

CM Structured Finance (1) 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 Structured Finance (1) Ltd (“CMSFL”)

Instrument	Amount	Rating	Rating Action
Secured Credit Linked Notes	USD 20 Million (MUR 700 Million)	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 Structured Finance (1) Ltd (“CMSFL”).

The ratings assigned to CMSFL derives strength from the financial performance of the reference entity, NMC Healthcare LLC, 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 Options by the Investor on the interest rest date, regulatory risk and interest rate risk.

NMC Healthcare LLC’s ability to improve occupancy of the existing hospital from current level of 67%, ability to reduce level of indebtedness 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 Structured Finance (1) Ltd, a public limited company, was incorporated 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) and USD 2 million (2,000 Class B Shares issued at a price of USD 1,000 each). 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 which is also a wholly-owned subsidiary of MCBG is rated CARE MAU AAA (IS) Stable.

CMSFL has issued Secured Credit-Linked Floating Rate Notes (CLN) of USD 20 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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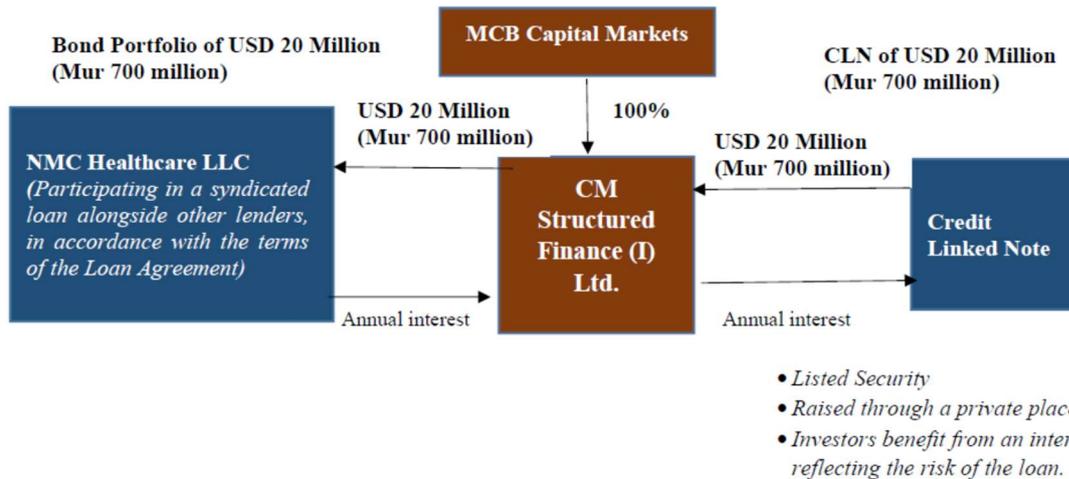
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CMSFL will participate as an original lender under a syndicated loan proposal alongside with other banks. CMSFL’s participation in the syndication will be funded through the proceeds of the issuance of CLNs to investors. The return of the CLNs will 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 will be held in a segregated account with The Mauritius Commercial Bank Limited. This account will be 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 of MUR 700 million) is repayable on May 2022 (25%), May 2023 (25%) and May 2024 (50%) out of the operational cashflow of NMC Healthcare LLC. Interest Rate will be reset every month. The interest rate for the first three months shall be around 4.50%.

The rating is dependent on the financial performance of NMC Healthcare LLC, since the debt repayment will be made out of the operational cashflow of NMC Healthcare LLC. This apart the 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 Interest Reset Dates.

MCB Stockbrokers Ltd (the “Underwriter”) has provided a Shortfall undertaking for USD 20 million for 5 years to CMSFL. 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, 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.

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During the tenure of the Bond (USD 20 million for 5 years), the maximum amount of Put Option that can be exercised on the interest reset dates is USD 20 million only.

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 within MCB Group 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. It is a public limited company listed on London Stock Exchange premium market (FTSE 100 company) with a market capitalization of USD 7 billion (May 2019). 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.

NMC is the leading privately owned operator of health care services in the UAE. It operates across two major segments: healthcare and distribution. Healthcare services account for over 70% of its 2018 revenues and over 80% of the EBITDA. NMC's distribution business ranks as one of the largest in the UAE. It offers over 108,900 products across five verticals: pharma, medical equipment and consumables, consumer, education and veterinary. Founding shareholders, Dr. B.R. Shetty and the Bin Butti family together hold 55.5% of NMC. Top 10 shareholders of NMC Health PLC owns 70.3% stake. NMC is managed by 11 member Board of Directors.

NMC Healthcare continues to benefit from the roll out of mandatory healthcare insurance in Dubai (2014-2016) and Abu Dhabi (2007) and the continued penetration of private healthcare insurance in Saudi Arabia.

NMC has expanded aggressively both organically and inorganically quadrupling in size since 2013. This predominantly debt funded growth has resulted in increase in debt level in the company. Though, the company has demonstrated its strong ability to integrate acquisitions into existing operations. This rapid expansion is a major risk to NMC's credit quality.

In FY18, NMC's revenue grew by 34% to USD 2,142 million, with y-o-y organic revenue growth of around 15.4%. EBITDA grew by 36% due to better performance of the Healthcare division. Stable balance sheet to support future growth with year-end debt / EBITDA at around 3.2-3.3x. NMC Health PLC's 2018 group revenues were USD 2.0 billion with EBITDA of USD 481 million. However, 68.3% of the group's total EBITDA is derived from just six of NMC's facilities.

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.

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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