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

December 01, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Bond Issue	MUR 660 million (EUR 15 million) *	CARE MAU A; Stable [Single A; Outlook: Stable]	Reaffirmed
Bank Facility	MUR 572 million (EUR 13 million) *	CARE MAU A; Stable [Single A; Outlook: Stable]	Reaffirmed
Total	1,232		

** 1 EUR = MUR 44.00*

Rating Rationale

The ratings assigned to the bond issue and bank facilities of Compagnie des Villages de Vacances de L'Isle de France Limitée ("COVIFRA") continue to derive 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 '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 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 weigh in on the prospects of HVMS over the long term.

Rating Sensitivities:

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

- Timely receipt of lease rentals from HVMS
- Reduction in debt level of COVIFRA
- Higher and sustained occupancy levels and positive performance at HVMS and Club Med

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

- Additional debt taken by COVIFRA leading to increased gearing level
- Deterioration in the operational and financial parameters of HVMS and Club Med
- Negative externalities such as global recession or deterioration in sanitary conditions affecting the Mauritian hotel industry.

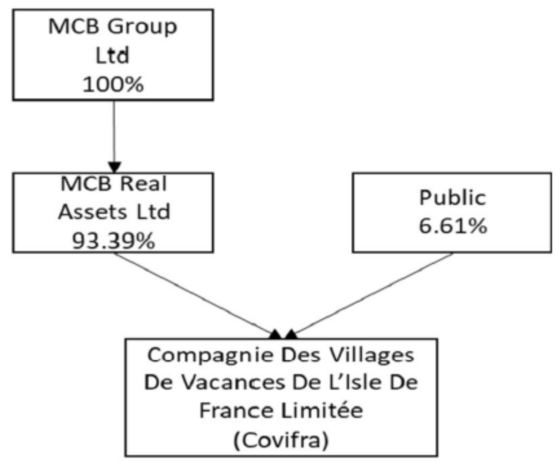
[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

BACKGROUND

Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA"), was incorporated in Mauritius in November 1972, by Club Med S.A.S ("Club Med"). COVIFRA set up the Resort - Hotel Club Med La Pointe aux Canonniers (the "Resort") on 11.8 hectares of prime beachfront land in the northern part of Mauritius with 286 rooms. Since its inception, the Resort has been leased out to Holiday Villages Management (Mauritius) Services ("HVMS"), a wholly owned subsidiary of Club Med S.A.S in return for a fixed annual rental fee. HVMS operates the Resort and pays fixed rental to COVIFRA. The sole business activity of COVIFRA is to rent the Resort to HVMVS and the Company's earnings is not linked to the underlying performance of the Resort.

COVIFRA was incorporated by Club Med S.A.S ("Club Med"), a private French company specialising in all-inclusive holidays worldwide, to set up the Resort - Hotel Club Med La Pointe aux Canonniers. In 2015, Fosun International Limited, domiciled in China, acquired a 92.80% stake in Club Med, which owns and operates 64 resorts across the world.

In October 2017, Club Med sold its controlling stake (84.4%) in COVIFRA to MCB Real Assets Ltd ("MCBRA") and in April 2018, MCBRA increased its stake in COVIFRA through a mandatory offer to the minority shareholders, taking its total stake to 93.39%. The remaining 6.61% stake is held by public.



MCBRA is a wholly owned subsidiary of MCB Group Limited (CARE MAU AAA; Stable), the parent company of The Mauritius Commercial Bank Limited (CARE MAU AAA (IS); Stable), the largest commercial bank in Mauritius. Post-acquisition of the Resort by MCBRA, a new lease agreement was signed with HVMS. Pursuant to the Lease Agreement, the Resort was again rented to HVMS.

The Lease Agreement is a 15-year unfurnished Euro denominated triple net, fully repaired and insured lease expiring in October 2032. The rental income under the Lease Agreement is indexed to the Eurozone inflation rate and is backed by an unconditional and irrevocable revolving guarantee from Club Med. The agreement provides for a rental revenue which is independent of the performance of the Resort.

Since November 2018, COVIFRA has been receiving a total annual rental income of EUR 7.75 million (MUR 341 million) prior to any inflation indexation, except during the 'force majeure' period covering 2020 and 2021 where no rental payments were made by HVMS.

Strong and Resourceful promoters of COVIFRA

In October 2017, MCBRA, a 100% step-down subsidiary of MCB Group Limited ("MCBG"), acquired a majority stake in COVIFRA and in 2018 boosted its shareholding to 93.39%.

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Below is a summary of the financial performance of MCBG:

Year ended/ as at June 30,	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
Advances	246,713	259,069	312,978	348,988
Tangible Networth	58,558	64,860	74,804	76,373
Investments in securities	126,204	148,858	198,530	239,684
Total Assets	469,955	530,436	681,044	728,128
Gross NPL ratio (%)	4.1	4.2	3.6	3.7
CAR (%)	17.3	18.6	17.4	18.2

MCBG is also the parent company of The Mauritius Commercial Bank Limited ("MCB Ltd") which provides 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 June 2022, MCB Ltd had a deposit and loans & advances base of MUR 481,103 million and MUR 306,648 million respectively, and it also had a satisfactory capital base with a Capital Adequacy (CAR) standing at 17.2%.

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.

Long and established track record of lease rental agreement with HVMS

In October 2017, MCBRA acquired Club Med's stake in COVIFRA and simultaneously signed a new lease agreement with HVMS for a period of 15 years at an annual rental income of EUR 4.65 million (MUR 205 million). This apart, renovation and expansion works were undertaken at the hotel at an aggregate cost of EUR 39 million (MUR 1,716 million) which generates an additional rental income of EUR 3.10 million (MUR 136 million) for COVIFRA. The total annual rental income receivable by COVIFRA from HVMS is therefore EUR 7.75 million (MUR 341 million), payable on a quarterly basis.

The rental income under the Lease Agreement is independent of the performance of the Resort and is indexed to the Eurozone inflation rate, and is backed by an unconditional and irrevocable revolving guarantee from Club Med.

Over the 45 years of operating the Resort at Pointe aux Cannoniers, HVMS has always satisfied its obligations under the lease agreement both to Club Med and during discussion, the management of COVIFRA has also confirmed that HVMS duly settled its lease payments at the beginning of each quarter, except during the period of the 'force majeure' where lease payments were suspended. The lease agreement also does not allow for any termination of contract by HVMS before expiry in 2032.

A summary of the financial performance of HVMS is given below:

Year/Period ended/ as at 31 December	FY18	FY19	FY20	FY21	9MFY22
	MUR million				
Revenue	1,933	1,817	465	569	1,311
Other operating Income	84	76	24	34	4
Total operating Income	2,017	1,893	490	603	1,314
Cost of Sales	423	426	112	125	438
Other administrative expenses	1,422	1,281	179	263	537
Total operating cost	1,845	1,707	291	388	976
EBITDA	173	186	199	215	339
Depreciation & Amortization	43	69	467	473	362
Interest	6	435	1,162	268	165
Other Non-operating Income	9	7	6	53	542
Profit/ (Loss) before Tax	132	(310)	(1,424)	(473)	355
Profit/ (Loss) after Tax	118	(307)	(1,424)	(473)	355
GCA	161	182	(957)	1	716
Dividend Paid/Proposed	-	-	-	-	-
Total Debt	-	-	-	-	-
Cash & cash equivalents	18	17	9	18	-
Tangible Networth	501	175	(1,167)	(1,640)	-
EBIDTA margin (%)	8.93	10.26	42.69	37.81	25.84
PAT margin (%)	6.11	-	-	-	27.05
Gearing (times)	-	-	-	-	-
Total Debt/EBITDA (times)	-	-	-	-	-
Interest coverage (times)	29.0	0.43	0.17	0.80	2.05

Subdued operational and financial performance from Club Med SAS

Founded in 1950, Club Med is involved in the development, management, and operation of hotels and resorts, and currently operates 64 resorts across 40 countries around the world, a cruise ship and luxury villas and chalets. The Company offers services such as vacation deals, cruise ship sailing, fine dining, sports activities, childcare, and spa services. In 2015, Fosun International Limited, a multinational Chinese conglomerate, acquired a 92.80% stake in Club Med.

The operations of Club Med SAS are widely diversified across the globe with activities in the Caribbean, North and Latin America, Africa, Asia, the Indian Ocean, Europe & Mediterranean as well as in the Alps.

This geographical distribution of operations, however, has not exempted Club Med SAS from the economic consequences of the Covid-19 causing the suspension of activities for almost two years, particularly in Europe and Asia.

This resulted in Club Med SAS to suffer two consecutive years of losses as shown below:

CLUB Med S.A.S	FY18	FY19	FY20	FY21
Revenue (EUR Million)	1,617	1,701	918	1,297
EBITDA (EUR Million)	126	190	(334)	(380)

Note: *The financials of Club Med are not available in the public domain and the above have been gathered from press releases and information available on the web.*

Fosun International Limited ("Fosun")

Club Med is owned and controlled by Fosun which is a Chinese conglomerate founded in 1992 with operations in 16 countries across the globe and investments in a diverse array of sectors including banking, insurance & financials, media

& entertainment, fashion, F&B, retail, healthcare, real estate and technology, amongst others. In 2020, the Group was ranked 371st on the Forbes Global 2000 ranking.

Below is a summary of the financial performance of Fosun:

Year ended/ as at 31 December	FY18	FY19	FY20	FY21	H1FY22
	MUR billion				
Total Income	671	885	966	1,294	566
EBITDA	172	231	209	291	109
Interest	38	53	60	68	37
PAT	89	105	67	117	33
Total Debt	970	1,083	1,396	1,627	1,783
Tangible Networth	834	940	1,173	1,394	1.356
EBIDTA margin (%)	25.6	26.1	21.7	22.5	19.2
PAT margin (%)	13.2	11.8	7.0	9.1	5.8
Gearing (x)	1.16	1.15	1.19	1.17	1.32
Total Debt/EBITDA (%)	5.65	4.69	6.67	5.59	N/A
Interest coverage (%)	4.6	4.30	3.4	4.3	2.9

Hotel Industry in Mauritius

The hotel industry in Mauritius has been among the main pillars of the economy over the last two decades having contributed on average, to 7% of the country's GDP, with 1.3 million tourist arrivals registered in 2019. The total tourism earnings were MUR 63,107 million.

Following the outbreak of the Covid-19 pandemic and the closure of borders for over 18 months, the level of activity in the sector was brought to a halt and for 2020 and 2021, Mauritius registered only 308,980 and 179,780 arrivals only.

As at June 2022, there was a total of 106 hotels in Mauritius with 13,649 available rooms and 31,745 bed places.

A massive and successful vaccination campaign during first half year 2021 sparked confidence among the Mauritian authorities and the Government decided to fully re-open borders to international travellers as from 01 October 2021. From January 2021 to September 2022, the level of activity in the sector was as shown below:

Month	2021		2022	
	Arrivals	Gross Earnings (MUR million)	Arrivals	Gross Earnings (MUR million)
Jan	1,232	243	40,028	4,343
Feb	1,229	176	52,724	3,556
Mar	311	103	66,066	4,640
Apr	58	90	84,268	4,296
May	115	124	70,462	4,309
June	280	171	63,008	4,128
Jul	1,242	370	93,084	5,128
Aug	2,499	757	86,605	5,892
Sep	2,494	757	81,087	5,315
Oct	54,434	3,044	117,323	N/A
Nov	65,922	4,962		
Dec	49,964	4,636		
Total	**179,780**	**15,253**	**755,655**	**41,607**

Sensing a renewed confidence among the operators of the sector at the beginning of the year, the Ministry of Tourism in Mauritius has set its forecast at one million of tourist arrivals for 2022.

For the first half year 2022, the overall occupancy for tourism sector in Mauritius stood at 51%. The main market for Mauritius continues to be Europe with France, UK and Germany topping the list with 24%, 15% and 11% of total arrivals respectively. South Africa also contributes to 11% of the share while other regional markets such as Reunion Island, the Middle East, Indonesia and Australia also being key sources for the industry.

It should also be noted that the number of major flights being effected by the national aviation company, Air Mauritius, was reduced to a large extent compared to 2019. Similarly, access to international aviation companies to Mauritius was limited compared to pre-Covid levels.

Being situated in the middle of the Indian Ocean, Mauritius faces fierce competition from other islands such as Maldives, Sri Lanka and Seychelles. While the Maldives is far ahead, Mauritius still maintains its attractiveness as shown below:

	Mauritius	Maldives	Sri Lanka	Seychelles
Jan to June 2021	3,255	510,564	16,908	50,444
Jan to June 2022	376,556	813,263	411,377	156,287

The outlook of the tourism industry in Mauritius will continue to depend on the country's attractiveness to foreigners and the number of flights. The opening of air access to more foreign companies will facilitate the access to other key markets such as countries in the Eastern Europe or the Gulf. Government support to the industry will also remain a critical factor.

Prospects

The prospects of COVIFRA depend on the operational and financial performance of HVMS and Club Med, and the ability to sustain normal activities of the resort over the medium to long term. The rating is sensitive to any air access restrictions in Mauritius, any new debt funded acquisition & renovations and MCB continuing to remain as the major shareholder.

Summary of financials for COVIFRA:

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
Fair value Gains				186
PBT	277	132	(93)	315
PAT	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 (%)				
EBITDA / Total operating income (%)	94.50	89.24	-	93.93
PAT / Total income (%)	75.96	47.73	-	101.70
ROCE- operating (%)	7.99	4.95	-	5.01
RONW (%)	20.21	7.72	-	15.44
Solvency (times)				
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 (times)				
Current ratio (times)	0.91	0.94	0.39	0.59

Details of Rated Instruments

Instruments/ Facilities	Amount	Repayment
Bond Issue	MUR 660 million (EUR 15 million) *	Bullet repayment in July 2029
Bank Facility	MUR 572 million (EUR 13 million) *	Bullet repayment in July 2024

** 1 EUR = MUR 44.00*

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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.
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CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.