

CM Diversified Credit Ltd

Brief Rationale

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

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Secured Credit Linked Notes	700.00	CARE MAU A- (SO) Stable [Single A Minus (Structured Obligation); Outlook: Stable] CARE MAU A2+ (SO) (A Two Plus) (Structured Obligation)	Assigned

Rating Rationale

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 assigned to CMDCL derives strength from the financial performance of the reference entities, currently CIEL Limited (CARE MAU AA Stable) and ENL Limited (CARE MAU A Stable), since the debt repayment will made out of the operational cashflow of both the companies.

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 rest date, regulatory and interest rate risk.

Financial performance of the reference entities, level of indebtedness of the reference entities vis-à-vis operational cashflow 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 (MCBG), a company listed on the Official Market of the SEM. The Mauritius Commercial Bank Limited (wholly-owned subsidiary of MCBG) 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. CMDCL has issued Secured Credit-Linked Notes to investors. The broad structure is as under:

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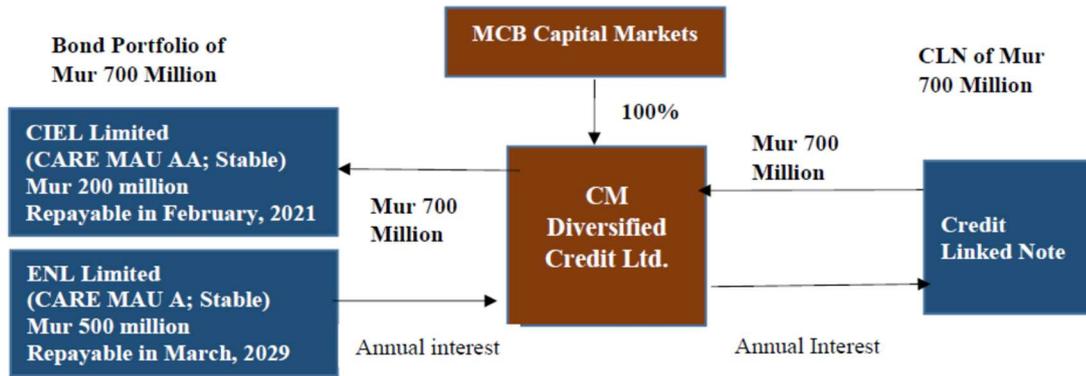
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- Listed Security
- Raised through a private placement
- Investors benefit from an interest income reflecting the risk of the portfolio.

CMDCL has raised MUR 700 million (repayable of 4th April 2029) from the issue of Secured Credit-Linked Notes (CLN) to investors. The proceeds from the Notes issue has been invested in Bonds issued by CIEL Limited & ENL Limited (Reference Entity). Depending on market conditions and the investment opportunities available, CMDCL may issue further CLNs. If CMDCL decides to issue fresh CLNs (over and above the current issue MUR 700 million being rated by CRAF) and invest the proceeds in new Reference entities, the rating shall be reviewed by CRAF.

Bonds issued by CIEL Limited [MUR 200 million due for redemption on Feb 2021] are for a period of 2 years, while the Bonds issued by ENL Limited [MUR 500 million due for redemption on March 2029] are for a period of 10 years. CIEL and ENL will be paying semi-annual interest to CMDCL, while CMDCL will be paying quarterly interest to its Note-holders.

The rating is dependent on the financial performance of CIEL and ENL (visit <http://www.careratingsafrica.com/rating-symbols-definitions.php> for detailed Rationale of CIEL Limited and ENL Limited), since the debt repayment will made out of the operational cashflow of both the companies. The Noteholders 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 Stocbrokers Ltd has provided a Shortfall undertaking for MUR 700 million for 10 years to CMDCL. As per the undertaking in the event of the exercise of the Put option by a Noteholder (Existing Investor) in accordance with the terms of the agreement, MCB Stockbrokers Ltd shall purchase and /or cause for the purchase of all Notes in respect of which a Put Option has been exercised. MCB Stockbrokers Ltd shall pay the Put proceeds to each existing investor on the Transfer date.

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MCB Stockbrokers Ltd is a 100% subsidiary of MCB Capital Markets Ltd and step-down subsidiary of MCB Group Limited. The company was established in 1989 and is a founding member of the Stock Exchange of Mauritius (SEM). Licensed and regulated by the Financial Services Commission (FSC) of Mauritius, MCB Stockbrokers Ltd is one of the leading stock-broking companies of Mauritius, offering a range of services to local, foreign, retail as well as institutional clients. MCB Stockbrokers Ltd holds an Investment Dealer (Full Service Dealer including Underwriting) licence from FSC and has been underwriting corporate transactions for amounts ranging from MUR 100 million to MUR 3.6 billion since 2014, with aggregate exposures not exceeding MUR 4.0 billion in any single financial year. As on date, MCB Stockbrokers Ltd doesn't have any underwriting obligation.

MCB Stockbrokers Ltd has provided an undertaking that it has access to sources of finance MCB Group should a significant portion of the underwriting risks materialize.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security or to invest in or withdraw funds from deposits. CRAF has based its ratings/outlook on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments/deposit programme.

In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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Annexure I

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. 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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