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

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

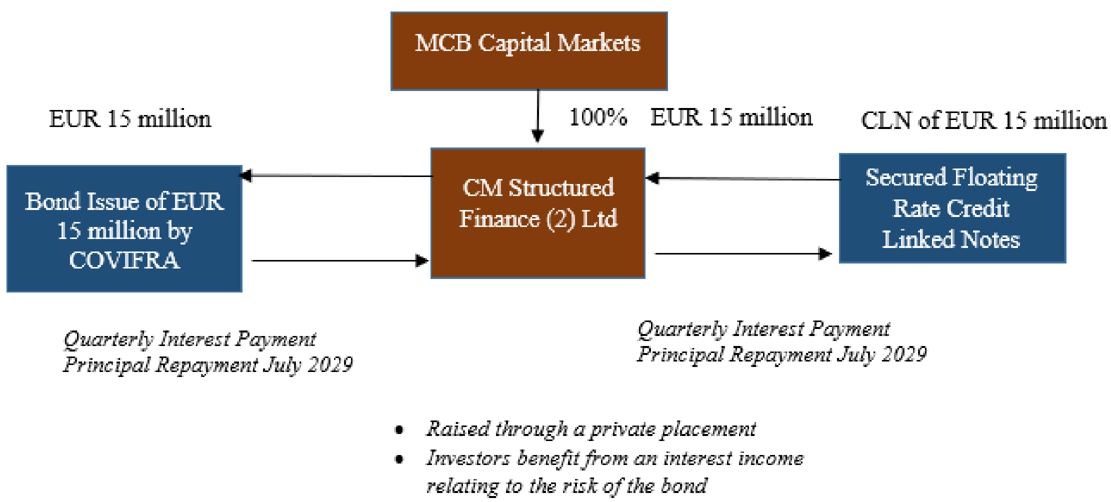
[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

- 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 has 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.

Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA")

COVIFRA, a listed company on the Stock Exchange of Mauritius (SEM) and rated CARE MAU A; Stable, is a 93.39% subsidiary of MCB Real Assets Ltd which in turn is a 100% step-subsidiary of the MCBG. The Company owns the Hotel Club Med La Pointe aux Canonniers Resort (the "Resort") which is leased out to Holiday Villages Management (Mauritius) Services ("HVMS") for operating the resort, on a 15-year unfurnished Euro denominated triple net lease agreement expiring in October 2032. Under this arrangement, COVIFRA is entitled to receive total annual rental income of EUR 7.75 million (MUR 341 million) prior to any inflation indexation.

The rental income is indexed to the Eurozone inflation rate and is backed by an unconditional and irrevocable revolving guarantee from Club Med S.A.S, the parent company of HVMS. The agreement provides for a rental revenue which is independent of the performance of the Resort.

As on 30 June 2022, the value of the resort was EUR 103.8 million (MUR 4,567 million) against a total debt of EUR 55.2 million (MUR 2,431 million).

Summary of financials for COVIFRA:

For the year ended/ as at 30 June,	**FY19**	**FY20**	**FY21**	**FY22**
	MUR million			
Revenue	297	219	-	254
Total Income	297	219	-	254
EBITDA	281	196	(16)	239
Depreciation	-	-	-	-
Interest	105	79	100	87
Non-operational Income	120	-	-	186
Profit/ (Loss) before Tax	277	132	(93)	315
Profit/ (Loss) after Tax	226	105	(73)	259
Gross Cash Accruals (GCA)	106	105	(73)	259
Dividend paid/proposed	82	49	-	53
Financial Position				
Equity share capital	937	937	1,171	1,171
Tangible networth	1,320	1,392	1,666	1,685
Total debt	2,258	2,189	2,786	2,431
- Long term debt	2,258	2,189	2,786	2,335
- Short term debt	-	-	-	96
Cash & Bank balances	111	25	24	67
Key Ratios				
Profitability (%)				

For the year ended/ as at 30 June,	FY19	FY20	FY21	FY22
	MUR million			
EBITDA margin (%)	94.50	89.24	-	93.93
PAT margin (%)	75.96	47.73	-	101.70
ROCE- operating (%)	7.99	4.95	-	5.01
RONW (%)	20.21	7.72	-	15.44
Solvency				
Long Term				
Long-term debt to equity ratio (times)	1.71	1.57	1.67	1.39
Overall gearing ratio (times)	1.71	1.57	1.67	1.44
Interest coverage (times)	2.67	2.48	-	2.74
Total debt/EBITDA (times)	8.04	11.18	-	10.18
Liquidity				
Current ratio	0.91	0.94	0.39	0.59

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) of Mauritius, 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.

MCB Capital Markets Ltd ("MCBCM") is the wholly owned subsidiary of MCBG, providing investment banking and asset management services. Led by a dedicated and experienced team of professionals, 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. MCBCM assists 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;

Below is a summary of the financial performance of MCBCM for the past four years:

Year ended/ as at 30 June	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 a 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:

Year ended/ as at 30 June	**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	14,324
Gross NPA ratio	4.1%	4.2%	3.1%	3.7%
CAR	17.3%	18.6%	17.4%	18.1%

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 its Capital Adequacy and Tier 1 ratios at 17.2% and 16.2% respectively.

The bank has representative offices in Johannesburg, Nairobi, Paris and Dubai as well as the Group's foreign banking subsidiaries in Madagascar, Seychelles and Maldives which, altogether combined, aggregate to over one million clients and more than 2,900 employees.

With 47% share of total banking deposits and 40% share of total advances, MCB Ltd is by far the leading bank in Mauritius.

Given the strength of MCBG, should all the put options on the CLNs of CMSFL2 totaling to EUR 8 million (MUR 352 million) be exercised, CRAF expects that the ultimate parent company will support MCB Capital Markets which in turn will support MCB Stockbrokers to repay the noteholders.

Financial Indebtedness

As at 30 June 2022, the CMSFL2 warranted that it does not have any Financial Indebtedness. Except for the Permitted Financial Indebtedness, the Issuer shall be prohibited from entering into any Issuer Financial Indebtedness without the consent of the Noteholders' Representative.

Summary of financials for CMSFL2

Year ended/ as at 30 June,	FY20	FY21	FY22
	MUR Million		
Interest Income	21	17	11
Interest expense	11	9	7
Net interest income	9	8	4
PBT	5	5	1
PAT	4	5	1
Dividend	-	-	-
Equity share capital	32	18	18
Tangible networth	37	27	27
Cash and Cash Equivalents	39	27	25
Total debt (Credit linked Notes)	720	402	354

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*

<u>Principal terms pertaining to the Credit linked Notes ("CLNs")</u>

TERMS AND CONDITIONS	
Nature of Instruments	Secured credit-linked floating rate notes
Issuer	CM Structured Finance (2) Ltd
Method of placing	Private placement with Eligible Investors
Aggregate Nominal Amount	Up to EUR 15,000,000
Nominal / Issue Price per Note	EUR 1,000
Currency	EUR
Use of proceeds	To subscribe to the Bond issue of the Reference Entity (COVIFRA)
Interest Rate	The Interest Rate shall be the aggregate of the Reference Rate and Spread. Thereafter, the Issuer shall, through the Circular Notice, inform Noteholders of the Spread **01-FLRN-EUR10Y/1Y**: Interest Rate during First Spread Period = 3M EURIBOR + 1.50% p.a. **02-FLRN-EUR10Y/5Y**: Interest Rate during First Spread Period= 3M EURIBOR + 2.05% p.a.
Interest Commencement Date	The Issue Date and each Interest Reset Date (in relation to new Spreads only)
Spread Reset Date	The first Spread Reset Date for Tranche **01-FLRN-EUR10Y/1Y** was on the first anniversary of the Issue Date and successive dates falling one year after the previous reset date. Thereafter, the Spread Reset Date shall be as determined via a Circular Notice. The first Spread Reset Date for Tranche **02-FLRN-EUR10Y/5Y** shall be on the fifth anniversary of the Issue Date and successive dates falling five years after the previous reset date.
Interest Payment Date	The Interest Payment Dates shall be: • during the First Spread Period, on 22 October, 22 January, 22 April and 22 July of the relevant year (depending on the Tranche); • and thereafter, as may be determined through a Circular Notice.
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
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
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 on terms specified
Status of the Notes	The Notes will constitute secured debt obligations of the Issuer and will rank: a) *pari passu* without any preference among themselves; and b) senior to: i. any unsecured creditors of the Issuer; and ii. holders of all classes of share capital of the Issuer.

Security Interest attached to the Notes	The Notes will be secured by way of: (a) a pledge of the Segregated Account in favour of the Noteholders' Representative in accordance with the Pledge of Segregated Account Agreement; and (b) a pledge of the Reference Underlying
Credit enhancement	The Issuer shall, at all times, hold an amount (in EUR) equal to 4.5% of the outstanding aggregate nominal amount of the investment in the Reference Underlying (in cash or such other liquid instrument). If there is an Event of Default, the Noteholder Representative shall be entitled to enforce the Pledge of Segregated Account Agreement and recoup any losses incurred by the Noteholders from the Segregated Account.
Clause 6.8.10 (Put Option) in which case (CRAF has analysed the ability of CMSFL2 and MCB group to repay the Noteholders on the Interest reset date)	**Put Option** a) 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. 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 the date of the Circular Notice and the Spread Reset Date. c) Unless redeemed by the Issuer, the transfer of the Notes in respect of which the Put Option have been exercised shall be done in accordance with Clause 6.8.10 d) The proceeds payable to the relevant Noteholder ("Put Proceeds") 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. 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.
Clause 6.10.2 (Call Option)	**Call Option** 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** "), redeem the whole or part of the Notes ("**Call Option**"). 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**"). c) The Call Proceeds shall be payable within five (5) Business Days from the date of the Call Notice. 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. e) The Notes which are the subject of a Call Option shall be redeemed. f) Redemption of Class B Shares An amount equal to the Subscription Amount shall at the Issue Date be held in the Segregated Account. Following payment of the Call Proceeds, the Noteholders' Representative shall be authorised to release an amount corresponding to 4.5% of the Aggregate Nominal Amount of the Notes being redeemed from the Segregated Account. Such release shall result in the Subscription Amount being reduced.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks 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. CRAF may also have other commercial transactions with the entity.

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.

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.
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.