

**CM Structured Finance (2) 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 (2) Ltd (“CMSFL2”)**

<b>Instrument</b>	<b>Amount</b>	<b>Rating</b>	<b>Rating Action</b>
Secured Credit Linked Floating Rate Notes	EUR 15 million (MUR 600 million)	<b>CARE MAU A- (SO) Stable</b> <b>[Single A Minus (Structured Obligation);</b> <b>Outlook: Stable]</b> <b>CARE MAU A2+ (SO) (A Two Plus)</b> <b>(Structured Obligation)</b>	<b>Assigned</b>

**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 (2) Ltd (“CMSFL2”).

The ratings assigned to CMSFL2 derives strength from the financial performance of the reference entity, Compagnie des Villages de Vacances de l'Isle de France Limitée (“COVIFRA”), since the debt repayment will made out of the operational cashflow of COVIFRA.

The ratings are 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.

COVIFRA’s timely rental receipt from Holiday Villages Management (Mauritius) Services (“HVMS” or the “Lessee”), operational & financial performance of the Lessee and Club Med S.A.S (“Club Med” or the “Guarantor”), 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 (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. will infuse 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 CLN.

CMSFL2 (SPV) proposes to issue Secured Credit Linked Floating Rate Notes (collateralized loan obligation) to investors. The broad structure is as under:

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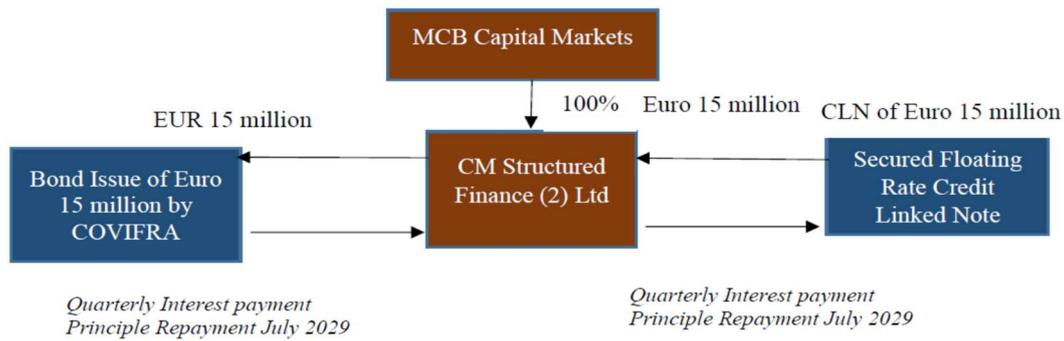
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- Raised through a private placement
- Investors benefit from an interest income relating to the risk of the loan

CMSFL2 will subscribe to the Bond issue of COVIFRA and the same will be 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 of the Bond.

CMSFL2's sponsor (MCB Capital Markets Ltd) shall credit-enhance the Notes by EUR 675,000. 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.

CMSFL2 is raising EUR 15 million (MUR 600 million), from the issue of the CLNs, to subscribe to the Bond issue of COVIFRA. CLN of EUR 15 million (MUR 600 million) is repayable on July 18, 2029 out of the operational cashflow of COVIFRA. Interest Rate will be reset after every 1 year for around Euro 9.0 million tranche and after every 5 years for around Euro 6.0 million tranche.

The rating is dependent on the financial performance of COVIFRA, since the debt repayment will be 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 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.

During the tenure of the CLN (EUR 15 million for 10 years), the maximum amount of Put Option that can be exercised on the interest reset dates is EUR 15 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

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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 - COVIFRA**

Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA"), a company listed on the Stock Exchange of Mauritius, was incorporated in Mauritius on November 29, 1972 by Club Med S.A.S ("Club Med"). COVIFRA has set up the Resort - Hotel Club Med La Pointe aux Canonniers (the "Resort"), on 11.8 hectares of prime beachfront land in the North of Mauritius with 286 rooms. Since inception (1972), the Resort has been leased out to Holiday Villages Management (Mauritius) Services ("HVMS"), a wholly owned subsidiary of Club Med S.A.S. HVMS operates the Resort and pays a fixed rental to COVIFRA.

On October 25, 2017, Club Med sold its controlling stake (84.4%) in COVIFRA to MCB Real Assets Ltd ("MCBRA") at an aggregate value of MUR 1 billion (84% of 56.6 million shares acquired at MUR 22.50 per share). In FY18 & FY19, MCBRA has acquired an additional 8.96% shareholding through a mandatory offer to the minority shareholders and by subscribing to excess shares from a rights issue, taking its total stake to 93.39%. The shareholding balance of 6.61% is held by public.

MCBRA is a wholly owned subsidiary of MCB Group Limited, a company listed on the Official Market of the SEM. The Mauritius Commercial Bank Limited (another wholly owned subsidiary of MCB group) is rated CARE MAU AAA (IS) Stable.

In FY18, COVIFRA achieved a Revenue of MUR 135.8 Million (MUR 146.7 million in FY17) and PBT of MUR 83.3 million in FY18 (MUR 78.6 million in FY17).

#### **Disclaimer**

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