 5% p.a. and max 10% p.a. As on 30 September 2021, CIPF has parked its excess cash of Mur 34 million with ENLC (Mur 24.7 million) and JMD (Mur 9.2 million) and had a cash balance of Mur 1.0 million.

- In FY21 CIPF paid interest expenses of Mur 23.2 million on the bond of MUR 560 million

Performance of tenants

- Covid-19 had a general impact on the New Vehicles Market (around 20% decline in sales of New Vehicles compared to pre-covid levels), which explains the decrease in the profitability of Axess (accounting for 51% of CIPF's rental income in FY21). Increase in freight charges and depreciation of the rupee resulted in a drop in margins. Supply chain is currently a major concern. The focus of Axess is on generating more volumes for those brands where stock is available. The future performance is expected to be driven by market recovery and increasing demand for new vehicles.
- Grewal's performance has improved in FY21 and Q1FY21 due to the boost in the construction sector. Grewals has diversified its business activities and has launched new business lines including metals (supply of iron sheets) & waterproofing. In FY21 & Q1FY21, Grewals (accounting for 15% of CIPF's rental income in FY21) witnessed a significant increase of 40% in turnover and with a better cost management achieved higher profitability.
- In FY 20, COVID-19 impacted Plastinax (accounting for 11% of CIPF's rental income in FY21) the most. However, the company was able to successfully diversify its customer base in FY21. This has led to increase in turnover in FY21 and Q1FY21 and has boosted the company's profitability significantly. Plastinax has secured significant orders from major clients and the outlook looks positive for the company.
- Nabridas, manufacturer of swimming pools and fibre products (accounting for 10% of CIPF's rental income in FY21), witnessed a 26% growth in turnover and more than 100% growth in PAT in FY21 over FY20. This was due to higher number of swimming pools sold - both in the local and regional market. Nabridas has the largest market share in Mauritius and had always adopted innovative approach to increase its customer appeal. Given the order book position, the company expects to post better number in FY22.
- JMD (accounting for 4% of CIPF's rental income in FY21) has diversified its business activities from B2B to B2C. A new operations manger has been appointed to look after the operational side of the B2C business. B2C business has taken up very rapidly and significant orders are in the pipeline.
- Ensport Limited, representing Decathlon brand in Mauritius, opened its first retail outlet in May 2021. During last six months it has become the most popular sports outlet of Mauritius. The company has achieved a turnover of MUR 107 million in one quarter and is expected to achieve a target of MUR 400 million by the end of FY22.

Annexure I

A. Details of existing instrument

Terms	Senior Tranche	Junior Tranche
Amount	400 million	160 million
Tenure	10 years (January 2027) – Bullet repayment	10 years (January 2027)
Investors	Bank One – MUR 80 million/ABC Bank – MUR 60 million/SBM Bank – MUR 40 million MCB Bank – MUR 200 million/MCB Investment Management – MUR 40 million and Retail – MUR 140 million	
Interest rate	3.85% - [Repo Rate (1.85% + 2% p.a.)]	4.85% (Repo Rate + 3% p.a.)
Early redemption	Solely at the option of the Issuer, early redemption as from the fifth anniversary of the date of issue at par	
Security	First charge on the properties valued at MUR 823 million **(2.06 times of the bond amount)**	Second charge on the properties
DSRA	1 semi-annual coupon payment	Nil
Listing status	Bond listed in Stock Exchange	
Other covenants	1. The value of property should not fall below 1.1 times of bond value. 2. ENL Limited would hold majority stake in ENLC till bond tenure.	

B. Details of proposed Bond

Instrument	Amount (Mur Million)	Repayment	Indicative Interest Rate
Proposed Bond Issue (Senior Tranche)	1,000	- 5 years from disbursement (January 2027)- Mur 70 million - 6 years from disbursement (January 2028)- Mur 80 million - 7 years from disbursement (January 2029)- Mur 90 million - 8 years from disbursement (January 2030)- Mur 95 million - 9 years from disbursement (January 2031)- Mur 110 million - 10 years from disbursement (January 2032)- Mur 120 million - 11 years from disbursement (January 2033)- Mur 125 million - 12 years from disbursement (January 2034)- Mur 125 million - 13 years from disbursement (January 2035)- Mur 65 million - 14 years from disbursement (January 2036)- Mur 60 million - 15 years from disbursement (January 2037)- Mur 60 million	3.45% 3.55% 3.65% 3.75% 3.85% 3.90% 3.95% 4.00% 4.05% 4.10% 4.15%
Proposed Bond Issue (Junior Tranche)	350	- 13 years from disbursement (January 2035)- Mur 100 million - 14 years from disbursement (January 2036)- Mur 125 million - 15 years from disbursement (January 2037)- Mur 125 million	4.15% 4.20% 4.25%
Total	**1,350**		

Repayment terms for the Proposed Bond Issue (Senior tranche) of MUR 1,000 million:

	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37
Principal (Mur Million)	70	80	90	95	110	120	125	125	65	60	60

Repayment terms for the Proposed Bond Issue (Junior tranche) MUR 350 million:

	FY35	FY36	FY37
Principal (Mur Million)	100	125	125

[Madam Aruna Radhakeesoon did not participate in the Rating Committee discussion of this case because of her association with Rogers & Co. Ltd, an associate company of CIPF]