Brief Rationale

CRAF downgrades the rating assigned to the bank facilities and Bond Issue of Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA") to 'CARE MAU A' and continues Credit Watch with Negative Implications

Ratings

Instrument	Amount *	Rating	Rating Action
Bond Issue	EUR 15 million (MUR 720 million)	**CARE MAU A; Under Credit Watch with Negative Implications [Single A; Under Credit Watch with Negative Implications]**	**Downgraded from CARE MAU A+ and continues under Credit Watch with Negative Implications**
Bank Facilities	EUR 13 million (MUR 624 million)	**CARE MAU A; Under Credit Watch with Negative Implications [Single A; Under Credit Watch with Negative Implications]**	**Downgraded from CARE MAU A+ and continues under Credit Watch with Negative Implications**

Rate: MUR 48/EUR

Rating Rationale

The rating assigned to the Bond issue and Bank facilities of Compagnie des Villages de Vacances de l'Isle de France Limitée ("COVIFRA") was downgraded from 'CARE MAU A+' to 'CARE MAU A' and continues under Credit watch with negative implications due to the closure of the Resort by Holiday Villages Management (Mauritius) Services ("HVMS" or the "Lessee"), the notification served to COVIFRA of a force majeure leading to suspension in payment of rentals since March 16, 2020 and uncertainty regarding reopening of the borders and reopening of the Resort.

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/disbursed 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 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 continues to derive strength from the irrevocable lease agreement (till October 2032, and extended by number of months for which force majeure in place) with Holiday Villages Management (Mauritius) Services ("HVMS" or the "Lessee"), long and established track record of timely receipt of rental income from HVMS for more than 45 years, unconditional & irrevocable revolving corporate guarantee from Club Med S.A.S ("Club Med" or the "Guarantor"), strong financial position of the lessee and the guarantor, strong financial support from resourceful promoters (MCB Group), successful completion of property expansion and renovation and higher inflow of rental income vis-à-vis debt repayment.

The rating is, however, constrained by revenue concentration given the dependence on a single hotel property for COVIFRA's lease rentals, the possibility of delay in rental receipt, environmental risk, competition from budget hotels and the competitive nature of the hotel industry in which the Lessee operates.

The uncertainty surrounding the lifting of air travel restrictions in Mauritius and opening of the Resort, ability to attract European tourist post opening of international borders, resumption of the rentals, timely receipt of rentals from the Lessee (i.e. HVMS), deterioration in operational & financial performance of the Lessee and the Guarantor and any new debt-funded acquisition, renovation and expansion undertaken by HVMS adversely affecting its ability to pay the lease rentals to COVIFRA are the key rating sensitivities.

Impact of COVID -19 on the liquidity of COVIFRA

Since March 20, 2020, Government of Mauritius has restricted the country's air access and imposed a national lockdown till June 1, 2020 to limit spreading of the novel Coronavirus. As a result, most hotels have suspended their operations for an indeterminate period (until air access restrictions are lifted) to cut down variable costs. Likewise, HVMS closed the resort in late March 2020 and notified COVIFRA of a force majeure due to COVID-19 pandemic under the terms of the lease agreement dated 24 October 2017. Pursuant to the notification, Club Med's payment and other obligations were suspended until the Resort resumes its activities, which implies that COVIFRA will not receive any rental for the duration of the force majeure. However, the lease term is expected to be extended by the duration of the force majeure. The re-opening of the Resort and resumption of rental payment is subject to lifting of air travel ban by the Govt. of Mauritius. Phase 2 of border reopening plan started on October 1, 2020- there are flights from and to specific countries (France, Reunion Island and Dubai) whereby visitors are able to book their tickets and hotels online. Priority is being given to Mauritian Citizens, Residents and those who work in Mauritius. However, there is still poor visibility regarding the countries to which the Mauritian borders will gradually open and whether tourists will still come given that there are restrictions imposed on their movements for an initial period of 14 days (compulsory quarantine); also tourism and travel activities are amongst the most affected sectors by the COVID-19 pandemic and generally people would like to avoid travel unless unavoidable.

COVIFRA's management has indicated CRAF that based on their interaction with Club Med, they expect Club Med to resume operation of the Resort before Q3 CY21 and subsequently resumption of rental payments from such dates. Given that re-opening is subject to lifting of air travel ban and also depends on bookings from European tourists, CRAF is not in position to assess the actual date of resumption of the rental payment.

Having secured a EUR 1 million overdraft facility and MUR 50 million loan (COVID-19 support) from The Mauritius Commercial Bank Ltd, COVIFRA has adequate liquidity to meet its scheduled debt servicing obligations (repayment of interest to its bond holder (CM Structured Finance 2) and term lenders (MCB and BFCOI) and other fixed expenses till June 30, 2021. CRAF also takes note of the fact, that based on COVIFRA's request, BFCOI has agreed for deferment of capital repayment (EUR 493,000 due in July 2020 and EUR 493,000 due in October 2020) for six months (to be paid in January 2021 & April 2021).

BACKGROUND

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. The valuation of the Resort as on June 30, 2019 was Euro 99 million (Mur 3,930 million). COVIFRA is not engaged in any additional business activities other than renting the aforesaid 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 of China acquired 92.8% stake in Club Med, which wholly owns or operates over 70 all-inclusive resort villages across the world.

On October 25, 2017, Club Med sold its controlling stake (84.4%) in COVIFRA to MCB Real Assets Ltd ("MCBRA"). On April 12, 2018, MCBRA increased its stake in COVIFRA through a mandatory offer to the minority shareholders of COVIFRA, taking its total stake to 93.39%. The balance 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. On October 24, 2017, a new lease agreement was signed by COVIFRA with HVMS, pursuant to which HVMS has continued to operate the Resort. 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. Post-acquisition of the Resort by MCBRA, the Resort underwent an extensive 5-month renovation from June to November 2018. As per the agreement, since November 2018, COVIFRA is receiving an annual rental income of EUR 7.75 million prior to any inflation indexation.

COVIFRA does not have any employee as all its activities and operations have been outsourced to various associate companies of MCB Group as per various management and service agreements. Accordingly, employees of the subsidiaries within MCB Group manage its day-to-day activities. The Company has a Board Charter that provides for delegation of authority and clear lines of responsibility with a reporting mechanism whereby matters regarding strategic affairs and reputation of the Company are duly escalated to its Board. COVIFRA has a 5-member Board of Directors comprising of 3 members from the MCB Group (with all 3 members having directorship in MCB Group Limited) and 2 Independent Directors. In FY19 COVIFRA posted a PAT of MUR 225 million (GCA MUR 106 million) on a revenue of MUR 297 million. Since closure of the Resort in March 2020, rental income of COVIFRA has been suspended. Hence, in FY20 the company posted a PAT of MUR 115 million on a revenue of MUR 241 million. The overall gearing as at June 30, 2020 stood at 1.57x.

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.