

Brief Rationale

CRAF downgrades ratings assigned to the Secured Credit linked Notes issued by CM Structured Finance (I) Ltd (“CMSFL”) from CARE MAU BB (SO)/CARE MAU A4(SO) under “Credit Watch with Negative Implications” to CARE MAU D

Instrument	Amount (MUR Million)	Rating	Rating Action
Secured Credit Linked Notes	USD 20 Million (MUR700 Million)	CARE MAU D	Downgraded from MAU BB (SO)/ CARE MAU A4 (SO) under Credit Watch with negative implications

** MUR Million = Mauritian Rupee Million (USD 1 = MUR 35.0)*

Rating Rationale

The ratings assigned to the Secured Credit linked Notes (CLN) Issued by CM Structured Finance (I) Ltd (“CMSFL”) were downgraded to ‘CARE MAU D’ due to announcement by CMSFL, via its Communique dated March 11, 2020 (published in Stock Exchange on March 12, 2020), to trigger a credit event under the Listing Particulars dated 6th August 2019 (the “LP”) and suspending the note holders’ right to receive interest payment, the put option, and the put option notice from the date of the cautionary announcement. This credit event will trigger the possibility of default on next interest payment date (May 28, 2020).

The credit event was triggered by CMSFL following an announcement dated 10 March 2020 on the Regulatory News Service of the London Stock Exchange by NMC Health PLC (NMC), that NMC’s debts are now estimated to be around USD 5 billion, approximately USD 2.6 billion more than reported debt of USD 2.1 billion as at June 30, 2019 and estimated undisclosed debts of USD 335 million (announced on February 26, 2020).

This clearly states that NMC Health PLC Group's debt position was materially understated as at 30 June 2019. Total debt of USD 2.1 billion reported as at 30th June 2019 is understated by USD 2.7 billion that had previously not been disclosed to or approved by the Board. This also leads to an uncertainty around the reliability of reported financials and cash balance, on account of corporate governance shortfalls, considered by CARE Ratings Africa Private Limited (CRAF) during the Initial Rating exercise.

This clearly depicts that there was fraud and misrepresentation of the previous Audited Financials (FY18 & FY19) of NMC Health PLC and NMC Healthcare LLC, in terms of the total borrowings of the company. CRAF’s Initial Rating exercise was based on these Audited Financials of NMC Health PLC and NMC Healthcare LLC.

Event of Default

Principal terms pertaining to the Credit Link Notes include a clause – “*that in the case of a credit event or an issuer event of default, the Note holder shall cease to have the right to receive interest payments under the Notes, starting from Interest Payment Date immediately preceding the occurrence of Credit Event and Put Option and the Put Notice shall cease*”.

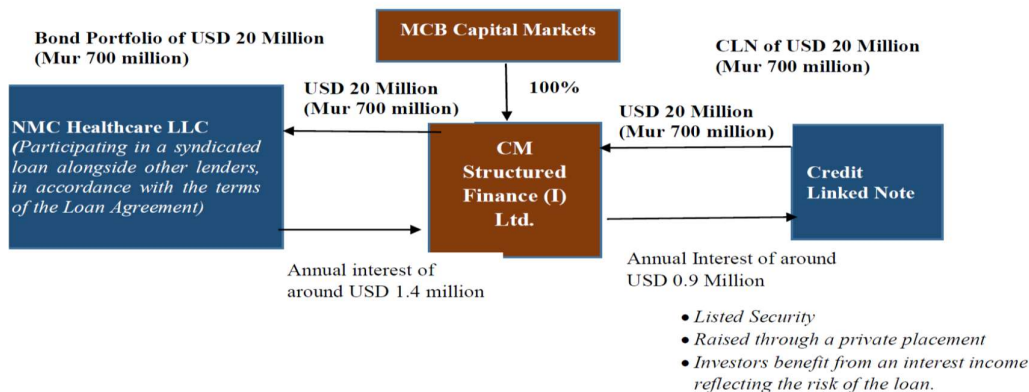
CMSFL1 via announcement dated March 11, 2020 (published in Stock Exchange on March 12, 2020) has triggered a credit event under the Listing Particulars dated 6th August 2019 (the “LP”) and has suspended note holders’ right to receive interest payment, exercise the put option, and receive put option notice from the date of this cautionary announcement.

In light of the above, the credit event/event of Default has been triggered, which eventually means that Note holders will not have the rights to exercise the Put option (redeem the Notes) and will not be receiving Interest on the Notes also. It is very much probable that NMC Healthcare LLC will not pay the interest due on March 15, 2020. Accordingly, this will lead to an event of Default on the next interest payment date (May 28, 2020).

BACKGROUND

CM Structured Finance (I) Ltd, a public limited company, was incorporated as a Special Purpose Vehicle (SPV) under the laws of Mauritius on April 10, 2019 with a capital of Mur. 10,000 (1,000 Class A Shares issued at MUR 10 each). 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, which also is a wholly owned subsidiary of MCB group, is rated ‘CARE MAU AAA (Is); Stable’.

CMSFL has issued Secured Credit Linked Floating Rate Notes (collateralized loan obligation) of USD 20 million (Mur 700 million) to investors, for the purpose of providing debt financing to NMC Healthcare LLC (Reference Entity) by participating in a syndicated loan alongside other lenders, in accordance with the terms of the Loan Agreement. The broad structure is as under:



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CMSFL participated as an original lender under a syndicated loan proposal alongside other banks. CMSFL's participation in the syndication was funded through the proceeds of the issuance of Secured Credit Linked Floating Rate Notes (CLN) to investors. The return of the CLNs will be linked to the repayments under the syndicated loan. CMSFL will act as an original lender under the terms of only one facility.

CMSFL's sponsor (MCB Capital Markets Ltd) has credit-enhanced (to the extent of 10%) the Notes by USD 2 million (by subscribing to 2,000 Class B Equity Shares at a price of USD 1,000). This amount shall be used as a first-loss cash-collateralised guarantee and is held in a segregated account with The Mauritius Commercial Bank Limited. This account is pledged in favour of the Noteholders' Representative on the Issue Date pursuant to the Pledge of Segregated Account Agreement.

CLN of USD 20 million (equivalent to Mur 700 million) is repayable on May 2022 (25%), May 2023 (25%) and May 2024 (50%) out of the operational cash flow of NMC Healthcare LLC. Interest Rate will be reset every three months. The interest rate for each of these three months shall be 4.50%.

The rating was dependent on the financial performance of NMC Healthcare LLC, since the debt repayment will be made out of the operational cash flow of NMC Healthcare LLC. This apart 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. has provided a Shortfall undertaking for Mur 700 million for 5 years to CMSFL. 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, 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 investors on the Transfer date.

MCB Stockbrokers Ltd is 100% subsidiary of MCB Capital markets and a 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.

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MCB Stockbrokers Ltd has provided an undertaking that it has 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.

Analysis of Reference Entity - NMC Health PLC and NMC Healthcare LLC

NMC Health PLC (holding 100% stake in NMC Healthcare LLC) was incorporated in England. NMC Health PLC is domiciled in England but the day-to-day operations are executed through NMC Healthcare LLC (NMC) domiciled in the UAE. NMC’s senior management teams and headquarters are located in Abu Dhabi.

Principal terms pertaining to the Credit linked Notes

TERMS AND CONDITIONS	
Nature of Instruments	Secured credit-linked floating rate notes
Issuer	CM Structured Finance (1) Ltd
Aggregate Nominal Amount	Up to USD 20,000,000
Use of proceeds	To provide debt financing to the Reference Entity (NMC Healthcare LLC) under the terms of the Loan Agreement
Interest Rate	<ul style="list-style-type: none"> The Interest Rate shall be the aggregate of the Reference Rate and Spread. Based on a Reference Rate of c. 2.5% and a Spread of 2.0%, the Interest Rate during the First Spread Period is approximately 4.50% p.a.; Thereafter, the Issuer shall, through the Circular Notice, inform Noteholders of the Spread
Spread Reset Date	The first Spread Reset Date shall be on the first anniversary of the Issue Date. Subsequent Spread Reset Dates will be notified to the Noteholders by way of the Circular Notice
Interest Payment Date	The Interest Payment Dates shall be: <ul style="list-style-type: none"> during the First Spread Period, the last Business Day of August 2019, November 2019, February 2020 and May 2020; and thereafter, as may be determined through a Circular Notice.
Redemption Price	Except in the case of a Credit Event, each Note shall be redeemed at a price per Note equal to the Nominal Amount per Note If there is a Credit Event which is continuing, the Issuer may elect to redeem the Notes as per Clause 7.9.4 (Credit Event Acceleration) of this PPM and the price per Note shall be as calculated under the foregoing Clause
Put Option	Except in the case of a Credit Event or an Issuer 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 on terms specified in Clause 7.9.1
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 on terms specified in Clause 7.9.2
Credit Event	Shall occur where the Issuer has been notified, or has taken cognisance, of an event of default by the Reference Entity under the Loan Agreement
Credit Event Acceleration	Upon being notified, or upon taking cognisance 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 on terms specified in Clause 7.9.4 (Credit Event Acceleration)
Limited Recourse	Recourse of the Noteholders shall be limited to the Issuer and the Reference Underlying and no recourse shall extend to the Issuer’s directors, shareholders, employees, service providers or agents who shall not be liable for any shortfall arising or losses sustained by Noteholders. The Noteholders shall have no rights whatsoever against the Issuer’s directors, shareholders, employees, service providers or agents
Clause 7.9.1 (Put Option) in which case (CRAF has analysed the ability of CMSFL and MCB group to repay USD 20 million to the Noteholders on the Interest reset	Put Option <ol style="list-style-type: none"> Except in the case of a Credit Event or an Issuer Event of Default and subject to the exercise of the Call Option, each Noteholder 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 Spread Reset Date.

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date)	<p>b) The Put Option shall be exercised by way of a notice in writing (“Put Notice”) served on the Issuer and the Noteholders’ Representative within three Business Days of the date of the Circular Notice. Once sent, the Put Notice shall be irrevocable, except if waived by the Issuer or if a Credit Event has occurred between date of the Circular Notice and Spread Reset Date.</p> <p>c) Unless redeemed by the Issuer, the transfer of the Notes in respect of which the Put Option have been exercised shall be done on the SEM in accordance with the Applicable Procedures and such procedure as may be agreed between the Issuer and the SEM and notified to the Noteholders and Noteholders’ Representative through the Circular Notice. Any Noteholder exercising its Put Option shall bear the applicable trading costs according to the Applicable Procedures (the “Trading Costs”).</p> <p>d) The proceeds payable to the relevant Noteholder will be calculated at a price per Note equal to the Nominal Amount per Note and will be paid together with accrued interest in respect of the applicable Interest Period and net of any trading costs (“Put Proceeds”).</p> <p>e) The Put Proceeds shall be payable on the Interest Payment Date immediately following the date on which the Put Notice is sent to the Issuer.</p>
Clause 7.9.2 (Call Option)	<p>Call Option</p> <p>a) The Issuer may, at its sole discretion and at any time, upon giving the Noteholders at least five Business Days written notice (“Call Notice”) (or such other delay as may be prescribed by the Applicable Procedures), redeem the whole or part of the Notes (“Call Option”).</p> <p>b) The redemption proceeds payable by the Issuer (or any person on its behalf) in relation to the exercise of a Call Option will be calculated at a price per Note equal to the Nominal Amount per Note and will be paid together with accrued interest from the last Interest Payment Date until the date of actual payment (“Call Proceeds”).</p> <p>c) The Call Proceeds shall, subject to any other delay as may be prescribed by the Applicable Procedures, be payable within five (5) Business Days from the date of the Call Notice.</p> <p>d) The Call Option shall always have prevalence on any Put Option that has been exercised before the Call Option. Accordingly, the exercise of the Put Option shall be processed only for the number of Notes that exceeds the number of Notes contemplated in the Call Notice.</p> <p>e) The Notes which are the subject of a Call Option shall be redeemed and such redemption shall, to the extent the Notes are listed, be effected as an off market transaction under the Applicable Procedures.</p>
Clause 7.9.4 (Credit Event Acceleration)	<p>Credit Event Acceleration</p> <p>(a) On the occurrence of a Credit Event:</p> <p>(i) Issuer shall give notice thereof (“Credit Event Notice”) within five Business Days of being notified or taking cognizance of the occurrence thereof to Noteholders;</p> <p>(ii) Noteholders shall cease to have the right to receive interest payments under the Notes, starting from Interest Payment Date immediately preceding the occurrence of Credit Event;</p> <p>(iii) the Put Option and the Put Notice shall cease; and</p> <p>(iv) Issuer shall be entitled to redeem the whole of the Notes following receipt of any liquidation proceeds under the Loan Agreement in accordance with the terms of this Clause.</p> <p>(b) Where the Issuer has received any liquidation proceeds under the Loan Agreement after a Credit Event:</p> <p>a. it shall distribute such amount, net of Expenses and Recovery Fee (the “Recovery Amount”) to the Noteholders, on a pro-rata basis; and</p> <p>b. Following the end of all recovery proceedings in respect of the Reference Underlying, should the Recovery Amount per Note be less than the Nominal Amount, the Noteholders’ Representative shall then be entitled to enforce the Pledge of Segregated Account Agreement. Accordingly, the Noteholders shall receive an amount, on a pro-rata basis, corresponding to the lower of, (i) the difference between the outstanding Aggregate Nominal Amount and the Recovery Amount or (ii) the Credit Enhancement Amount.</p>
Issuer Event of default	<p>7.13.1 Subject to Clause 7.13.2, an Issuer Event of Default shall arise if any one or more of the following events shall have occurred and be continuing:</p> <p>(a) the failure by the Issuer to pay within seven (7) Business Days from the due date any amount due in respect of any of the Notes; or</p> <p>(b) any breach of any covenants or other obligations as set forth in the PPM and in the Charge Documents; or</p> <p>(c) an Issuer Cross Default where it relates to an amount exceeding USD 100,000; or</p>

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	<p>(d) any amendment under Clause 7.4 that cancels or restricts the right of Noteholders to exit their investment by the exercise of the Put Option; or</p> <p>(e) unless the Call Option has been exercised for the entire outstanding Aggregate Nominal Amount, the failure of the Issuer to serve the Circular Notice in accordance with the terms of the PPM; or</p> <p>(f) the granting of an order by any competent court or authority for the liquidation, winding-up, conservatorship, receivership, dissolution or administration of the Issuer; whether provisionally (and not dismissed or withdrawn within thirty (30) days thereof) or finally, or the placing of the Issuer under voluntary liquidation and the facing of other Insolvency Proceedings, provided that no such proceedings shall constitute an Issuer Event of Default if any of such proceedings is for the purpose of effecting an amalgamation, merger, demerger, consolidation, reorganization or other similar arrangement.</p> <p>For the avoidance of doubt, a Credit Event shall not constitute an Issuer Event of Default and no Issuer Event of Default may be declared against the Issuer when a Credit Event has occurred.</p> <p>An Issuer Event of Default is continuing if it has not been remedied within thirty (30) days (or such other extended period as approved by the Noteholders' Representative in writing) of occurrence of such Issuer Event of Default.</p> <p>If the Issuer becomes aware of the occurrence of any Issuer Event of Default, it shall forthwith notify the Noteholders' Representative in writing.</p> <p>Upon the occurrence of an Issuer Event of Default which is continuing, subject to the Noteholders' Representative Agency Agreement, the Noteholders' Representative may do any of the following:</p> <p>(a) bring proceedings to recover any amount then due and payable but unpaid pursuant to the Notes;</p> <p>(b) initiate any Insolvency Proceedings and, subject to the ranking of the Notes, prove the claim in any of the Insolvency Proceedings; or</p> <p>(c) by written notice to the Issuer, declare all amounts payable under the Notes to be forthwith due and payable. Upon receipt of that notice, such Notes shall become forthwith due and payable, together with accrued interest (if any) to the date of payment.</p>
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