

CM Diversified Credit Ltd

Brief Rationale

CRAF upgraded the rating assigned to Secured Credit Link Notes of MUR 1,967 million issued by CM Diversified Credit Ltd. from CARE MAU A- (SO)/ CARE MAU A2+ (SO) to CARE MAU A (SO)/ CARE MAU A1 (SO)

Ratings

Instrument	Amount	Rating	Rating Action
Secured Credit Linked Notes	MUR 1,967 million (enhanced from MUR 1,750 million)	CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook Stable] CARE MAU A1 (SO) [A One (Structured Obligation)]	Rating upgraded from CARE MAU A- (SO); CARE MAU A2+ (SO)

Rating Rationale

The ratings assigned to the Secured Credit-linked Notes of CM Diversified Credit Ltd (“CMDCL”) was upgraded based on the satisfactory operational & financial performance of the reference entities over last 2 years - MUA Ltd. (MUA: CARE MAU AA-; Stable), Ascencia Limited (Ascencia: CARE MAU AA-; Stable), CIEL Limited (CIEL: CARE MAU A+; Stable/ A1), ENL Limited (ENL: CARE MAU A; Stable), Omnicane Holdings (La Baraque) Thermal Energy Limited (OHLB: CARE MAU A-; Stable) and Currimjee Jeewanjee and Company Limited (CJ & Co: CARE MAU A-; Stable) since the debt repayment will be made out of the operational cash flows of these six companies. The rating upgrade reflects CMDCL’s ability to successfully finance all puts received by the Noteholders during the last 2 years. The financing of these puts was achieved primarily by CMDC and/or its Underwriter finding replacement noteholders within a period of 14 days of an existing investor exercising his put.

The ratings are supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Credit linked Notes, as per the terms of the transaction and is not a standalone rating of CM Diversified Credit Ltd (CMDCL).

The ratings are however constrained by ability of the Underwriter to arrange funds on the execution of Put option by the Investor on the interest reset date, regulatory and interest rate risk.

Financial performance of the reference entities, level of indebtedness of the reference entities vis-à-vis operational cash flow and ability of the Underwriter to arrange funds in a timely manner on interest reset dates are the key rating sensitivities.

BACKGROUND

CM Diversified Credit Ltd (CMDCL), a limited life company, was incorporated under the laws of Mauritius on March 19, 2019. It is wholly owned by MCB Capital Markets Ltd, which is a wholly owned subsidiary of MCB Group Limited (CARE MAU AAA; Negative), a company listed on the Official Market of the SEM.

CMDCL was incorporated with a capital of Mur 52.5 million (52,500 ordinary Shares issued at MUR 1000 each), fully subscribed by MCB Capital Markets Ltd. As at June 30, 2021 Share Capital of the company was Mur 118 Million. The Issuer relies on its affiliates to provide it with management and underwriting services. The broad structure is as under:

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Issue of CLNs of MUR 1,967 million (enhanced from MUR 1,750 million):

In FY20, CMDCL has raised MUR 1,750 million from the issue of Secured Credit Linked Notes (CLN) to investors. In September 2021, the amount was enhanced to MUR 1,967 million. The proceeds from CLN issue are invested in Bonds issued by Ascencia Limited, CIEL Limited, ENL Limited, MUA Ltd, Omnicane Holdings (La Baraque) Thermal Energy Limited and Currimjee Jeewanjee & Company Ltd. During FY 2021, all the put option received by CMDCL were financed either by the Underwriter finding replacement investors or by selling part of the Reference Portfolio within 14 days of the date of receipt of the put request.

As per the circular dated June 09, 2021, CMDCL notified its investors and the general public that CIEL Limited had redeemed MUR 170 million of notes, and that it has subscribed to MUR 170 million of new notes issued by CIEL Limited.

As per the circular dated Sep 08, 2021, CMDCL notified its investors and the general public that Omnicane Holdings (La Baraque) Thermal Energy Limited has repaid MUR 34 million reducing the total portfolio to MUR 230 million. It invested Mur 50 million in the bond issue of MUA Ltd in July 2021, leading to the total portfolio of MUR 511 million in MUA Ltd. CMDCL also invested Mur 200 million in the bond issue of Currimjee Jeewanjee and Company Limited in August 2021. The below table shows the current Reference Portfolio and the weightage of the Reference Underlying's: (Mur Million)

Reference Entity	Portfolio as at Dec 31, 2021	% of total portfolio	Redemption
MUA Ltd	511	26	September 2029 (Mur 461 million) and July 2031 (Mur 50 million)
Ascencia Limited	200	10	December 2025
CIEL Ltd	365	19	May 2031
ENL Limited	461	23	March 2029
Omnicane Holdings	230	12	July 2027
Currimjee Jeewanjee	200	10	August 2026
Total	1,967	100	

Update on Interest reset and exercise of Put option

Interest reset on December 2021 - On December 07, 2021, CMDCL issued Circular Notice to its Investors, to reduce the Interest rate on CLNs from 1.45% p.a. to 1.40% p.a. or [(Weighted avg. Rate of 91 Days T-Bill (Dec-Mar)) – 15 bps] from December 29, 2021 (for the period December 29, 2021-March 29, 2022), with next reset date on March 29, 2022.

In December 2021, Investors with aggregate investment of around MUR 61 million (3.10% of the outstanding CLN issue of MUR 1,967 million) has exercised their put option and MCBSB and MCB Capital Markets has paid the amount to the investors on due date (December 29, 2021). CMDCL has placed MUR 61 million with new investors.

CIEL, MUA, ENL, CJ and Co. and Ascencia will be paying semi-annual interest to CMDCL, while OHLB will be paying interest annually. CMDCL will be paying quarterly interest to its Noteholders.

The rating is dependent on the operational and financial performance of Ascencia, CIEL, ENL, MUA, OHLB, CJ & Co. and (reference companies) since the debt repayment will made from the operational

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cash flow of these six companies. The Note holder shall have the right, upon receipt of the Circular Notice, to request and compel the Issuer to redeem, purchase or arrange for the purchase of, the whole or part of its Notes (“Put Option”) on the Interest Reset Dates.

MCB Stockbrokers Ltd (the “Underwriter”) has provided a Shortfall undertaking for MUR 1,967 million for 10 years to CMDCL. As per the undertaking in the event of the exercise of the Put Option by a Note holder (Existing Investor) in accordance with the terms of the agreement, the Underwriter shall purchase and /or cause for the purchase of all Notes in respect of which a Put Option has been exercised. The Underwriter shall pay the Put proceeds to each existing investor on the Transfer date.

During the tenure of the Bond, the maximum amount of Put option that can be exercised on the interest reset dates is MUR 1,967 million only, based on the current outstanding Credit linked Notes.

Save/ Except for the Permitted Financial Indebtedness, the Issuer shall be prohibited from entering into any Financial Indebtedness without the consent of the Noteholders’ Representative.

Detailed Rationale of CIEL Ltd, ENL Ltd , MUA Ltd, Omnicane Holdings (La Baraque) Thermal Energy Limited, Currimjee Jeewanjee & Company Limited and Ascencia Limited - visit CRAF’s website – <http://www.careratingsafrica.com/rating-symbols-definitions.php>

Disclaimer

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CRAF’s ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure I

Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
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. A suffix of '(SO)' may be added to the rating indicating that the instrument / facility is a "Structured Obligation". A prefix of 'Provisional' may be added to a 'SO' rating indicating that the rating is subject to completion of certain conditions.

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.

Rating Symbols

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.

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