CM Structured Finance (2) Ltd ("CMSFL2")

December 05, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Secured Credit Linked Notes ("CLN")	MUR 352 million (EUR 8 million) *	CARE MAU A- (SO); Stable/ CARE MAU A2+ (SO) [Single A Minus (Structured Obligation); Outlook: Stable/ A Two Plus (Structured Obligation)]	Reaffirmed
Total	352		

** 1 EUR = MUR 44*

Rating Rationale

The rating assigned to the Secured Credit Linked Notes ("CLNs") issued by CM Structured Finance (2) Ltd ("CMSFL2") has been reaffirmed as the credit rating of the Reference Entity to the notes, Compagnie des Villages de Vacances de l'Isle de France Limitée (rated CARE MAU A; Stable) has also been reaffirmed.

The rating of COVIFRA derives strength from the lease agreement between COVIFRA and Holiday Villages Management (Mauritius) Services ("HVMS") for a lock in period till October 2032, an unconditional and irrevocable guarantee from Club Med S.A.S which is the parent company of HVMS, the satisfactory track record of timely payment of lease rentals by HVMS except during the 'force majeure' period, resumption of lease rental payments from HVMS which translated into COVIFRA renewing with profitability in FY22, and ultimate parentage from MCB Group Limited which provides reasonable assurance of promoter support in times of crisis.

The rating of CMSFL2 further derives strength from the credit enhancement to the notes provided by the sponsor, i.e., MCB Capital Markets Ltd, the ultimate parentage from MCB Group Limited, and an underwriting shortfall provided by MCB Stockbrokers Ltd which guarantees to buy back the notes in the event of execution of put options on same by the noteholders.

The rating is however constrained by the hotel & tourism industry, in which HVMS operates, still performing at below the pre-pandemic levels, increasing competition from other islands in the region, seasonality of the industry and external factors such sanitary conditions or major global economic downturn also weighing in on the prospects of HVMS over the long term.

Rating Sensitivities:

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

- Higher occupancy levels at HVMS leading to sustained profitability
- Timely payment of lease rentals from HVMS
- Reduction in debt level of COVIFRA

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

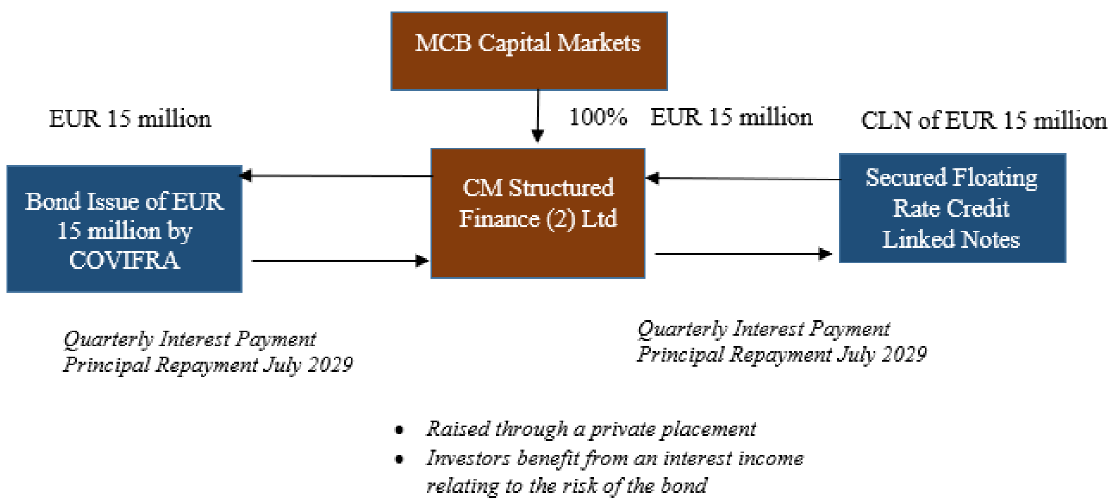
Negative Factors - Factors that could lead to negative rating action/downgrade:

- Deterioration in the operational and financial parameters of HVMS and Club Med S.A.S
- Negative externalities such as global recession or deterioration in sanitary conditions affecting the Mauritian hotel industry.
- Additional debt taken by COVIFRA leading to increased gearing level

BACKGROUND

CM Structured Finance (2) Ltd ("CMSFL2"), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) in June 2019. It is a wholly owned subsidiary of MCB Capital Markets Ltd ("MCBCM"), which in turn is a 100% subsidiary of MCB Group Limited (rated CARE MAU AAA; Stable), the parent company of The Mauritius Commercial Bank Limited (rated CARE MAU AAA (IS); Stable), the leading commercial bank in Mauritius.

CMSFL2 issued Secured Credit-Linked Floating Rate Notes (collateralized loan obligations) to investors for a total amount of EUR 15 million (MUR 660 million) and utilized the proceeds from the issue to subscribe to bonds issued by Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA") which is the "Reference entity" in the transaction. The payments of interest and principal on the CLNs are made from the cash flows derived from the bond issue of COVIFRA. The return on the CLNs is therefore linked to the repayment of the COVIFRA bonds, as illustrated below:



On the date of issue of the CLNs, MCBCM infused equity of EUR 675,000 (subscribing to 675 Class B Shares at a price of EUR 1,000 each) which serve as credit enhancement for the CLNs.

During FY21, noteholders exercised their put options on 6,995 notes for the equivalent amount of EUR 7 million. CMSFL2 sold bonds worth EUR 7 million issued by COVIFRA and utilized the proceeds to repay the put options amount to the noteholders and accordingly, the CLNs worth EUR 7 million were redeemed by CMSFL2. Following the redemption, the outstanding amount of the CLNs in issue was EUR 8 million 30 June 2022.

Subsequently, MCBCM redeemed 315 Class B shares in CMSFL2 for an amount of EUR 315,000, bringing the total number of Class B shares and corresponding share capital to 360 shares and EUR 360, 000 respectively.

Shortfall and Underwriting structure

(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 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 Exiting Investor on the Transfer Date.

Details of Rated Instrument

Instrument	Amount	Repayment
Secured Credit Linked Notes	MUR 352 million (EUR 8 million) *	Bullet repayment in July 2029

** 1 EUR = MUR 44*

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

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.

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.

Modifier {"+" (plus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifier reflects the comparative standing within the category.

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

Contact us

Contact
Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact
Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5273 1406
E-mail : vidhya.sagar@careratingsafrica.com

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