

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	MUR 1,750 Million (enhanced from MUR 1,400 million)	CARE MAU A- (SO) Stable/ CARE MAU A2+ (SO)	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 operational & financial performance of the reference entities, currently CIEL Limited (CARE MAU AA Negative), ENL Limited (CARE MAU A Stable), MUA Ltd. (CARE MUA AA- Stable) and Omnicane Holdings (La Baraque) Thermal Energy Limited (“OHLB”) (CARE MAU A- Stable) since the debt repayment will made out of the operational cash flow of these four 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 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.

Issue of CLNs of MUR 1,750 million

In March 2019, CMDCL has raised MUR 700 million (revised to repayment date of 24th September 2029 from 4th April 2029) from the issue of Secured Credit Linked Notes (CLN) to investors. The proceeds from the Notes issue has been invested in the Bonds issued by CIEL Limited & ENL Limited. In September 2019, CMDCL issued CLNs of MUR 700 million (repayable of 24th September 2029). The proceeds from the issue was utilised for investment in bonds issued by CIEL Limited and MUA

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Ltd. In December 2019, CMDCL proposes to issue additional CLNs of MUR 350 million (repayable of 24th September 2029). The proceeds from the issue will be utilised for investment in bonds issued by Omnicane Holdings (La Baraque) Thermal Energy Limited (MUR 350 million rated CARE MAU A-Stable).

CMDCL shall continuously issue Notes whose Interest Rate can be reset every three months based on market conditions. The interest rate for the interest period (3rd January 2020 to 29th March 2020) shall be the higher of 3.20% p.a. or [(Weighted avg. Rate of 91 Days T-Bill (Jan-March)) – 15 bps] with next Interest reset date on March 30, 2020. The Issuer will rely on its affiliates to provide it with management and underwriting services.

CMDCL has subscribed to bonds issued by CIEL Limited [MUR 200 million due for redemption on Feb 2021] for a period of 2 years, ENL Limited [MUR 500 million due for redemption on March 2029] for a period of 10 years, CIEL Limited [MUR 200 million due for redemption on June 2029] for 10 years and MAU Limited [MUR 500 million due for redemption on March 2029] for a period of 10 years. The new bonds of Omnicane Holdings (La Baraque) Thermal Energy Limited [MUR 350 Million Amortizing Bond over 7 years] is for a period of 7 years. . CIEL, MUA and ENL will be paying semi-annual interest to CMDCL while OHLB will be paying interest annually. CMDCL will be paying quarterly interest to its Note-holders.

The rating is dependent on the financial performance of CIEL, ENL, MUA and OHLB (reference companies) since the debt repayment will made out of the operational cash flow of these three 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 1,750 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 1,750 million for 10 years), the maximum amount of Put option that can be exercised on the interest reset dates is MUR 1,750 million only, based on the current outstanding Credit linked Notes.

Update on Interest reset and exercise of Put option

Interest reset on June 2019 - On June 12, 2019, CMDCL issued Circular Notice to its Investors, to reduce the Interest rate on CLNs from 3.95% p.a. to 2.85% p.a. from June 29, 2019 (for the period June

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29, 2019-September 29, 2019), with next reset date at September 30, 2019. Accordingly, in June 2019, investors with aggregate investment of around MUR 174 million (25% of the CLN issue of MUR 700 million) exercised their put option and MCBSB paid the put proceeds to each investor on June 29, 2019 in its capacity as underwriter.

Interest reset on September 2019 - On September 4, 2019, CMDCL issued Circular Notice to its Investors, to increase the Interest rate on CLNs from 2.85% p.a. to 3.30% p.a. from Sept 30, 2019 (for the period September 30, 2019- December 31, 2019), with next reset date at January 1, 2020. CMDCL has already placed MUR 174 million with different investors and as on September 16, 2019, investors with aggregate investment of around MUR 70 million (10% of the CLN issue of MUR 700 million) exercised their put option (within 3 business days) and MCBSB has already arranged for the proceeds to pay to each investor on September 30, 2019 in its capacity as underwriter. MCBSB was able to place back the entire amount (MUR 70 million) with different investors by September 2019, while at the same time placing the Additional CLN with investors.

Interest reset on December 2019 - On December 6, 2019, CMDCL has issued Circular Notice to its Investors, to reduce the Interest rate on CLNs from 3.30% p.a. to 3.20% p.a. from January 1, 2020 (for the period January 3, 2020 – March 29, 2020), with next reset date at March 30, 2020. Investors with aggregate investment of around MUR 160 million (9% of the CLN issue of MUR 1,750 million) has exercised their put option and MCBSB and MCB capital market already has the amount to pay the investors on due date. CMDCL has already got interest from different investors for Mur 160 million and fresh issue of Mur 350 million. CMDCL is confident that CLNs worth Mur 510 million will be subscribed by different investors by December 31, 2019.

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

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