

Brief Rationale
CRAF reaffirms CARE MAU A rating assigned to Bond Issue and Bank Facilities
of Compagnie des Villages de Vacances de l'Isle de France Limitée (“COVIFRA”) with
removal of Credit Watch

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

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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. Since November 2018, COVIFRA is receiving total annual rental income of around EUR 8 million (Mur 400 million) prior to any inflation indexation.

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.

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).

In FY21, COVIFRA recorded nil revenue due to the closure of the Mauritian borders. HVMS closed the resort on March 16, 2020 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

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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).

The 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 Dec 23

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.

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.

Disclaimer

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Annexure I

Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
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.

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