Rating Rationale

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 the Resort by MCBRA, the Resort underwent an extensive 5-month renovation from June to November 2018.

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 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 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). This apart, there was renovation and expansion of the hotel which will generate an additional rental income of EUR 3.10 million (MUR 124 million). Going forward, total annual rental income to be received by COVIFRA from HVMS will be EUR 7.75 million (MUR 310 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 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 FY 2032.

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 French.

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- June 30)**
Period (in months)	**12m**	**12m**	**14m**	**6m**
No of Rooms.				
La Pointe aux Canonniers	286	286	394	394
Albion	266	266	266	266
Occupancy				
La Pointe aux Canonniers	64%	68%	74%	80%
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 7.75 million (MUR 310 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 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.

Strong 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 FY18. 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 overall resort occupancy was 66% in FY18. The brief financial performance of Club Med for last 3 years is as under:

CLUB Med S.A.S	FY16	FY17	FY18
Revenue (EUR Billion)	1,469	1,527	1,617
EBITDA (EUR Million)	109	112	126

In FY18, Club Med experienced an 8% growth in turnover and 13% growth in EBITDA (i.e. EBITDA excluding non-recurring items). In FY18, Club Med has made EUR 100 million investment in the maintenance & the extension of existing resorts and in the support of new resorts. Despite these investments, the free cash flow was positive in FY18. During discussion, the management of HVMS has stated that total debt in Club Med was less than Euro 50 million as on March 31, 2019.

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 2017-18, COVIFRA was acquired by MCBRA (93.03%), 100% subsidiary of MCB Group Ltd. MCB Group has a diversified ownership base of more than 19,000 shareholders, with foreign shareholding accounting for around 16% of the total. The Top 6 largest shareholders are: National Pensions Fund, Swan Life Ltd, Promotion and Development Limited, SICOM, New Mauritius Hotel group, The Bank of New York Mellon and Policy Limited. The audited financials of MCB group Ltd are as under:

MCB Group Ltd	FY17	FY18
	MUR Million	
Interest Income	14,034	15,113
Interest Expenses	4,478	4,384
Net interest income	9,556	10,729
PAT	6,748	7,241
Deposits	274,863	297,719
Tangible Net Worth	48,054	53,481
Advances	196,496	218,219
Investments in securities	74,730	88,747
Total Assets	345,210	386,370
Gross NPA	10,882	9,734
Net NPA	4,635	3,051
CAR (%)	18.9	17.3
GNPA to advances Ratio (%)	4.5	6.2

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.

Debt funded Capex undertaken in the leased resort leading to higher rentals in future years

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).

Particular	Cost (EUR Million)	Funding	Amount (EUR Million)
Renovation of the Resort: selected common areas and rooms	39	Rights issue (November 2018)	6.4
Extension of the Resort: Addition of 108 rooms		Term Loan from BFCOI (@2.6%)	29.6
		Internal Accruals	3.0
Total Cost	**39**		**39**

Since November 2018, COVIFRA is progressively 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.

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.

Foreign exchange risk

COVIFRA receives its entire rentals in Euro, hence exposing its profits to adverse MUR/EUR movements. The company's entire borrowings (proposed Bond and Bank loan) are in Euro and only a small proportion of its expenses are in Mauritian rupees. This mitigates the forex fluctuation risk.

Stable financial Performance of COVIFRA

COVIFRA's revenue source is rental income, which it receives by renting the Resort to HVMS. As per Agreement signed with HVMS in Oct 2017, COVIFRA is expected to receive an annual rental income of EUR 4.65 million (MUR 186 million) from HVMS prior to any inflation indexation. Accordingly, in FY18 (8m) and FY19 (12 m) the company has received the rental in similar lines.

Post -renovation (i.e. from November 2018) COVIFRA will receive an additional EUR 3.10 million (MUR 125 million), increasing its yearly rental income to EUR 7.75 million (MUR 310 million) prior to any inflation indexation. The rental income is adjusted by two thirds of the prevailing Eurozone inflation rate every October.

Given the policy to classify the Resort as investment property, post-acquisition by MCBRA, COVIFRA does not have any depreciation. COVIFRA posted PBT of MUR 78.6 million in FY17 and MUR 83.3 million in FY18 due to stable rental income and lower interest in FY18 (interest was higher in FY17 due to one-time interest payment of EUR 1.6 million on EUR 26 million loan, extended by Club Med).

COVIFRA's Net Worth depleted by 15% from FY16 to FY17 due to one-time high dividend payout (221% of PAT) by the erstwhile promoters, pre-acquisition by MCBRA. Net Worth subsequently grew by 3%, reaching MUR 915.7 million as at June 2018.

In January 2019, COVIFRA made a right issue of MUR 6.5 million to part finance the renovation/expansion.

Overall gearing and Total debt/EBIDTA deteriorated as on June 2018, mainly due to loan availed for expansion of the project.

Industry Risk

Hotel Industry– As per GOM, the tourism sector contributed 8% to GDP, provided 10% of active employment and attracted 8% of investments in 2017.

As per recent PWC Report on Mauritius Hotel Industry (Hotels Outlook: 2018-2022) - Hotel industry of Mauritius has witnessed 12.7% increase in room revenue in FY17 and 38% cumulative growth since 2014. Since 2014, the number of tourists arriving in Mauritius has increased by more than 300,000 (29% increase). The average length of stay, was 10.9 nights in 2018 (10.8 nights in 2017). Gross revenues for 2017 reached EUR 1.4 billion. There were 114 hotels, with a capacity of 29,656 bed places. The recent success of the Mauritian tourism and hotel market in part reflects a strong local economy – real GDP recorded an annual expansion of 3.8% during the past two years, and we expect it to continue growing at that pace during the next five years. Mauritius will also benefit from a stronger global economy, which will support international tourism.

In FY17, Europe continued to be main source of arrivals with an overall increase of 6.2%. France remains at the top of the list with 58% of arrivals.

Mauritius is targeting the cruise market with the objective of becoming a 'preferred fly/cruise gateway' to the Indian Ocean, and intends to expand its airport facilities to support a growing tourism market. There is also 'Beach & Bush' offerings from mainland Africa, notably South Africa. There are discussions with Kenya to offer similar packages, which has materialized with the announcement of flights to Mauritius by Kenya Airways from June 2018.

Tourist arrivals to Mauritius to continue to expand, averaging 4.2%, compounded annually, to 1.65 million in 2022 from 1.34 million in 2017.

Prospects

The prospects of COVIFRA depends on operational & financial performance of HVMS & Club Med and ability to maintain occupancy level over 75% in Pointe aux Canonniers and 55% in Club Med Albion, Mauritius. The rating is sensitive to any new debt funded acquisition & renovations and MCB continuing to remain as the major shareholder.

FINANCIAL PERFORMANCE of COVIFRA *MUR Million*

Particulars	**FY16**	**FY17**	**FY18**
	Audited		
	12M	**12M**	**8M**
Revenue	145.9	146.7	135.8
Total Income	148.5	148.0	135.8
EBITDA	144.8	143.8	131.4
Depreciation	16.9	15.4	0.0
Interest	77.8	85.5	46.3
PBT	55.3	78.6	83.3
PAT	46.6	121.9	61.4
Gross Cash Accruals (GCA)	72.2	94.1	83.3
Dividend paid/proposed	0.0	266.3	72.9
Equity share capital	676.5	676.5	676.5
Tangible networth	1,047.4	888.0	915.7
Total debt	1,179.1	1,113.9	1,859.6
- Long term debt	1,179.1	1,113.9	1,558.7
- Short term debt	-	0.0	300.8
Cash & Bank balances	0.3	267.4	300.7
Key Ratios			
EBITDA / Total operating income	97.47	97.13	96.74
PAT / Total income	31.39	82.32	45.17
ROCE- operating (%)	-	5.38	7.32
RONW (%)	-	12.59	10.20
Long-term debt to equity ratio	1.13	1.25	1.70
Overall gearing ratio	1.13	1.25	2.03
Interest coverage (times)	1.86	1.68	2.84
Total debt/EBITDA	8.14	7.75	9.43
Current ratio	111.82	1.12	0.91

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.

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 of controlling stake in it 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

Details of Instruments/Facility Rated

Proposed 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)