

Brief Rationale

CRAF reaffirms CARE MAU A- (SO) and CARE MAU A2+ (SO) rating assigned to the Secured Credit-linked Notes Issued by CM Structured Finance (2) Ltd (“CMSFL2”) and continues Credit Watch with Negative Implications

Ratings

Instrument	Amount*	Rating	Rating Action
Secured Credit Linked Notes (“CLN”)	EUR 8 million (MUR 384 million) [Reduced from EUR 15 million (MUR 720 million)]	CARE MAU A- (SO); Under Credit Watch with Negative Implications [Single A Minus (Structured Obligation); Under Credit Watch with Negative Implications] CARE MAU A2+ (SO) [A Two Plus (Structured Obligation); Under Credit Watch with Negative Implications]	Continues under Credit Watch with Negative Implications

*EUR 1 = MUR 48

Rating Rationale

The rating assigned to the Secured Credit-linked Notes of CM Structured Finance (2) Ltd (“CMSFL2”) continue under Credit Watch with negative implications since the credit rating of the reference entity Compagnie des Villages de Vacances de l'Isle de France Limitée (“COVIFRA”) - has been downgraded to ‘CARE MAU A’ and placed under **Credit Watch with Negative Implications**, due to the closure of the Resort by Holiday Villages Management (Mauritius) Services (“HVMS” or the “Lessee”) and the notification served to COVIFRA of a force majeure leading to suspension in payment of rentals since March 16, 2020 following the closure of the airport and the lockdown imposed by the Government of Mauritius.

The rating assigned to the Secured Credit-linked Notes of CMSFL2 is dependent on the financial performance of the reference entity, COVIFRA, since the debt repayment will be made out of the operational cashflow of COVIFRA.

CARE Ratings (Africa) Private Limited (“CRAF”), based on discussion with COVIFRA management, understands that COVIFRA has adequate liquidity to meet its scheduled debt servicing obligations (interest payment on Bonds and term loans) and other fixed expenses till June 30, 2021. CARE Ratings (Africa) Private Limited (“CRAF”), has taken into account COVIFRA management’s expectation of resumption in rental receipt before Q3CY21, EUR 1 million overdraft facility and MUR 50 million loan (COVID-19 support), sanctioned by The Mauritius Commercial Bank Ltd., which COVIFRA can utilise to honour its interest and debt repayment obligations should there be delays in reopening of the Resort. CRAF, based on discussion with COVIFRA management, understands that COVIFRA has adequate liquidity to meet its scheduled debt servicing obligations (interest payment on Bonds and term loans) and other fixed expenses till June 30, 2021.

Given the lack of visibility surrounding the timeline & protocols surrounding lifting of air travel restrictions in Mauritius and uncertainty regarding tourist arrivals from Europe post resumption of air

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traffic, CRAF is not in position to assess the actual date of resumption of the rentals. Hence, CRAF will keep monitoring the situation and will review the ratings by May 2021.

The rating assigned to CMSFL2 continues to derive strength from 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 CMSFL2. The rating assigned to CMSFL2 also derives strength from the financial performance of the reference entity, COVIFRA.

The rating is however constrained by the ability of the Underwriter to arrange funds on the execution of Put option by the Investor on the interest reset date, regulatory risk associated with issue of Credit-linked Notes and interest rate risk.

The uncertainty surrounding complete lifting of air travel restrictions in Mauritius and opening of the Resort, ability to attract tourists post opening of international borders, resumption of the rentals, timely receipt of rentals from HVMS, operational & financial performance of HVMS and Club Med S.A.S (“Club Med” or the “Guarantor”), ability to reduce level of indebtedness 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 Structured Finance (2) Ltd (“CMSFL2”), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) under the laws of Mauritius on June 27, 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 Stock Exchange of Mauritius (SEM). The Mauritius Commercial Bank Limited (wholly owned subsidiary of MCB group) is rated CARE MAU AAA (IS) Stable.

CMSFL2 was incorporated with a capital of MUR 10,000 (1,000 Class A Shares issued at MUR 10 each), fully subscribed by MCB Capital Markets Ltd. On the date of issue of CLN, MCB Capital Markets Ltd infused equity of EUR 675,000 (subscribing to 675 Class B Shares at a price of EUR 1,000 each) for the purpose of credit enhancement of the CLNs.

CMSFL2 (SPV) issued Secured Credit Linked Notes (collateralized loan obligation) to investors on July 18, 2019. The broad structure is as under:

CMSFL2 subscribed to the Bond issue of COVIFRA and the same was funded through the proceeds of the issuance of Secured Credit Linked Floating Rate Notes (CLNs) to investors. The return of the CLNs is linked to the repayments of the COVIFRA Bond.

CMSFL2’s sponsor (MCB Capital Markets Ltd) credit-enhanced the Notes at 4.5% of the amount of outstanding notes. 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.

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CMSFL2 raised EUR 15 million (MUR 600 million) from the issue of the CLNs to subscribe to the Bond issue of COVIFRA. As per the circular Notice dated. November 13, 2020, one investor exercised the put option for EUR 7.0 million. CMSFL2 sold the Bonds (worth EUR 7 million), issued by COVIFRA, to MCB Real Assets and utilized the proceeds to pay the put amount on November 30, 2020. Accordingly, since the underline bonds were sold to MCB Real Assets, CMSFL2 also redeemed the Credit linked Notes worth MUR 7 million. Accordingly, outstanding CLNs were reduced from MUR 15 million to MUR 8 million.

CLNs worth EUR 8 million (MUR 384 million) is repayable out of the operational cashflow of COVIFRA on July 18, 2029. The first interest reset date was on July 18, 2020.

The next spread reset date for the EUR 1.4 million tranche (01-FLRN-EUR10Y/1Y; Reduced from EUR 8.4 million) is on 31 December 2021 and on 18 July 2024 for EUR 6.6 million tranche (02-FLRN-EUR10Y/5Y).

The rating is dependent on the financial performance of COVIFRA, since the debt repayment will made out of the operational cashflow of COVIFRA. 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 MUR 600 million for 10 years to CMSFL2. 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. The first Circular notice was issued to investors on the 1st anniversary of the CLNs (i.e. July 18, 2020).

During the tenure of the CLN (EUR 8 million for 10 years), the maximum amount of Put Option that can be exercised on the interest reset dates is EUR 8 million.

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 stockbroking 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 the 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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Financial Indebtedness

As of November 30, 2020, the Issuer (CMSFL2) warrants that it does not have any Financial Indebtedness other than the CLNs issued. Save/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.

Disclaimer

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