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 600 million)	**CARE MAU A+; Under Credit Watch with Negative Implications [Single A Plus; Under Credit Watch with Negative Implications]**	**Placed under Credit Watch with Negative Implications**
Bank Facilities	EUR 13 million (MUR 520 million)	**CARE MAU A+; Under Credit Watch with Negative Implications [Single A Plus; Under Credit Watch with Negative Implications]**	**Placed under Credit Watch with Negative Implications**

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 placed under Credit watch with negative implications due to the closure of the Resort by Holiday Villages Management (Mauritius) Services ("HVMS" or the "Lessee") and the notification served to COVIFRA of a force majeure leading to suspension in payment of rentals since March 16, 2020. CARE Ratings (Africa) Private Limited ("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 Q4 CY20 (October 2020- December 2020). CRAF has also taken into account COVIFRA management's expectation of resumption in rental receipt from Q4 CY20 or support from MCB Group Ltd in case of delay in receipt of rentals or liquidity issue pertaining to scheduled debt servicing obligations. Given the current uncertainty surrounding 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 resumption of the rentals. Hence, CRAF will keep monitoring the situation and will review the ratings by August 2020.

The rating continues to derive strength from the irrevocable (till October 2032) lease agreement 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 has 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.

COVIFRA's management has indicated CRAF that based on their interaction with Club Med, they expect Club Med to resume operation of the Resort in Q4 CY20 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.

During discussion, COVIFRA's management has informed CRAF that COVIFRA has adequate liquidity (Euro 1.58 million as on April 1, 2020) 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 September 2020. 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). CRAF has also been informed by COVIFRA management that MCB group is committed to infuse fund as and when the company has liquidity requirement.

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 (Mur 310 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.

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 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 prior to this COVIFRA signed a new lease agreement with HVMS for a period of 15 years at an annual rental income of EUR 4.65 million (MUR 186 million). Post that, there was renovation and expansion of the hotel which is generating an additional rental income of EUR 3.10 million (MUR 124 million). Since November 2018, total annual rental income being received by COVIFRA from HVMS is EUR 7.81 million (MUR 312 million), 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 more than 45 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). As per the new lease Agreement, HVMS cannot terminate the Agreement before its expiry in FY32.

Strong operational performance of the resort & healthy financial position of the Lessee

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	FY16 (Nov 1- Oct 31)	FY17 (Nov 1- Oct 31)	FY18 (Nov 1- Dec 31)	FY19 (Jan 1- Dec 31)
Period (in months)	**12m**	**12m**	**14m**	**12m**
No of Rooms.				
La Pointe aux Canonniers	286	286	394	394
Albion	266	266	266	266
Occupancy				
La Pointe aux Canonniers	64%	68%	74%	69%
Albion	54%	56%	62%	65%

(MUR Million)	FY16 (Nov 1- Oct 31)	FY17 (Nov 1- Oct 31)	FY18 (Nov 1- Dec 31)
	12M	12M	14M*
Total operating Income	1,569.2	1,589.3	2,017.4
Interest	0.1	4.1	5.9
PAT	91.7	218.5	118.0
GCA	117.3	250.2	161.3
Total Debt:	0.0	0.0	0.0
Tangible Networth	166.6	382.2	501.1
PAT margin (%)	6.17	14.52	6.11
Gearing (X)	0.00	0.00	0.00
Interest coverage	1,980.5	33.5	29.0

**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 EUR 7.81 million (MUR 312 million) payable to COVIFRA. HVMS management has stated that FY19 was a profitable year for the company and HVMS was debt free as on March 31, 2020.

HVMS receives more than 95% of its income in Euros, since majority of the revenue is collected in its office in France. HVMS is a debt free company and 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.

Corporate Guarantee from Club Med S.A.S (Guarantor)

Club Med S.A.S (wholly owned subsidiary of Fosun International Limited) has given a 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.

Satisfactory financial position of the Guarantor - world renowned group in tourism sector

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 for EUR 939 million.

Club Med's revenue is geographically well diversified, with all geographical areas experiencing growth in H1FY19. Hotel Club Med La Pointe aux Canonniers is one of the best performing Resorts of Club Meds (among top 5 Resorts across the world).

In FY 2018 (Jan 1 – Dec 31), Club Med catered to 1.44 million customers worldwide (increase of 6.6% from FY17). In Greater China, the second market after France, the number of customers reached

243,000 (22% increase over FY17). The brief financial performance of Club Med S.A.S for last 3 years is as under:

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

In FY19, Club Med has made around EUR 248 million investment in the maintenance and the extension of existing resorts, in major digital projects and in the support of new resorts. Despite these investments, the free cash flow was positive in FY19. During discussion, the management of HVMS has stated that total debt in Club Med was around USD 80 million as on Dec 31, 2019 and as on March 31, 2020.

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.

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 20,000 shareholders, with foreign shareholding accounting for around 14% of the total. The Top 6 largest shareholders are: National Pensions Fund (6.91%), Swan Life Ltd (3.37%), Promotion and Development Limited (3.01%), SICOM (2.19%), Eastspring Investments (Singapore) Ltd. (1.85%) and MUA Life Ltd. (1.2%). The audited financials of MCB group Ltd are as under:

MCB Group Limited	FY17	FY18	FY19
		MUR Million	
Interest Income	14,034	15,113	18,841
Interest Expenses	4,478	4,384	5,885
Net interest income	9,556	10,729	12,957
PAT	6,748	7,241	9,593
Deposits	274,863	297,719	331,501
Tangible Net Worth	48,054	53,481	57,707
Advances	196,496	218,219	246,713
Investments in securities	74,730	88,747	126,204
Total Assets	345,210	386,370	471,161
Net Interest Margin			
Gross NPA	10,882	9,734	10,559
Gross NPA ratio	6.2%	4.5%	4.1%
Net NPA	7,906	6,331	6,786
CAR (%)	18.8	17.1	17.4

In October 2017, MCB 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 has also given bridge loan to COVIFRA for renovation of its leased out hotel property. Amid the COVID-19 pandemic which resulted in hotels halting operations and in turn no rental revenue for COVIFRA, the company's management informed that MCB Group Ltd, if required, intends to support COVIFRA in meeting its obligations till the resumption of rentals.

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 the lease agreement. But COVIFRA is adequately covered by insurance.

Stable financial Performance of COVIFRA

COVIFRA's revenue source is rental income, which it receives by leasing its only Resort to HVMS. As per Agreement signed with HVMS in Oct 2017, COVIFRA is receiving an annual rental income of EUR 7.81 million (Mur 312 million) prior to any inflation indexation. The rental income is adjusted by two thirds of the prevailing Eurozone inflation rate every October (0.7% in October 2019). Accordingly, over the annual reporting period (July 1 – June 30), the rental income for first 3 months of the financial year (July – September) differs from what it will earn over the rest of the financial year (October – June).

Given the policy to classify the Resort as investment property, post-acquisition by MCBRA, COVIFRA does not have any depreciation, aiding an EBIT of MUR 281 million for FY19. COVIFRA posted PBT of MUR 277.0 million (including a revaluation gain of Mur 199 million) in FY19 despite higher interest cost of MUR 105 million due to higher rental income arising from new capex. Accordingly, GCA was Mur 106 million. COVIFRA also received MUR 16 million land lease refund from HVMS in FY19.

COVIFRA made a rights issue of EUR 6.5 million (MUR 260 million) to part finance the renovation/expansion in FY19 which contributed to a 44% increase in net worth to MUR 1,319 million in FY19. Accordingly, overall gearing ratio improved from 2.03x as on June 30, 2018 to 1.71x as on June 30, 2019.

Industry Risk

Tourism contributes significantly to economic growth and has been a key factor in the overall development of Mauritius. In the past two decades tourist arrivals increased at an average annual rate of 9% with a corresponding increase of about 21% in tourism receipts.

Given the high degree of dependency of the Mauritian Hotel sector on the European tourist arrivals & European economy, Mauritian Hotel & Hospitality sector is expected to be significantly affected in

2020 and partly in 2021 due to the ongoing travel ban and expected decrease in disposable income in European Market following pay cuts and unemployment rise.

It is estimated (by MCB) that even if the pandemic starts easing post June 2020 on the worldwide scale and containment efforts are gradually relaxed, with international travel restrictions lifted in late 2020, Mauritius' will experience a shortfall in tourism earnings by around MUR 40 billion in 2020, compared to 2019. However, the actual impact on the Hotel & Hospitality sector will eventually depend on how the afore-mentioned factors evolve over time and the effectiveness of support measures. It is apparent that local economic activity is expected to be restored progressively, with various sectors becoming fully operational in different stages; albeit maintaining physical distancing and taking appropriate sanitary measures. Based on interaction with various stakeholders and considering current positive developments, it is expected the travel ban to be lifted around July/August 2020, with testing and quarantine being practiced on arrival to the country.

Although the local Hotel & Hospitality is expected to benefit from a weaker MUR, some hotels are expected to reduce prices in the face of lower than usual demand, with the average tourist also reducing its spending. Accordingly, Occupancy and Avg Daily Room Rate (ADR) is expected to be low for the period August-September 2020 based on gradual lifting of travel restrictions in a controlled manner. With a further easing of air travel, occupancy & ADR is expected to increase gradually during the period Oct. – Dec. 20, and Jan. - June 2021.

The prevailing climate directly impacts the health and wellbeing of families, it is highly doubtful whether a 30% or 40% discount in the hotel rates will attract customers from Mauritius also. Post lockdown it needs to be seen whether the strategy for hotels would be to attract Mauritian residents to go to the hotels at discounted rates or keep the hotel closed.

If the situation persists, the value of the hotel properties will be impacted and this may also have a spillover effect on the loan-to-value (LTV) covenants imposed by banks.

While the Government is providing financing facilities to the hotel operators to ease their cash flow, it is yet to be determined whether the cash available should be applied toward payment of employees' salaries and maintaining employment thus avoiding a social crisis or on prompt settlement of the dues to the lenders.

Prospects

The prospects of COVIFRA depends on operational & financial performance of HVMS & Club Med and resumption of rentals with reopening of the Resort. The rating is sensitive to Air access restrictions in Mauritius, any new debt funded acquisition & renovations and MCB continuing to remain as the major shareholder.

FINANCIAL PERFORMANCE of COVIFRA

MUR Million

Particulars	FY17	FY18	FY19
	Audited		
	12M	8M	12M
Revenue	146.7	135.8	297.3
Total Income	148.0	135.8	297.4
EBITDA	143.8	131.4	281.0
Depreciation	15.4	0.0	0.0
Interest	85.5	46.3	105.2
PBT	78.6	83.3	277.0
PAT	121.9	61.4	225.9
Gross Cash Accruals (GCA)	94.1	83.3	106.3
Dividend paid/proposed	266.3	72.9	82.2
Equity share capital	676.5	676.5	936.5
Tangible networth	888.0	915.7	1,319.5
Total debt	1,113.9	1,859.6	2,258.3
- Long term debt	1,113.9	1,558.7	2,258.3
- Short term debt	0.0	300.8	-
Cash & Bank balances	267.4	300.7	111.4
Key Ratios			
EBITDA / Total operating income	97.13	96.74	94.50
PAT / Total income	82.32	45.17	75.96
ROCE- operating (%)	5.38	7.32	7.99
RONW (%)	12.59	10.20	20.21
Long-term debt to equity ratio	1.25	1.70	1.71
Overall gearing ratio	1.25	2.03	1.71
Interest coverage (times)	1.68	2.84	2.67
Total debt/EBITDA	7.75	9.43	8.04
Current ratio	1.12	0.91	0.91

MUR Million

COVIFRA	9MFY20
Revenue	232
EBITDA	215
Interest	60
PBT	164
PAT	136
Gross Cash Accruals (GCA)	136
Tangible networth	1325
Total debt	2203
EBIDTA / Total income	92.55
PAT / Total income	58.83
Overall gearing ratio	1.66
Interest coverage (times)	3.58

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 600 million)	Bullet – 10th year (July 2029)

Long term Bank Facility

Banker / lender	Type of facility	Amount (EUR Million)	Repayment
MCB	Term Loan	13.0	Bullet – 5th year (July 2024)

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.