Rating Rational

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

Ratings

Instrument	Amount	Rating	Rating Action
Bond Issue	EUR 15 million* (MUR 750 million)	**CARE MAU A; Stable [Single A; Outlook: Stable]**	**Rating reaffirmed with removal of Credit Watch with Negative Implications**
Bank Facilities	EUR 13 million* (MUR 650 million)	**CARE MAU A; Stable [Single A; Outlook: Stable]**	**Rating reaffirmed with removal of Credit Watch with Negative Implications**

***** *1 Euro = Mur 50*

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 reaffirmed with removal of Credit Watch due to re-opening of the Resort (October 15, 2021) by Holiday Villages Management (Mauritius) Services ("HVMS" or the "Lessee") and resumption of lease payment by HVMS to COVIFRA post re-opening of the international borders as from October 01, 2021.

The rating continues to derive strength from the irrevocable (till October 2032) lease agreement with HVMS, 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") and strong financial support from resourceful promoter - MCB Group.

The rating is, however, constrained by dip in operational & financial position of the lessee and the guarantor due to the impact of COVID 19 pandemic on the international tourism industry during last 18 months, revenue concentration given the dependence on a single hotel property for COVIFRA's lease rentals, the possibility of delay in rental receipt, foreign exchange risk, environmental risk, competition from budget hotels and the competitive nature of the hotel industry in which the Lessee operates and sensitivity of the Mauritian hotel industry to air access, more so in post COVID-19 era.

Rating Sensitivities

Positive factors that could, individually or collectively, lead to positive rating action/upgrade

- Steady receipt of rentals by COVIFRA
- Timely payment of rentals by HVMS

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Operational & financial performance of HVMS & Club Med and any deterioration thereof
- Air Travel restrictions in Mauritius
- Any new debt funded expansion or acquisition

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. against a fixed annual rental. HVMS operates the Resort and pays a fixed rental to COVIFRA. The valuation of the Resort as on June 30, 2021, was Euro 99.5 million (Mur 4,975 million). COVIFRA is not engaged in any additional business activities other than renting 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 of China acquired 92.8% stake in Club Med, which wholly owns or operates over 70 all-inclusive resort villages across the world.

In 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.

Post-acquisition of the Resort by MCBRA, a new lease agreement has been signed on October 24, 2017, with HVMS. Pursuant to the Lease Agreement, the Resort is again rented to HVMS. Post-acquisition of the Resort by MCBRA, the Resort underwent an extensive 5-month renovation in June –November 2018, which encompassed an upgrade of selected areas & rooms and construction of additional 108 rooms. While the renovation programme was managed by Club Med, it was agreed (Owner's Agency Agreement dated 25th October 2017) that COVIFRA will bear the cost of the renovation programme and accordingly COVIFRA will receive additional annual rental income. Since November 2018, COVIFRA is receiving total annual rental income of EUR 7.75 million (Mur 310 million) prior to any inflation indexation.

As per the lease agreement, a Force Majeure can be invoked when there are restrictions or interdictions of visits to Mauritius. On March 16, 2020, HVMS invoked a Force Majeure and suspended rental payments. With the resumption of flights to Mauritius, the Force Majeure was lifted on the 16th of October 2021. Accordingly, the lease agreement resumed in full force and effect as from that date. Furthermore, and as per the terms and conditions of the lease agreement, its duration will be extended by about 17 months (the duration of the Force Majeure event).

COVIFRA does not have any employee as all its activities and operations have been outsourced to various sister companies within the MCB Group as per various management and service agreements.

Accordingly, employees of the subsidiaries within MCB Group manage the 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.

CREDIT RISK ASSESSMENT

Long and established track record of lease rental receipts from HVMS which has a long track record of operating the leased resort property; along with the presence of a robust and irrevocable lease agreement for a long tenor

In 1972, COVIFRA had set up Hotel Club Med La Pointe aux Canonniers on 11.8 hectares of prime beachfront land 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 against a fixed annual rental.

On October 25, 2017, MCBRA purchased 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 233 million). This apart, there was a renovation and expansion of the hotel (December 2018), at an aggregate cost of Euro 39 million (Mur 1,950 million) which will generate an additional rental income of EUR 3.10 million (Mur 155 million). Total annual rental income to be received by COVIFRA from HVMS will be around EUR 8 million (Mur 400 million) to be paid quarterly in advance. The rental income under the Lease Agreement is independent of the performance of the Resort, indexed to the Eurozone inflation rate and is backed by an unconditional and irrevocable revolving guarantee from Club Med.

For last 47 years, HVMS has operated the Resort and paid a fixed rental to COVIFRA in a timely manner (both under ownership of Club Med and MCBRA). During discussion, COVIFRA management has confirmed that post take over by MCBRA (i.e. Oct 2017), HVMS has always paid the rent at the beginning of the quarter. As per the lease Agreement, HVMS cannot terminate the Agreement before its expiry in FY32 (subject to the extension period as a result of the Force Majeure).

Resourceful promoters (MCB) of COVIFRA providing strong financial support

In October 2017, COVIFRA was acquired by MCBRA (93.03%), which is a 100% subsidiary of MCB Group Ltd. MCB Group has a diversified ownership base of more than 22,000 shareholders, with foreign shareholding accounting for around 10% of the total. The Top 6 largest shareholders are: National Pensions Fund (7.3%), Swan Life Ltd (3.3%), SICOM (3.2%), Promotion and Development Limited (3.0%), Eastspring Investments (Singapore) Ltd. (2.0%) and MUA Life Ltd. (1.2%). The audited financials of MCB group Ltd are as under:

MCB Group Limited	FY17	FY18	FY19	FY20	FY21
Mur Million			*Audited*		
Interest Income	14,034	15,113	18,841	19,995	17,477
Interest Expenses	4,478	4,384	5,885	5,586	2,617
Net interest income	9,556	10,729	12,957	14,409	14,860
PAT	6,748	7,241	9,593	7,994	8,239
Deposits	274,863	297,719	331,500	390,659	503,972
Tangible Net Worth	48,054	53,481	58,558	63,416	73,707
Advances	196,496	218,219	246,713	259,069	312,978
Investments in securities	74,730	88,747	126,204	148,858	198,530
Total Assets	345,210	386,370	471,418	532,114	683,133
Net Interest Margin					
Gross NPA	10,882	9,734	10,559	11,723	12,575
Gross NPA ratio	6.2%	4.5%	4.1%	4.2	3.9
Net NPA	7,906	6,331	6,786	11,633	12,473
CAR (%)	18.8	17.1	17.4	18.6	17.4

In October 2017, MCB Bank had extended a term loan for repayment of existing debt of COVIFRA from Club Med. MCB Group has subscribed to the rights issue and MCB Bank has also given term loan to COVIFRA for renovation of its leased-out hotel property.

In FY21, MCB Bank provided 3 term loans to support COVIFRA; a term loan MUR 70 million under COVID-19 Support Programme and two short term facilities of EUR 1 million each. Since COVIFRA has minimal operating costs, the proceeds raised were used to repay an existing debt facility from a foreign lender.

Dip in operational & financial performance of the Lessee and the Guarantor of rentals

The sole lessee of COVIFRA's hotel property for last 47 years is HVMS, a company incorporated in Mauritius and wholly owned subsidiary of Club Med. The principal activity of HVMS is to manage the operations of 4-star hotels located in La Pointe aux Canonniers (owned by COVIFRA) and in Albion, Mauritius (owned by Club Med). Both the hotels are very popular among the European tourists and majority of the customers are of French origin.

The operational & financial performance of the 2 hotels being managed by HVMS is as under:

Particulars	FY17 (Nov 1- Oct 31)	FY18 (Nov 1- Dec 31)	FY19 (Jan 1- Dec 31)	FY20 (Jan 1- Dec 31)
Period (in months)	**12m**	**14m**	**12m**	**12m**
No of Rooms.				
La Pointe aux Canonniers	286	394	394	394
Albion	266	266	266	266
Occupancy				
La Pointe aux Canonniers	68%	74%	80%	0
Albion	56%	62%	65%	0
Average Room Rate (Including all meals)				
La Pointe aux Canonniers	Euro 190	Euro 200	Euro 225	-
Albion	Euro 175	Euro 190	Euro 200	-

HVMS (MUR Million)	FY18	FY19	FY20
		January-December	
Total operating Income	2,017	1,893	478
Interest	6	435	1,105

HVMS (MUR Million)	FY18	FY19	FY20
PAT	118	(307)	(1,336)
Normalised PAT	118	113	(259)
GCA	161	182	(180)
Total Debt:	0.0	0.0	0.0
Tangible Networth	501	175	(1,167)
PAT margin (%)	6.11	N.M	N.M
Gearing (X)	0.00	0.00	0.00
Interest coverage	29.0	0.43	N.M

**HVMS changed its reporting date from 31st October to 31st December in FY18*

HVMS is a debt-free company and its operating income for last 3 years, adequately covers the lease rentals of around EUR 8 million (MUR 400 million) payable to COVIFRA.

HVMS receives more than 95% of its income in Euros, since majority of the revenue is collected in its office in France. HVMS pays its rentals in Euro. However, the company's management has stated that around than 35% of its expenses are Euro denominated and balance in MUR, which exposes the company to depreciation of EUR vis-à-vis MUR. Nonetheless, over last 3 years there has been appreciation of EUR/MUR entailing the company to book gain on foreign exchange. HVMS management stated that both the Resorts in Mauritius have started operations from October 15, 2021. The company also received cash support from ClubMed during last 12 months and has adequate liquidity.

This apart Club Med (wholly owned subsidiary of Fosun International Limited) has given an unconditional and irrevocable revolving corporate guarantee to COVIFRA which guarantees payment obligations under the lease agreement within 10 days, in case HVMS defaults in payment of rent.

Dip in operational & financials of ClubMed during FY20 with a turnaround on during 9MFY21

Club Med is engaged in the development, management, and operation of hotels & resorts. Club Med was founded in 1950 and currently operates about 70 resorts across 26 countries, a cruise ship and Luxury Villas & Chalets, and offers services such as vacation deals, cruise ship sailing, fine dining, sports activities, child care, and spa services. In 2015, Fosun International Limited of China acquired 92.8% stake in Club Med.

Club Med's revenue is geographically well diversified, with all geographical areas experiencing growth in FY21 over FY20. Avg. occupancy of resorts owned by ClubMed was around 60% in FY20. Club Med posted losses in FY20 due to severe impact of COVID19 pandemic on international tourism.

Hotel Club Med La Pointe aux Canonniers is one of the best performing Resorts of Club Meds (among top 5 Resorts across the world). The financial performance of Club Med for last 3 years is as under:

CLUB Med S.A.S	FY17	FY18	FY19	FY20
Revenue (EUR Million)	1,527	1,617	1,701	780
EBITDA (EUR Million)	112	126	190	(45)

Fosun International Limited ("Fosun") - The parent company of Club Med **-** Fosun was founded in China in 1992. It has investments across diversified sectors globally, providing insurance & reinsurance products, investment banking, capital market services, manufacturing, sale and trading of pharmaceutical and health products, operation of private hospitals, development & operation of real estate properties and manufacturing of iron and steel products. The financial performance for last 3 years is as under: M

Fosun International Limited (MUR* Billion)	FY18	FY19	FY20
	Jan-Dec		
Total Income	671.2	886	966
Interest	38	53	61
PAT	89	105	67
Total Debt	970	1,083	1,396

** 1 RMB = MUR 6.08 (FY20)*

Environmental risk

The property is located on the seafront, making it be potentially vulnerable to changing climatic conditions, namely through sea level rise, amongst others. As per the Consolidated Lease Agreement, the lessee has to bear the cost of any maintenance/repairs and cannot use such cost incurred as grounds to negotiate lower rental payment with lessor. However, if more than 50% of the property is impaired by fire, explosion or natural disasters, the lessee has the right to terminate lease agreement. COVIFRA has taken insurance cover.

Foreign exchange risk

COVIFRA receives its entire rentals in Euro, hence exposing its profits to adverse MUR/EUR movements. Save for the COVID loans of MUR 70 million, the company's entire borrowings are in Euro and only a small proportion of its expenses are in Mauritian rupees. This mitigates the forex fluctuation risk to large extent.

Impact of COVID -19 pandemic on COVIFRA

The tourism and hospitality industry has been facing severe hardship since the beginning of the COVID-19 pandemic, with reduced international travel, closure of borders and lockdown periods. Tourist arrivals decreased with only 308,908 arrivals in 2020 compared to 1.3 million in 2019.

The Resort was closed between March 16, 2020, and October 15, 2021, due to closure of international borders of Mauritius. COVIFRA didn't receive any rentals during this period. HVMS has re-opened the resort from October 15, 2021, and quarterly rental payments has resumed.

Lacklustre financial Performance of COVIFRA

In FY21, COVIFRA recorded nil revenue due to the closure of the Mauritian borders. HVMS closed the resort and notified COVIFRA a force majeure due to the COVID-19 pandemic under the terms of the lease agreement (Oct 17). Pursuant to this notification, HVMS lease payments and its other obligations was suspended. As a result, COVIFRA did not receive any rental income for FY21. Accordingly, the company registered a loss from operations of MUR 115.6 million (Profit of MUR

116.7 million in FY20) mainly due to an increase of interest expense from MUR 79 million to MUR 100 million. The increase in interest expense relates to a rise in total debts by MUR 597 million in FY21. The company's loss after tax of MUR 73.4 million was partly offset by the increase in EURO (an exchange gain of MUR 22.7 million on property value and tax credit of MUR 19.6 million).

COVIFRA's Net Worth augmented by 20%, from FY20 to FY21 as a result of an increase in exchange rate of EURO and appreciation of the Investment property.

During discussion, the management informed that Resort was re-opened on October 15, 2021 and COVIFRA has received the rentals for November 2021 – January 2022. The Resort has operated at 50% occupancy in October 2021, 60% in November 2021 and operating at 70% occupancy in December 2021.

Despite nil cashflow, COVIFRA has serviced all interest payment and principal repayment, due in FY21 and Q1FY22, by utilising its existing cash balance and following loans availed from MCB:

- BOM COVID support Programme - Loan from MCB (MUR 70 million @1.50% p.a.) – Repayable by December 24.
- Term loan of Euro 1 million from MCB– Repayable by Dec 23
- Term loan of Euro 1 million from MCB – Repayable by June 22

Since COVIFRA has minimal operating costs, the proceeds raised were used to repay an existing debt facility from a foreign lender. Accordingly, overall gearing ratio deteriorated from 1.57x as on June 30,2021 to 1.67x as on June 30, 2021.

Hotel Industry in Mauritius

Mauritius has a relatively diversified economy with the tourism and hospitality industry being one of the main economic pillars. The country welcomed 1.3 million tourists in 2019 with a total tourism earnings of MUR 63, 107 million the same year. At the end of 2019, Mauritius had 112 hotels in operation with a total of 73% room occupancy rate.

Impact of Covid-19 pandemic

The tourism and hospitality industry has been facing severe hardship since the beginning of the COVID-19 pandemic, with reduced international travel, closure of borders and lockdown periods. Tourist arrivals decreased with only 308,908 arrivals in 2020 compared to 1.3 million in 2019.

In order to support the industry, Government of Mauritius introduced several measures to support economic operators across all sectors impacted by COVID-19. An amount of MUR 5 billion was earmarked to provide financial support at macroeconomic and cross sector level including tourism sector. A special relief fund of Mur 5 billion has been extended till June 2022 to economic operators at a discounted interest rate of 1.5% with 6 months moratorium on capital and interest repayment. Until December 2021, a special Wage assistance scheme was provided by the government of Mauritius, whereby Government provided a wage subsidy to Employers, to ensure that all employees are duly paid their salary. Following the outbreak of the Covid-19 pandemic, the national borders of Mauritius were closed twice (2020 and 2021) to control the propagation of the virus. In October 2021 Mauritius re-opened its borders to all vaccinated travellers and welcomed 170,000 tourists in the month of October -December 21.

Outlook on the tourism

- MUR 420 million is being allocated to the Mauritius Tourism Ports Authority (MTPA) for the Promotion and destination marketing in France, Reunion, UK, Germany, Italy, South Africa and China. Several cultural tourism events are being organised locally and internationally and E-promotion through e-marketing, online events and virtual road shows.
- Strong demand to travel to Mauritius is prompting Air Mauritius to increase its flights. Air Mauritius is operating a daily flight from Paris to Mauritius since November 2021 and three weekly flights to and from London, which is likely to increase to five weekly flights during Christmas and New Year period.

Prospects

The prospects of COVIFRA depends on operational & financial performance of HVMS & Club Med and ability to sustain normal activities of the resort by post re-opening. 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.

FINANCIAL PERFORMANCE of COVIFRA

For the year ended as on	**Jun-19**	**Jun-20**	**Jun-21**
Mur Million	**12M**	**12M**	**12M**
Revenue	297.3	219.4	0.0
Total Income	297.4	219.4	0.2
EBITDA	281.0	195.8	-16.0
Depreciation	0.0	0.0	0.0
Interest	105.2	79.1	99.6
PBT	277.0	131.9	-93.0
PAT	225.9	104.7	-73.4
Gross Cash Accruals (GCA)	106.3	104.7	-50.7
Dividend paid/proposed	82.2	49.1	0.0
Financial Position			
Equity share capital	36.5	36.5	1,170.7
Tangible networth	1,319.5	1,391.6	1,666.2
Total debt	2,258.3	2,188.5	2,785.8
- Long term debt	2,258.3	2,188.5	2,785.8
- Short term debt	-	-	-
Cash & Bank balances	111.4	25.3	24.3
Key Ratios			
EBITDA / Total operating income	94.50	89.24	N.M.

For the year ended as on	Jun-19	Jun-20	Jun-21
Mur Million	**12M**	**12M**	**12M**
PAT / Total income	75.96	47.73	N.M.
ROCE- operating (%)	7.99	4.95	N.M.
RONW (%)	20.21	7.72	N.M.
Long Term			
Long-term debt to equity ratio	1.71	1.57	1.67
Overall gearing ratio	1.71	1.57	1.67
Interest coverage (times)	2.67	2.48	-0.16
Total debt/EBITDA	8.04	11.18	N.M.
Current ratio	0.91	0.94	0.39

#NM- Not Meaningful

Adjustments

1. Tangible networth is calculated by netting off revaluation reserve, and non-purchased intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Networth.

Details of Instruments/Facility Rated

Long-term Bond

Particulars	Amount	Repayment
Long term Bond	EUR 15 million* (MUR 750 million)	Bullet – 10th year (FY 2030)

** 1 Euro = Mur 50*

Long term Bank Facility

Banker / lender	Type of facility	Amount (EUR)	Repayment
MCB	Term Loan	13 million* (MUR 650 million)	Bullet – 5th year (FY 2025)

** 1 Euro = Mur 50*