

Brief Rationale

CRAF reaffirmed CARE MAU A- rating assigned to Bond Issue of City and Beach Hotels (Mauritius) Limited and continues the rating under Credit Watch with Negative Implications Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	Euro 30 Million * (Mur 1,440 Million)	CARE MAU A-; Under Credit Watch with Negative Implications [Single A Minus; Under Credit Watch with Negative Implications]	Continues Under Credit Watch with Negative Implications

* 1 Euro = Mur 48

Rating Rationale

The outstanding rating, of the Bond Issue of Euro 30 million (MUR 1,440 million) by City and Beach Hotels (Mauritius) (“CBHL”) Limited, CARE MAU A- (downgraded from CARE MAU A in CRAF’s Rating Committee meeting dtd. September 18, 2020) continues to be under credit watch with negative implications due to the suspension of operations of the resort on March 26, 2020 following the closure of the airport. CRAF, based on discussion with CBHL management, understands that CBHL has adequate liquidity to meet its scheduled debt servicing obligations (interest payment on Bonds) and other fixed expenses for the short-term period.

CRAF has also considered that CBHL has commenced limited operations from July 2020 for hosting of specific events, groups, functions, and local business. Post de-confinement, revenue posted by CBHL (after considering the Government Wage Support Scheme for the industry) monthly are not sufficient to meet the total operational-fixed expenses of the hotel and thus the company is utilising its reserve funds for meeting its operational-fixed cost. Given the current uncertainty surrounding the full 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 normal resumption of operations of the hotels in Mauritius. However, with the partial opening of the borders as from 1 October 2020, La Pirogue is operational for locals, including tourists that have done their 14-day quarantine. Hence, CRAF will keep monitoring the situation and will review the ratings by May 2021.

The rating continues to derive strength from its experienced and resourceful promoters - CIEL group (CIEL Limited (rated CARE MAU A+ Stable/CARE MAU A1) which holds 50.10% of Sun Limited which in turn holds 99.82% in CBHL) having long track record of operations & strong presence in the hotel sector of Mauritius, one of the highest average room rate in its category, high occupancy rate for last 3 years with a diversified source of revenue and good share of food & beverage revenue apart from room rent till March 2020, popularity of La Pirogue among French, German and British tourists, strong sales and marketing tie-up with leading tour operators and satisfactory financials & strong debt coverage indicators.

The rating is however constrained by lower credit profile of Sun Limited (parent company), cyclical nature of the hotel industry as demand for hotel rooms varies with economic cycles in its main source markets and regular capital expenditure in the industry, market & political risks associated with the operations as well as

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event risk (natural disasters), competition from budget hotels and sensitivity of the Mauritian hotel industry to air access, more so in post COVID-19 era.

The uncertainty surrounding lifting of air travel restrictions in Mauritius and opening of the hotels, ability to attract tourist post opening of international borders, improvement in occupancy rate and maintaining current ARR post COVID-19 and expected opening in April 2021 are the key rating sensitivities. The rating is also sensitive to any new debt funded expansion or acquisition and higher than projected dividend payment (maximum MUR 150 million dividend per annum as from FY24) or support extended in any other form to Sun Limited.

BACKGROUND

City and Beach Hotels (Mauritius) Limited ('CBHL') was incorporated in June 1971 to develop the hotel property of La Pirogue Resort and Spa (La Pirogue) in Flic en Flac on the west coast of Mauritius.

Sun Limited (hereinafter referred to as "SUN") was incorporated as a limited company on 10 February 1983 under the name Sun Resorts Limited and subsequently changed its name on 24 September 2015. The duration of the Company is unlimited. In year 1983, CBHL along with the hotel property of La Pirogue was taken over by Sun Limited.

SUN falls under the CIEL Limited (rated CARE MAU A+ Stable/CARE MAU A1) which owns 50.10% of SUN (holding 99.82% stake in CBHL) and is a public limited company listed on the Stock Exchange of Mauritius.

As of December 2020, La Pirogue has 248 rooms and 5 restaurants. Since inception, La Pirogue has positioned itself as a mid-market (4-star deluxe category) resort player in the tourism sector of Mauritius. La Pirogue is popular among the European tourists, given its iconic image. The resort has also won several awards from TripAdvisor, booking.com and guest review award for its quality of service.

CBHL is professionally managed by Sun Resorts Hotel Management Ltd, the hotel operator company of Sun Limited. It is led by a team of experienced professionals who have successfully manoeuvred through the entire hospitality cycle for over 40 years. CBHL is currently governed by a Board of 2 executive directors. In FY20 total revenue was lower due to the lockdown and travel restrictions in Mauritius. The company posted an EBIDTA of MUR 145 million (MUR 316 million in FY19) and a loss after tax of MUR 76.6 million (MUR 202.5 million in FY19) during the year. Few measures were taken by the management to reduce operating costs such as voluntary salary deduction of 50% for the management teams and skeleton staffing. CBHL was able to negotiate on extension of credit terms with their main suppliers. Following the pandemic and shutdown of operations, the company benefited from the wage assistance scheme granted by the Government amounting to MUR 26.6 million in FY20. The company did not pay any dividend during the year. Interest coverage ratio has decreased due to lower EBIDTA.

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In January 2020, CBHL raised Bond of EUR 30 Million (Mur 1,440 Million) and utilized the same for repayment of intercompany loan of Mur 510 Million and finance partially the renovation of Sugar Beach. Management has confirmed that the last phase of Sugar Beach renovation was completed by October 2020. The total cost of renovation i.e., Mur 550 Million is being paid in total.

During discussion, CBHL'S management has stated that the company has the excess bond proceeds of are being utilized to manage liquidity in the interim period.

This apart the company has sufficient cash balance (as on December 24, 2020) to take care of its fixed cost of Mur 17 million for a short period and interest payment of Mur 18.5 million in January 2021. CBHL has confirmed paying last interest due in July 2020 amounting to Mur 18 Million. The capital repayment is due from FY23 onwards.

Disclaimer

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Annexure I

Rating Symbols 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.

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.