CM Diversified Credit Ltd ("CMDCL")

January 30, 2023

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Secured Credit-Linked Notes (CLNs)	**2,300* (enhanced from 1,967)**	**CARE MAU A (SO); Stable/ CARE MAU A1 (SO) [Single A (Structured Obligation); Outlook: Stable/ A One (Structured Obligation)]**	**Reaffirmed**
Total	**2,300**		

**CMDCL had a bond portfolio of MUR 2,300 million at December 2022*

Rating Rationale

The ratings assigned to the Secured Credit-Linked Notes (CLNs) issued by CM Diversified Credit Ltd ("CMDCL") continue to derive strength from the healthy credit profile of the reference entities making up the bond portfolio in which CMDCL has invested in, the shortfall underwriting provided by MCB Stockbrokers Ltd ("MCBSB") which guarantees to buy back the notes in the event of execution of put options by noteholders, the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the CLNs, and the ultimate parentage from MCB Group Ltd (rated CARE MAU AAA; Stable).

The rating is however, constrained by the inherent risk involved with potential execution of all put options on the CLNs by noteholders on the same interest reset date, ability of MCBSB to arrange for funds to settle the put proceeds in a timely manner, and the operational and financial performance of the weaker entities in the reference portfolio.

Rating Sensitivities:

Positive Factors - Factors that could lead to a positive rating action/upgrade:

- Improved operational and financial performance of the reference entities leading to stronger credit profile
- Ability of MCBSB to place notes with new noteholders in the event of execution of put options by noteholders

Rating Sensitivities:

Negative Factors - Factors that could lead to a negative rating action/downgrade:

- Significant deterioration in the operational and financial performance of the reference entities leading to weaker credit profile
- Inability of MCBSB to place existing notes with new noteholders in the event of execution of put options by noteholders

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

BACKGROUND

CM Diversified Credit Ltd ("CMDCL") was incorporated as a Special Purpose Vehicle (SPV) in March 2019. It is wholly owned subsidiary of MCB Capital Markets Ltd, which is in turn a 100% subsidiary of MCB Group Limited (CARE MAU AAA; Stable). MCB Group Limited ("MCBG") is also the parent company of The Mauritius Commercial Bank Limited (rated CARE MAU AAA (IS); Stable), the largest commercial bank in Mauritius.

CMDCL was incorporated with a share capital of MUR 52.50 million (52,500 ordinary shares issued at MUR 1,000 each), fully subscribed by MCB Capital Markets Ltd. As at 30 June 2022, the share capital of the company was MUR 137 million.

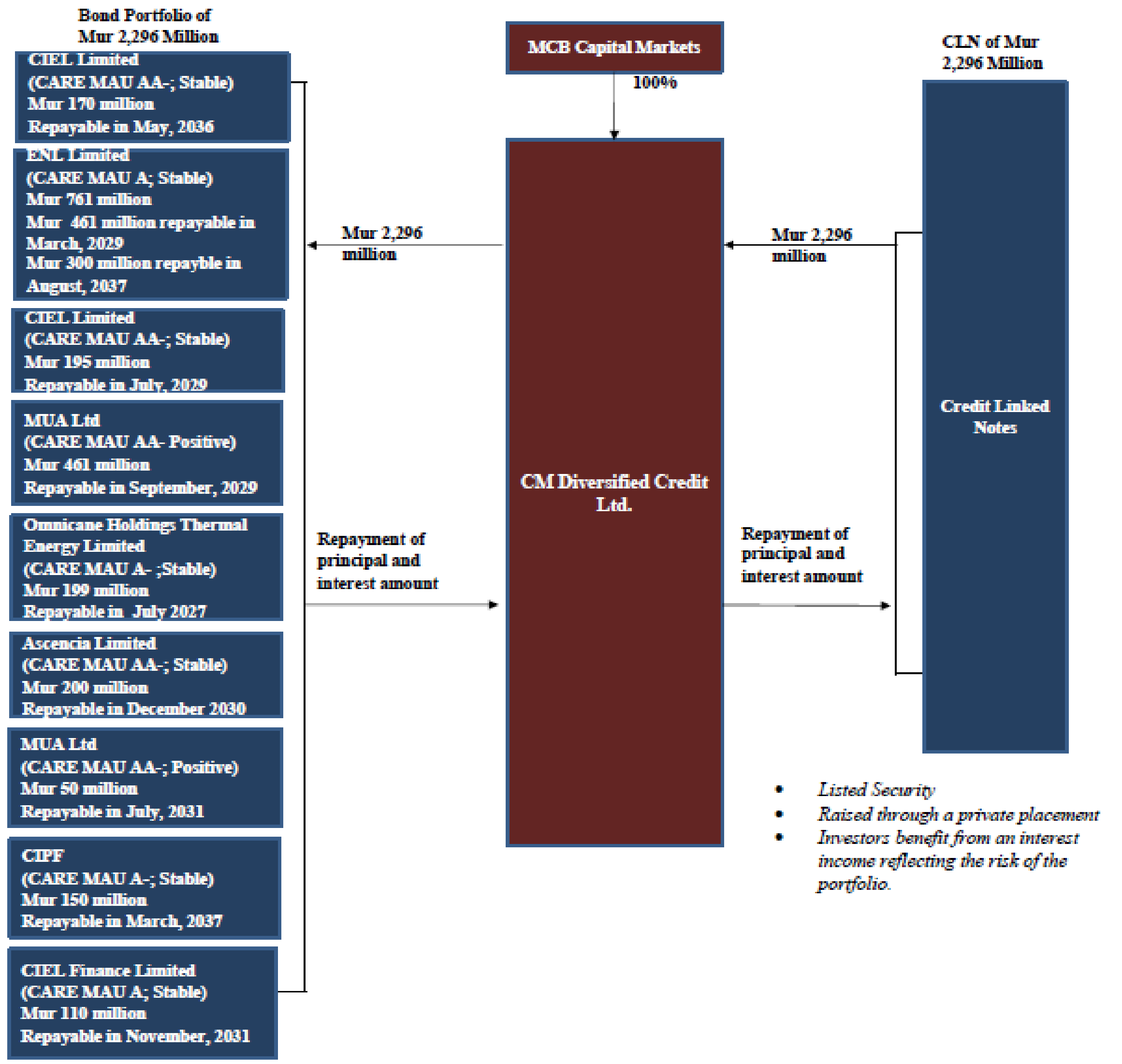
CMDCL issued Secured Credit Linked Notes ("CLNs") to investors and utilized the proceeds from the issue to invest into a diversified portfolio (the "reference portfolio") of bonds issued by rated entities.

The returns generated from the bonds in the reference portfolio are utilised to meet the interest and principal repayments on the CLNs to noteholders

At December 2022, the reference portfolio comprised of bonds issued by the following entities:

Company	Ratings	Portfolio during last rating in Dec 2021	% of total portfolio	Current portfolio in Dec 2022	% of total portfolio
ENL Limited	CARE MAU A; Stable	461	23.4	761	33.1
MUA Ltd	CARE MAU AA-; Positive	511	26.0	511	22.3
CIEL Ltd	CARE MAU AA-; Stable	365	18.6	365	15.9
Omnicane Holdings	CARE MAU A-; Stable	230	11.6	199	8.7
Ascencia Limited	CARE MAU AA-; Stable	200	10.2	200	8.7
Currimjee Jeewanjee	CARE MAU A-; Stable	200	10.2	-	-
CIPF	CARE MAU A-; Stable	-	-	150	6.5
CFL	CARE MAU A; Stable	-	-	110	4.8
Total		**1,967**	**100**	**2,296**	**100**

The structure of the CLNs issued by CMDCL is given below:



Composition of Reference Portfolio:

MUA Ltd	
Frequency of Interest Payment	Semi-annually in arrears
Maturity/ Repayment Date	September 2029 (MUR 461 million) and July 2031 (MUR 50 million)
Source of Repayment	Operational cash flows
Amount	MUR 511 million (22.3% of total Portfolio)
Early Redemption	No early redemption option available to the Bondholders
Outstanding Ratings	CARE MAU AA-; Positive

Ascencia Limited	
Frequency of Interest Payment	Semi-annually in arrears
Maturity/ Repayment Date	December 2030
Source of Repayment	Operational cash flow
Amount	MUR 200 million (8.7% of total Portfolio)
Early Redemption	No early redemption option available to the Bondholders
Outstanding Ratings	CARE MAU AA-; Stable

CIEL Limited	
Frequency of Interest Payment	Semi-annually in arrears
Maturity/ Repayment Date	July 2029 (MUR 195 million) and May 2036 (MUR 170 million)
Source of Repayment	Operational cash flow
Amount	MUR 365 million (15.9% of total Portfolio)
Early Redemption	No early redemption option available to the Bondholders
Outstanding Ratings	CARE MAU AA-; Stable

ENL Ltd	
Frequency of Interest Payment	Semi-annually in arrears
Maturity/ Repayment Date	March 2029 (MUR 461 million) and Aug 2037 (MUR 300 million)
Source of Repayment	Operational cash flow
Amount	MUR 761 million (33.1% of total Portfolio)
Early Redemption	No early redemption option available to the Bondholders
Outstanding Ratings	CARE MAU A; Stable

Omnicane Thermal Energy Operations (La Baraque)	
Frequency of Interest Payment	Annual interest payment
Maturity/ Repayment Date	July 2027
Source of Repayment	Operational cash flow
Amount	MUR 199 million (8.7% of total Portfolio)
Early Redemption	No early redemption option available to the Bond Holders
Outstanding Ratings	CARE MAU A-; Stable

Commercial Investment Property Fund Limited ("CIPF")	
Frequency of Interest Payment	Semi-annually in arrears
Maturity/ Repayment Date	March 2037
Source of Repayment	Operational cash flow
Amount	MUR 150 million (6.5% of total Portfolio)
Early Redemption	No early redemption option available to the Bond Holders
Outstanding Ratings	CARE MAU A-; Stable

CIEL Finance Limited	
Frequency of Interest Payment	Annual interest payment
Maturity/ Repayment Date	November 2031
Source of Repayment	Operational cash flow
Amount	MUR 110 million (4.8% of total Portfolio)
Early Redemption	No early redemption option available to the Bond Holders
Outstanding Ratings	CARE MAU A; Stable

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Detailed rationale of entities in the reference portfolio are available on CRAF's website at http://www.careratingsafrica.com/rating-symbols-definitions.php

Shortfall and Underwriting from MCB Stockbrokers Ltd

(a) In the event of the exercise of a Put Option by a holder of the Notes (the "Existing Investor") in accordance with the terms of the PPM, the Underwriter shall purchase and/or cause for the purchase of, all the Notes in respect of which a Put Option has been exercised.

(b) The performance of the Underwriting Services shall be done pursuant to, and in line with, the procedure set forth in the PPM/Listing Particulars or such other procedure as may be agreed with the SEM from time to time.

(c) The Underwriter shall pay the Put Proceeds to each Existing Investor on the Transfer Date.

Execution of Put Options and Interest Rate Reset

Since inception in March 2019, CMDCL has received applications for the execution of put options aggregating to MUR 1,770 million and the put proceeds have successfully been paid to the noteholders on redemption and all notes have been placed with new investors within a period of 14 days.

In FY22, total put options exercised amounted to MUR 488 million. CMDCL successfully arranged to place the notes with new investors within a 14-day period.

Particulars	Terms as from 29 September 2021	Revised terms as from 29 December 2022
Interest Rate	Higher of 1.45% p.a. and R* — 15 bps p.a.	Higher of 3.60% p.a. and R* — 15 bps p.a.
Next Interest Reset Date	29 December 2021	29 March 2023
Duration of Interest Period	91 days	91 days
Maturity Date	31 May 2036	10 August 2037

**where R is the weighted (by amount allocated at each auction) average of the highest 91-day Government of Mauritius or Bank of Mauritius (as the case may be) bill yields accepted on primary auctions held during the period beginning on (and including) 29th December 2022 (the "Initial Date") and ending on (but excluding) the date on which the Circular Notice immediately following the Initial Date is issued.*

MCB Stockbrokers, MCB Capital Markets and MCB Group

MCB Stockbrokers Ltd ("MCBSB") 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), MCBSB is one of the leading stockbroking companies in Mauritius, offering a range of services to local, foreign, retail as well as institutional clients. MCBSB holds an Investment Dealer (Full-Service Dealer including Underwriting) license from FSC and has been underwriting corporate transactions for amounts ranging from MUR 100 million to MUR 3,600 million since 2014, with aggregate exposures not exceeding MUR 4,000 million in any single financial year.

MCBSB has provided an undertaking that it will be able to leverage its access to a variety of readily available sources of finance within MCB Capital Markets Ltd and MCB Group Ltd should a significant portion of the underwriting risks materialize.

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MCB Capital Markets Ltd. is a wholly owned subsidiary of MCBG, providing investment banking and asset management services. Led by a dedicated and experienced team of specialists, the entity provides a broad range of investor services under one roof, including corporate finance advice, asset management, stockbroking, private equity, structured products, and registry services. Based in Mauritius, the team works with clients wishing to start or grow their operations in Africa and helps them develop solutions that meet their financing, strategic and investment objectives. Among the various services provided by MCBCM are:

- Advising blue chip clients locally and arranging for financing of transactions and projects in Africa.
- Broaden investment management activities to alternative assets.
- Invest in private equity and hybrid debt opportunities alongside partners in Africa.

MCB Capital Markets Ltd	FY19	FY20	FY21	FY22
	MUR million			
Turnover	275	91	71	88
PAT	273	23	81	67
Tangible Networth	516	466	480	453
Cash	142	11	2	9
Debt	-	-	-	-
Contingent Liability	Nil	Nil	Nil	Nil

MCB Group Limited ("MCBG"), rated CARE MAU AAA; Stable, is the parent company of The Mauritius Commercial Bank Limited ("MCB Ltd"). MCBG has a diversified ownership base of more than 21,000 shareholders, with foreign shareholding accounting for around 13% of the total. The Top 6 largest shareholders holding at total of 18.8% stake are: National Pensions Fund (7.0%), Swan Life Ltd (3.1%), Promotion and Development Limited (3.0%), SICOM (2.6%), Eastspring Investments (Singapore) Ltd. (1.9%) and MUA Life Ltd. (1.2%). The audited financials of MCB group Ltd are as under:

MCB Group Limited	FY19	FY20	FY21	FY22
	MUR million			
Interest Income	18,841	19,995	17,477	18,455
Interest Expenses	5,885	5,586	2,617	3,264
Net interest income	12,957	14,409	14,860	15,191
PAT	9,593	7,994	8,239	9,961
Deposits	331,501	390,659	503,972	525,656
Tangible Networth	58,558	64,860	73,707	76,373
Advances	246,713	259,069	312,978	348,988
Investments in securities	126,204	148,858	198,530	239,684
Total Assets	469,955	530,436	681,044	728,128
Gross NPA	10,559	11,722	9,871	
Gross NPA ratio	4.1%	4.2%	3.1%	3.7%
CAR	17.3%	18.6%	17.4%	18.1%

Despite volatile market conditions which prevailed, MCBG has achieved a 21% higher PAT of MUR 9,961 million in FY22, reflecting improved operational results across its business clusters and lower impairment charges. Despite earning its largest share of operational income from its banking cluster, income from fees and commission rose

36% during the year, demonstrating the satisfactory performance of non-banking subsidiaries and the intent of the Group to be among the leaders in trade financing and payment activities.

As at 30 September 2022, MCBG had a market capitalization of MUR 76,218 million.

The MCB Ltd, rated CARE MAU AAA (Is); Stable, is the largest private sector bank in Mauritius providing retail, corporate, and private banking products and services in Mauritius and internationally (primarily in Africa). The bank has a successful operational track record of more than 180 years. At 30 September 2022, MCB Ltd had a deposit and loans & advances base of MUR 485,349 million and MUR 297,688 million respectively, and it also had a satisfactory capital base with a CAR standing at 17.2%.

Given the strength of the MCB Group, it can comfortably lend MUR 2,296 million to MCB Capital markets/MCB Stockbrokers Ltd to pay the put proceeds to noteholders should all the put options on the CNLs be exercised.

Financial Indebtedness

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

Summary of financial performance for CMDCL:

For the year ended/ as on 30 June	FY20	FY21	FY22
	MUR million		
Interest Income	71	51	69
Profit/ (Loss) before Tax	(0.04)	8	16
Profit/ (Loss) after Tax	(0.13)	8	16
Equity share capital	110	118	137
Tangible net worth	110	125	161
Cash and Cash Equivalents	114	64	282
Total debt (Credit linked Notes)	1,750	1,750	2,117
PAT margin (%)	-	15%	23%

Details of Rated Instrument

Instrument	Amount (MUR million)	Maturity	Interest Rate
Secured Credit-Linked Notes (CLNs)	2,300 (enhanced from 1,967)	10 August 2037	Higher of 3.60% p.a. or [(Weighted avg. Rate of 91 Days T-Bill (December 2022 to March 2023)) minus 15 bps]

Principal terms pertaining to the Credit linked Notes

TERMS AND CONDITIONS	
Nature of Instruments	Secured credit-linked notes
Issuer	CM Diversified Credit Ltd
Aggregate Nominal Amount	Up to MUR 2,300,000,000
Nominal / Issue Price per Note	MUR 1,000
Minimum Subscription Amount	MUR 1,000,000
Use of proceeds	To invest in bonds issued by Reference Entities
Interest Rate	Higher of 3.60% p.a. or [(Weighted avg. Rate of 91 Days T-Bill for the period December 2022 to March 2023, minus 15 bps]
Interest Reset Date	Next Interest reset date is on 29 March 2023. Subsequent Interest Reset Dates will be notified to the Noteholders by way of the Circular Notice.
Put Option	Except in the case of a Credit Event or an Event of Default, each Noteholder shall have the right, upon receipt of the Circular Notice, to request the Issuer to redeem, purchase or arrange for the purchase of, the whole or part of its Notes.
Call Option	The Issuer may, at its sole discretion, at any time upon giving to the Noteholders at least five Business Days written notice (or such other delay as may be prescribed by the Applicable Procedures), redeem the whole or part of the Notes.
Credit Event Acceleration	Upon being notified, or upon taking cognizance of the occurrence of a Credit Event, the Issuer shall give notice thereof to the Noteholders' Representative and to the Noteholders and the Issuer shall redeem the Notes.
Status of the Notes	The Notes shall constitute secured obligations of the Issuer and shall rank pari passu among themselves.
Security Interest attached to the Notes	The Notes shall be secured by a pledge of all the constituents of the Reference Portfolio in favour of the Noteholders Representative for the benefit of the Noteholders. There is no third-party guarantee which is provided by any entity within the Issuer's group in connection with the Notes.
Final Redemption Date	10 August 2037

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, 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. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating.

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.

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About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.