

CM Structured Products (2) Ltd

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 Products (2) Ltd and continues the rating under Credit Watch with Negative Implications (“CMSPL2”)

Ratings

Instrument	Amount	Rating	Rating Action
Secured Credit Linked Notes (“CLN”)	EUR 5 million (MUR 225 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

Rating Rationale

The rating assigned to the Secured Credit-linked Notes of CM Structured Products (2) Ltd (“CMSPL2”) continues under Credit Watch with Negative Implications since the credit rating of the reference entity City and Beach Hotels (Mauritius) Limited (“CBHL”) –CARE MAU A-; continues under Credit Watch with Negative Implications, due to the suspension of operations of the resort on March 26, 2020 following the closure of the airport. CRAF, based on discussion with CBHL management, understands that CBHL has adequate liquidity to meet its scheduled debt servicing obligations (interest payment on Bonds) and other fixed expenses for the short-term period.

The rating assigned to the Secured Credit-linked Notes of CMSPL2 is dependent on the financial performance of the reference entity, CBHL, since the debt repayment will be made from the operational cashflow of CBHL.

CRAF has also considered that CBHL has commenced its operations from July 2020 for hosting of specific events, group, and functions business. Post de-confinement, revenue posted by CBHL (after considering the Government Wage Support Scheme for the industry) monthly are not sufficient to meet the total operational-fixed expenses of the hotel and thus the company is utilising its reserve funds for meeting its operational-fixed cost. Given the current uncertainty surrounding the full lifting of air travel restrictions in Mauritius and tourist arrivals from Europe post resumption of air traffic, CRAF is not in position to assess the actual date of normal resumption of operations of the hotels in Mauritius. However, with the partial opening of the borders as from 1 October 2020, La Pirogue is operational for locals, including tourists that have done their 14-day quarantine. Hence, CRAF will keep monitoring the situation and will review the ratings by May 2021.

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 Products (2) Ltd.

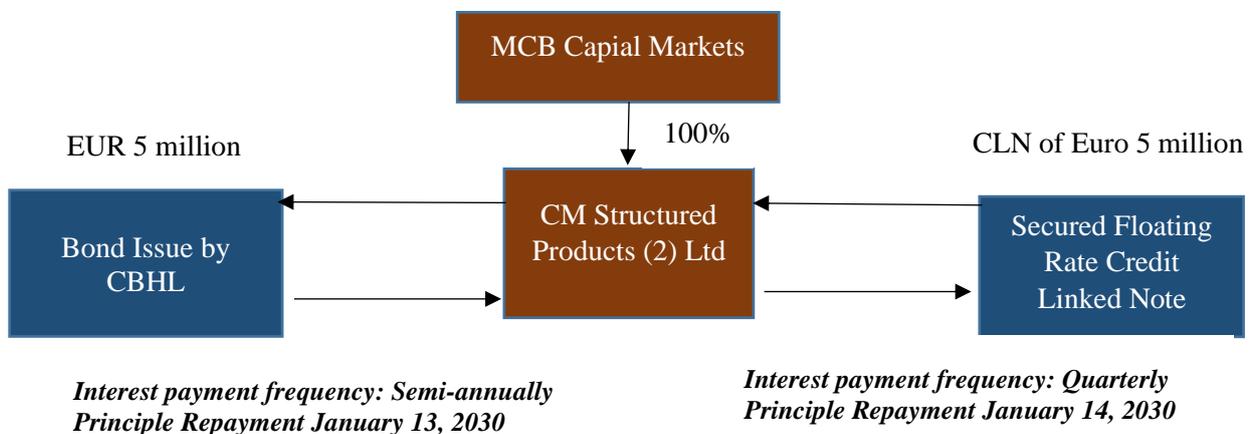
The ratings are however constrained by ability of the Underwriter to arrange funds on the execution of Put option by the Investor on the interest reset date, regulatory risk associated with issue of Credit linked Notes and interest rate risk.

Financial performance of the reference entity, level of indebtedness of the reference entity 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 Products (2) Ltd (“CMSPL2”), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) under the laws of Mauritius on June 13, 2018. 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.

CMSPL2 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. have infused equity of EUR 375,000 (subscribing to 375 Class B Shares at a price of EUR 1,000 each) for the purpose of credit enhancement of the CLN. The broad structure of the issued credit link notes is as under:



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

CMSPL2 raised EUR 5 million (Mur 240 million), from the issue of the CLNs, to subscribe to the Bond issue of City and Beach Hotels (Mauritius) Limited (rated CARE MAU A-; under Credit Watch with negative implications) owning the hotel property of La Pirogue (“CBHL” or “The Reference Entity”). CMSPL2 will issue additional Notes up to a maximum amount of Euro 50 million and once CMSPL2 decides to issue fresh CLNs and invest the proceeds in new Reference entities, CMSPL2 will approach

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CRAF with a fresh undertaking for similar amount from MCB Stockbrokers and credit enhancement and CRAF will review the assigned ratings.

CMSPL2's sponsor (MCB Capital Markets Ltd) credit-enhanced the Notes by EUR 375,000 (7.5% of the total CLN issue). This amount shall be used as a first-loss cash-collateralized guarantee and is held in an account at any Bank duly authorised to carry out banking business in Mauritius by the Bank of Mauritius or any licensed deposit taking institution in Mauritius or be invested in sovereign securities with a credit rating at least equivalent to that of Mauritius at the time of the investment.

CMSPL2 shall continuously issue notes whose Interest rate can be reset on every review date and will be notified to the Note holders through the Circular Notice. The interest rate for the first spread period is 2.25% p.a. As per the circular notice dated December 23, 2020, interest rate for the next spread (i.e., from January 13, 2021 to April 13, 2021 will be 2.00% p.a.) A Review Date always fall on an Interest Payment Date with the first Review Date falling no later than January 13, 2021 and the next falling on April 13, 2021. Any amendment to a Review Date shall be specified in the Circular Notice issued prior to such Review Date.

Bond issue by City and Beach Hotels (Mauritius) Limited [EUR 5 Million due for redemption on 13 January 2030] is for a period of 10 years. CBHL will be paying semi-annual interest to CMSPL2 and CMSPL2 will be paying quarterly interest to its noteholders.

The rating is dependent on the financial performance of CBHL, since the debt repayment will made from the operational cash flow of CBHL. The Note holder 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 Review Date.

MCB Stockbrokers Ltd. has provided a Shortfall undertaking for EUR 5 Million for 10 years to CMSPL 2. As per the undertaking in the event of the exercise of the Put Option by a note holder (Existing Investor) in accordance with the terms 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. The underwriter shall pay the Put Proceeds to each Existing Investor on the Transfer date.

Accordingly, CRAF has also analysed the ability of MCB Stockbrokers Ltd. and MCB Capital Markets Ltd., to arrange for EUR 5 million (Mur 240 million) of debt on the Interest Reset Dates.

MCB Stockbrokers Ltd. are 100% subsidiary of MCB Capital markets 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 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 billion in any single financial year.

MCB Stockbrokers Ltd has provided an undertaking that it is 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.

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

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.

Rating Symbols

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.

Modifiers {'+' (plus) / '-'(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.

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