Brief Rationale

CRAF assigns CARE MAU A+ (Stable) rating to the bank facilities and proposed Bond Issue of 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+; Stable [Single A Plus; Outlook: Stable]**	**Assigned**
Bank Facilities	EUR 13 million (MUR 520 million)	**CARE MAU A+; Stable [Single A Plus; Outlook: Stable]**	**Assigned**

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") derives strength from the robust & 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 leading to envisaged higher future lease income 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, foreign exchange risk, environmental risk, competition from budget hotels and the competitive nature of the hotel industry in which the Lessee operates.

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.

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 October 31, 2017 was EUR 56.6 million (MUR 2,262 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 for EUR 939 million. Club Med 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") at an aggregate value of MUR 1 billion (84% of 56.6 million shares acquired at MUR 22.50 per share). In FY18 & FY19, MCBRA has acquired an additional 8.96% shareholding through a mandatory offer to the minority shareholders and by subscribing to excess shares from a rights issue, taking its total stake to 93.39%. The shareholding balance of 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. The Mauritius Commercial Bank Limited (another wholly owned subsidiary of MCB group) is rated CARE MAU AAA (IS) Stable.

Pre-acquisition of the Resort by MCBRA, a new lease agreement was signed on October 24, 2017 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. As per the agreement, COVIFRA receives an annual rental income of EUR 4.65 million (MUR 186 million) from HVMS prior to any inflation indexation.

Post-acquisition of controlling stake in COVIFRA (the owner of the Resort) by MCBRA, the Resort underwent an extensive 5-month renovation from June to 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 that COVIFRA will bear the cost of the renovation programme and accordingly COVIFRA will receive annual rental income of EUR 4.65 million (MUR 186 million) during the entire renovation period. Post completion of renovation, COVIFRA will receive additional rental income equivalent to a yield of 7.95% p.a. for every Euro of capital expenditure incurred under the renovation programme. In November 2018, the renovation and addition of 108 rooms was concluded at a total cost of EUR 39 million (MUR 1.6 billion). Since November 2018, COVIFRA is receiving an additional annual rental income of EUR 3.10 million [7.95% of EUR 39 million i.e. MUR 124 million], totalling to an annual rental income of EUR 7.75 million (MUR 310 million) prior to any inflation indexation.

Purpose of the proposed Bond issue:

As on Oct 2017, COVIFRA had a total long-term debt of EUR 26 million from Club Med. Post-acquisition by MCBRA, a 5-year loan of EUR 27.9 million was disbursed by The Mauritius

Commercial Bank Ltd ("MCB") to repay EUR 26 million loan from Club Med. Term loan of MCB was repayable in a bullet repayment on October 2022 (5th year from date of disbursement).

In FY18, COVIFRA availed a bridge loan of MUR 450 million (EUR 11 million) from MCB to part finance the renovation programme. In October 2018, COVIFRA availed a term loan of EUR 29.6 million loan from La Banque Française Commerciale Océan Indien ("BFCOI") and used the same for renovation and repayment of EUR 11 million short term loan.

COVIFRA has issued a 10-Year Bond of EUR 15 million in July 2019. The proceeds will be utilized for part repayment of existing debt of EUR 27.9 million from MCB. As per Term loan Agreement signed with MCB, post part-repayment of the MCB loan, the balance amount of EUR 13 million will carry lower interest rate and will be repayable in FY25. Post issuance of Bond and utilization of the proceeds for repayment of existing term loan from MCB, debt summary of COVIFRA is as under:

Term loan/Bond	Institution	Repayment
Term loan – EUR 28.9 million	BFCOI	EUR 0.49 million per quarter (EUR 1.97 million p.a)
Term loan – EUR 13 million	MCB	**FY 2025** (July 2024) - Bullet repayment after 5 years
Bond - EUR 15.0 million		**FY 2030** – (July 2029) Bullet repayment after 10 years from the date of issue

In FY18 (November 1 – June 30), COVIFRA posted a PAT of MUR 61million on a revenue of MUR 136 million. Interest coverage was 2.84x during FY18. Overall gearing was 2.03x as on June 30, 2018.

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.