

## CM Structured Products (2) Ltd ("CMSPL2")

December 01, 2022

### Ratings

Facilities/Instruments	Amount (Mur Million)	Rating <sup>1</sup>	Rating Action
Secured Credit Linked Notes ("CLN")	EUR 5 million (MUR 216 million) *	CARE MAU A- (SO); Stable/ CARE MAU A2+ (SO) [Single A Minus (Structured Obligation); Outlook: Stable/ A Two Plus (Structured Obligation)]	Revised from CARE MAU BBB+ (SO); Negative/ CARE MAU A2 (SO) [Triple B Plus (Structured Obligation); Outlook: Negative/A Two (Structured Obligation)]
<b>Total</b>	-		

\* 1 EUR = MUR 43.16

### Rating Rationale

The ratings assigned to the Secured Credit Linked Notes ("CLNs") issued by CM Structured Products (2) Ltd ("CMSPL2") have been revised as the credit rating of the Reference Entity to the notes, City and Beach Hotels (Mauritius) Limited (CBHL CARE MAU A-; Stable) has been revised with change in outlook from negative to stable.

The rating of CBHL derives strength from fully resuming its activities in FY22, following the reopening of the Mauritian borders to international travellers as from 01 October 2021 and relaxation of Covid-19 related restrictions in the country. Good occupancy levels combined with relatively high Average Daily Rates (ADR) have translated into CBHL reverting back to profitability after two years of losses. The profits achieved in FY22 provide a satisfactory level of interest coverage. The gearing level of CBHL is also at a comfortable level and given its cash generating ability, the gearing is expected to be reduced drastically as from FY23. CBHL is part of the SUN Group which comprises of five other resorts, which suggests that it benefits from a stronger brand image, economies of scale and advantages derived from being part of a group of companies as opposed to being standalone, such as promoter support in times of crisis.

The rating of CMSPL2 further derives strength from the credit enhancement to the notes provided by the sponsor, i.e., MCB Capital Markets Ltd, and 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 noteholders provide additional strength to the rating of the CLNs.

The rating of CBHL is however constrained by the tourism & hotel industry being seasonal and also subject to external factors such as macroeconomic conditions or global pandemic. Given that Europe is the main market for La Pirogue, any severe adverse macroeconomic conditions on the continent can halt travel to Mauritius and cause ripple effects in the industry. Despite having resumed its activities, CBHL has been operating at below its optimum capacity given that the average occupancy level for the year was around 22% lower than the pre-pandemic levels.

### Rating Sensitivities:

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

- Continued recovery of the hotel industry in Mauritius
- Occupancy levels for CBHL reaching pre-covid levels and sustained increase in Average Daily Rate (ADR)

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsafrica.com](http://www.careratingsafrica.com).

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- Increase in profitability of CBHL translating into high operational cash flow and hence, leading to debt reduction and gearing level

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

- Significant drop in occupancy levels and ADR of CHBL from current levels
- External factors such as recession or pandemic severely affecting the hotel industry in Mauritius
- Additional debt raised by CBHL leading to increased gearing levels
- Inability of the MCB Stockbrokers to buy back the notes upon exercise of put options by noteholders

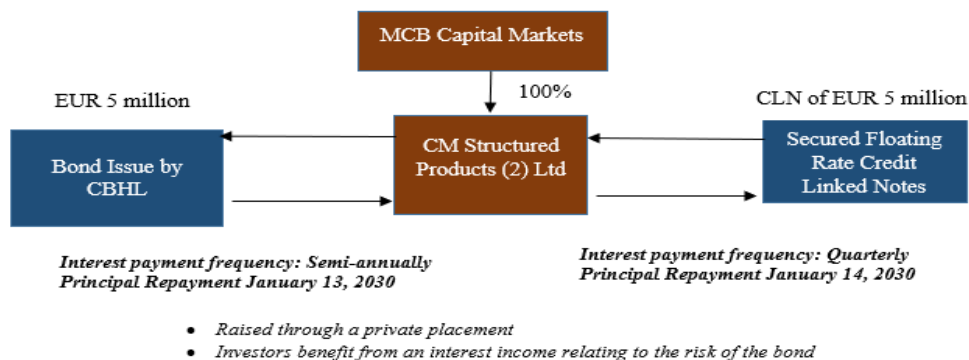
**BACKGROUND**

CM Structured Products (2) Ltd ("CMSPL2"), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) in June 2018. It is wholly owned by MCB Capital Markets Ltd, which in turn is a 100% subsidiary of MCB Group Limited (CARE MAU AAA; Stable). MCB Group Limited ("MCBG") is also the parent company of The Mauritius Commercial Bank Limited [MCB Ltd: rated CARE MAU AAA (IS); Stable], the largest commercial bank in Mauritius.

CMSPL2 is a special purpose vehicle incorporated, to issue Secured Credit-Linked Floating Rate Notes (CLN- collateralized loan obligation) to investors, with a capital of MUR 10,000 (1,000 Class A Shares issued at MUR 10 each), fully subscribed by MCB Capital Markets Ltd ("MCBCM"). MCBCM infused equity of EUR 375,000 (subscribing to 15,000 Class B Shares at a price of EUR 25 each) for the purpose of credit enhancement of the CLNs. As on 30 June 2022, total share capital of the company was EUR 375,252 (MUR 16 million).

In January 2020, CMSPL2 raised EUR 5 million by issuing CLNs through a private placement. The proceeds from the issue of the CLNs were utilized to invest in bonds issued by City and Beach Hotels (Mauritius) Limited (the Reference Entity, rated CARE MAU A-; Stable).

**Circular Notice:** CMSPL2 has issued the Credit linked Notes for a period of 10 years. However as per the terms of the Notes, every quarter end, CMSPL2 issues a Circular Notice to all Noteholders, informing them about revised Interest Rates for the next quarter (Interest reset date). Except in the case of a Credit Event or an Event of Default, each Noteholders 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 their Notes, i.e., Noteholders can exit on every quarter and CMSPL2 has the obligation to arrange for the funds to repay the Noteholders. The structure of the CLNs is as under:



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The interest rate on the CLNs is reset at the beginning of each interest payment period, i.e., each quarter and same is done at the discretion of the Issuer but always subject to a Circular Notice being served to the Noteholders. For the quarter beginning 13 October 2022, the Issuer reset the interest rate on the CLNs at the aggregate of a Reference Rate being the average 6-month EURIBOR (floored at 0%) over a period of 3 months ending 10 Business Days before the date of the Circular Notice, plus a spread of 2.20% p.a. Hence, the interest rate for the quarter is at 2.87%.

The payment of interest and repayment of principal on the CLNs will therefore be made out of the cash flows generated from the bonds issued by CBHL.

MCB Stockbrokers Ltd ("MCBSB"), a 100% subsidiary of MCBCM, has provided a Shortfall Undertaking to CMSPL2 for EUR 5 million, as set out below:

**"Shortfall and Underwriting"**

- (a) In the event of the exercise of a Put Option by a holder of the Notes (the "Existing Investor") in accordance with the term of the PPM, the Underwriter shall purchase, and/ or cause for the purchase of, all 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 Existing Investor on the Transfer Date."***

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### Details of Rated Instrument

Instrument	Amount	Repayment
Secured Credit Linked Notes	EUR 5 million (MUR 216 million) *	Bullet repayment in January 2030

\* 1 EUR = MUR 43.16

#### 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.

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### Annexure I

#### *Long /Medium-term Instruments*

<b>Symbols</b>	<b>Rating Definition</b>
<b>CARE MAU AAA</b>	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.
<b>CARE MAU AA</b>	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.
<b>CARE MAU A</b>	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.
<b>CARE MAU BBB</b>	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.
<b>CARE MAU BB</b>	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU B</b>	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU C</b>	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
<b>CARE MAU D</b>	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**

<b>Symbols</b>	<b>Rating Definition</b>
<b>CARE MAU A1</b>	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.
<b>CARE MAU A2</b>	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.
<b>CARE MAU A3</b>	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.
<b>CARE MAU A4</b>	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.
<b>CARE MAU D</b>	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.**

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**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.

**CARE Ratings (Africa) Private Limited**

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