

**CM Diversified Credit Ltd**

**Brief Rationale**

**CRAF reaffirms CARE MAU A- (SO) Stable and CARE MAU A2+ (SO) ratings assigned to the Secured Credit-linked Notes Issued by CM Diversified Credit Ltd (“CMDCL”)**

**Ratings**

<b>Instrument</b>	<b>Amount</b>	<b>Rating</b>	<b>Rating Action</b>
Secured Credit Linked Notes	MUR 1,750 Million	<b>CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook Stable] CARE MAU A2+ (SO) [A Two Plus (Structured Obligation)]</b>	<b>Reaffirmed</b>

*\*CMDCL currently has an investment portfolio of Mur 1,656 Million.*

**Rating Rationale**

The ratings assigned to the Secured Credit-linked Notes of CM Diversified Credit Ltd. (“CMDCL”) were reaffirmed based on the strength of the operational & financial performance of the reference entities - MUA Ltd. (CARE MAU AA-; Stable), CIEL Limited (CARE MAU A+; Stable/ A1), ENL Limited (CARE MAU A; Stable), Omnicane Holdings (La Baraque) Thermal Energy Limited (“OHLB”) (CARE MAU A-; Stable) and Ascencia Limited (CARE MAU A+; Stable) since the debt repayment will be made out of the operational cash flow of these five companies.

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, a company listed on the Official Market of the SEM. The Mauritius Commercial Bank Limited (wholly owned subsidiary of MCB group) is rated CARE MAU AAA (IS) Stable.

CMDCL was incorporated with a capital of Mur. 52,500,000 (52,500 ordinary Shares issued at MUR 1000 each), fully subscribed by MCB Capital Markets Ltd. As on June 30, 2020 Share Capital of the company was Mur 110 Million.

**Issue of CLNs of MUR 1,750 million (repayable on December 18, 2030)**

In FY20, CMDCL has raised MUR 1,750 million from the issue of Secured Credit Linked Notes (CLN) to investors. The proceeds from the Notes issue were invested in the Bonds issued by CIEL Limited, ENL Limited, MUA Ltd. and Omnicane Holdings (La Baraque) Thermal Energy Limited.

In September 2020, following the circular notice issued by CMDCL, the company received MUR 294 Million of put requests from its Noteholders. CMDCL has redeemed notes amounting to MUR 294 Million and fully paid the Put amount by selling part of the Reference Portfolio.

On December 08, 2020 CMDCL through a circular dated December 08, 2020 communicated the proposed addition to the Reference Portfolio by investing Mur 200 million in the bond issue of Ascencia Limited. As on December 29, 2020 CMDCL invested in the notes issued by Ascencia Limited. The below table shows the proposed Reference Portfolio and the weightage of the Reference Underlying's:

<b>Name of the company</b>	<b>Current Portfolio*</b>	<b>% of total portfolio</b>
<b>Amount (MUR Million)</b>		
CIEL Ltd	170	10.3
ENL Ltd	426	25.7
CIEL Ltd	170	10.3
MUA Ltd	426	25.7
Omnicane Holdings (LB) Thermal Energy Ltd	264	15.9
Ascencia Limited	200	12.1
<b>Total</b>	<b>1,656</b>	

*\*Post investment in the notes issue of Ascencia Limited*

On December 8, 2020, CMDCL's proposed interest rate for the interest period (December 29, 2020 to March 28, 2021) shall be the higher of 1.45% p.a. or [(Weighted avg. Rate of 91 Days T-Bill (December- March 2021)) – 15 bps] with next Interest reset date on March 29, 2021. The Issuer relies on its affiliates to provide it with management and underwriting services.

CMDCL has subscribed to bonds issued by CIEL Limited [MUR 170 million due for redemption in Feb 2021], ENL Limited [MUR 426 million due for redemption in March 2029], CIEL Limited [MUR 170 million due for redemption in July 2029], MUA Limited [MUR 426 million due for redemption in September 2029] and Omnicane Holdings (La Baraque) Thermal Energy Limited [MUR 264 Million Amortizing Bond over 7 years]. CMDCL has invested in bond issue of Ascencia Limited (Mur 200 Million due for redemption in December 2030). CIEL, MUA, ENL 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 CIEL, ENL, MUA, OHLB and Ascencia (reference companies) since the debt repayment will made from the operational cash flow of these five companies. The Note holder shall have the right, upon receipt of the Circular Notice, to

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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 1,656 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 (MUR 1,656 million for 10 years), the maximum amount of Put option that can be exercised on the interest reset dates is MUR 1,656 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 and Ascencia Limited - visit CRAF’s website – <http://www.careratingsafrica.com/rating-symbols-definitions.php>**

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## Annexure I

### *Long /Medium-term Instruments*

<b>Symbols</b>	<b>Rating Definition</b>
<b>CARE MAU AAA</b>	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.
<b>CARE MAU AA</b>	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.
<b>CARE MAU A</b>	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.
<b>CARE MAU BBB</b>	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.
<b>CARE MAU BB</b>	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU B</b>	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU C</b>	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU D</b>	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**

<b>Symbols</b>	<b>Rating Definition</b>
<b>CARE MAU A1</b>	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.
<b>CARE MAU A2</b>	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.
<b>CARE MAU A3</b>	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.
<b>CARE MAU A4</b>	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.
<b>CARE MAU D</b>	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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