Rating Rationale
City and Beach Hotels (Mauritius) Limited ("CBHL")

Ratings

Instrument	Amount	Rating	Rating Action
Long Term Bond	Euro 30 million * (Mur 1,485 million)	CARE MAU BBB+; Negative [Triple B Plus; Outlook: Negative]	Rating reaffirmed with removal of Credit Watch

***** *1 Euro = Mur 49.5*

Rating Rationale

The rating assigned to the Bond Issue of Euro 30 million (MUR 1,485 million) of City and Beach Hotels (Mauritius) Limited ("CBHL") has been reaffirmed with the removal of credit watch due to re-opening of the international borders as from October 01, 2021 and increase in arrival of tourists in Mauritius between October – December 21.

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, diversified source of revenue and good share of food & beverage revenue, improvement in average room revenue (ARR) and occupancy rate between Oct-Dec 21, popularity of La Pirogue among French, German and British tourists and sales and marketing tie-up with leading tour operators in Europe.

The rating is however constrained by moderate credit profile of Sun Limited (parent company), uncertainty of tourist arrival in Mauritius over next few months amidst rising COVID cases internationally, performance of the hotel with limited flight operations and sanitary protocols in the country, cyclical nature of the hotel industry as demand for hotel rooms varies with economic cycles in its main source markets, regular capital expenditure in the industry, market & political risks associated with the operations as well as event risk (natural disasters), competition from budget hotels and sensitivity of the Mauritian hotel industry in respect of air access, more so in post COVID-19 era.

Rating Sensitivities:

Positive factors that could, individually or collectively, lead to positive rating action/upgrade

- Ability to maintain the pre-Covid ARR and occupancy rate post opening of the international borders
- Restoring the pre-covid business performance in La Pirogue

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Any new debt funded expansion or acquisition
- Higher than projected dividend payment or support extended in any other form to Sun Limited beyond maximum MUR 150 million dividend per annum, post resumption of profitability in CBHL.

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 2021, 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.

CREDIT RISK ASSESSMENT

Experienced and resourceful promoters with long track record of operations of Sun Limited

CBHL is a subsidiary of SUN, which in turn is a 50.10% subsidiary of CIEL Limited. The promoters of CIEL Limited, Dalais family, have been engaged in the hotel industry of Mauritius since 1972. CIEL is one of the largest industrial and investment groups based in Mauritius with operations in African and Asian countries. Apart from Mauritius, CIEL group clusters are present in Tanzania and Kenya through the agricultural industry, Uganda and Nigeria through the healthcare sector, Kenya, Seychelles, Madagascar & Botswana through the finance industry and Madagascar, India and Bangladesh through the textile industry. CIEL Limited is rated CARE MAU A+; Stable/CARE MAU A1, and five of CIEL group companies are also rated, namely Bank One [bank; CARE MAU A+ (Is); Negative], C-Care (Mauritius) Ltd (hospital; CARE MAU A+; Stable/A1+), Alteo Limited (sugar; CARE MAU A; Positive), CIEL Finance Limited [finance; CARE MAU A+; Stable] and Aquarelle India Pvt. Ltd (textile; CARE BBB; Positive).

Strong presence of the group in the hotel sector of Mauritius; albeit moderate credit profile of Sun Ltd

CIEL Limited's, hotel cluster primarily consists of SUN (50.10% subsidiary) and 50% of the shareholding of Anahita Residence & Villas Ltd.

SUN, through its various subsidiaries and associates, currently owns and operates four resorts in Mauritius (La Pirogue Resort & Spa, Sugar Beach Golf & Spa Resort, Long Beach Golf Resort & Spa and Ambre Resort & Spa), all operating in the 4-5* segment, with La Pirogue Resort & Spa being the oldest and one of the best performing hotel of the Group. It also owns Four Seasons Resorts Mauritius, through its wholly owned subsidiary Anahita Hotel Ltd and Shangri-La's Le Touessrok Resort & Spa through its 74% stake in SRL Touessrok Limited (balance 26% stake held by Shangri-La group). In November 2020, Sun Limited had a bond repayment of Euro 54 million (MUR 2,500 million). The totality of the bond due was repaid by refinancing Euro 30 million on Wolmar Sun Hotel Limited and the remaining loans was repaid using own funds and bridging loans to be repaid upon MIC disbursement. The financials of Sun Limited is as under:

For the year ended 30th June	**2019**	**2020**	**2021**	**Q1FY21**
(Mur Million)	**Audited**			
Turnover	6,730	5,058	1,195	280
EBIDTA	1,260	1,029	(612)	(266)
Interest	455	1,092	883	120
PBT	237*	(788)*	(2,056)	(531)
PAT	40*	(857)*	(2,077)	(456)
GCA	746	(80)	(1,515)	(315)
Dividend Paid	130	-	-	
Total Debt:	8,453	9,410	8,796	
Tangible Net worth	6,910	3,204	2,659	
Gearing	1.22	2.94	3.31	
Total Debt/EBIDTA	6.71	9.14	-	

** Normalized for FY20 vis-à-vis Reported. Reported PAT due to IFRS 9 impact was Mur (1,803) million; Normalized for FY19 vis-à-vis Reported. Reported PAT due to IFRS 9 impact was Mur (1,886) million*

FY21, witnessed a full closure of Mauritian borders with the hotel industry facing its most severe test so far. Since 20 March 2020, the Group's normalized operations across its Mauritian resorts and business units remained suspended and few of the resorts operated for quarantine and local business. With only marginal business from quarantine and the local market, 12 months revenues stood at only MUR 1,195 million versus MUR 5 billion in FY20. Consequently, SUN posted a loss of MUR 2,077 million in to 2021. Total Debt as at June 30, 2021 was Mur 8,796 million (MUR 9,410 million as at June 30, 2020).

With the partial opening of the borders as from 15 July 2021, 2 resorts were opened for fully vaccinated guests. The other resorts remained either closed or operated as quarantine centers. In Q1FY22, Revenues generated from incoming travelers, and quarantine business amounted to MUR 280 million. EBITDA loss was MUR 266 million. Due to lower finance costs, the post-tax loss was MUR 456 million. Net debt was MUR 7,186 million.

Sun has sought the support of the Mauritius Investment Corporation Ltd ("MIC"), to mitigate the negative financial impact of COVID-19. Two of the Sun's wholly owned subsidiaries, namely Anahita Hotel Limited (owning Four Seasons Resort Mauritius at Anahita) and Long Beach Resort Ltd (owning Long Beach Resort) signed a binding term sheet, pursuant to which MIC committed to subscribe to redeemable and convertible secured bonds, totalling Mur 3,100 million. The management has confirmed receiving MUR 2,550 million from MIC by issuing bonds.

In March 2021, Sun Ltd. has sold its wholly owned subsidiary, Kanuhura Resort & Spa (resort in the Maldives), for USD 41.5 million (MUR 1,660 million), which enabled it to reduce debt at consolidated level. As at November 30, 2021, Sun repaid MUR 1,203 million of its listed bonds.

Utilization of the proceeds of the Bond issue

In January 2020, CBHL successfully raised 10-Year Bond worth EUR 30 million (Mur 1,440 million). The proceeds of the bond were utilised for repayment of high-cost borrowings (6.25% for FY19 and 9.25% for FY18) of MUR 510 million from Sun Limited and the balance amount were extended to Sun Limited for repayment of debt and renovation of one of the group's hotels.

Excellent location

La Pirogue is located along the sunset coast of the island, with Le Morne Mountain, a world heritage site, as backdrop. Bordered by turquoise waters and clear lagoon, makes it an awesome holiday site for families and friends, with a variety of leisure discoveries and pleasures. Situated on the West Coast, it is a 45-minute drive from the capital, Port Louis. It is located just 4 km from Casela Bird Park and from Tamarina Golf Club. Cascavelle Shopping Mall is 5 km away and SSR International Airport is 50 km away. The location is well connected to the entire city.

Impact of COVID -19 on CBHL

Since March 20, 2020, Government of Mauritius has restricted the country's air and sea access and has imposed a national lockdown till June 1, 2020, to limit spreading of the novel Coronavirus. As a result, most hotels suspended their operations for an indeterminate period (until air and sea access restrictions are lifted) to cut down variable costs because air travel restrictions meant that there would be no tourist arrival and hence minimal revenue to the hotels until normal air access is restored.

From October 2021, the borders were reopened fully, thereby allowing only vaccinated tourists with a negative PCR test without quarantine on the Mauritian territory. The successful acceleration of the country's vaccination program has allowed Mauritius to progress with the full reopening and welcome visitors in a safe and secure environment.

CBHL's operations and the performance were directly impacted. The company's primary focus remained stringent liquidity management, reduction of fixed expenses and continuous evaluation of further saving measures. The senior management took voluntary pay cut to reduce losses.

During last 18 months, Sun Group including CBHL has worked on an effective plan to restructure its operations. To that effect, the workforce of CBHL has been reduced by over 25% with productivity initiatives and action planes being rolled out to become leaner and agile. Thus, the fixed costs base of CBHL has been greatly reduced. On the corporate side, the rebranding exercise being undertaken since last year ensures that all resorts re-invent themselves and be prepared to face the new normal and challenges in the future.

Average Room Revenue and high occupancy rate till March 2020

In the segment of 4*Hotels, La Pirogue's average room revenue (ARR) and occupancy rate has remained well above the industry average for the past 2-3 years. La Pirogue achieved an occupancy of 49% in Q2FY22 and expect it to increase in the forthcoming quarters.

La Pirogue *(MUR Million)*	2018	2019	2020	2021
Average Room Revenue (ARR) in MUR	7,334	7,784	8,329	2,576
Occupancy (%)	82%	84%	62%	19%
RevPar (MUR)	**6,036**	**6,544**	**5,159**	**496**

Diversified source of revenue from Food & Beverage (F&B)

The revenue source of La pirogue is as under: *(MUR Million)*

Particulars	2018	2019	2020	2021
Room revenue	532.0	592.4	467.0	50.7
F&B revenue	326.2	367.8	265.5	53.5
Other revenue	8.8	11.2	6.1	1.6
Total revenue	**867.1**	**971.3**	**738.6**	**105.9**
As % of Total Revenue				
Room revenue	61.4	61.0	63.2	47.9
F&B revenue	37.6	37.9	35.9	50.6
Other revenue	1.0	1.1	0.8	1.5

La Pirogue derived around 50% of its revenue from F&B for FY2021 (FY 2020 36%). Income was lower due to a halt in operation following the COVID-19 and subsequent lockdown from March 2021 to June 2021. Post the lockdown, hotels have reopened at a later date. Additionally, due to flight restrictions tourists are unable to come to Mauritius which has negatively impacted the operations of the hotel.

Popularity of La Pirogue Resort among European tourists

Since inception, La Pirogue has positioned itself as a mid-market (4-star deluxe category) hotel player in the tourism sector of Mauritius. It has established itself as a leading brand in the mid-market segment (4-star category) hotels in Mauritius within a price range of Mur 8,000 room rent per night (revised currently due to Covid-19). La Pirogue hotel is extremely popular among the European tourists (tourist from Germany, France and U.K. accounts for 70% of the occupancy) followed by South African tourists (10%) and Asia & U.S. tourists given its attractive price range and location.

Environmental risk

The property is located on the seafront, making it be potentially vulnerable to changing climatic conditions, namely through rise in sea level, amongst others. As reported in Special Investing Report of Mauritius by Financial Times, Sea levels in Mauritius are increasing at an average rate of 5.6 mm a year, are a particular danger to the hotels located near the seafront. This in turn may affect the tourism sector of the country. The company is insured against the natural calamities.

Foreign exchange risk

CBHL receives majority of its revenue in Euro (70-80% approximately). Accordingly, it raised Euro denominated Bond in order to mitigate the forex fluctuation risk and benefit from lower interest rate.

Financial performance and debt coverage indicators impacted by COVID-19 in FY21

Room revenue is the major source of income of La Pirogue, followed by income from F&B. For the period July 2020 – June 2021, CBHL booked a revenue of around MUR 182 million, from local business. Since March 2021, i.e., post the second lockdown on the island, CBHL is being used as a residential quarantine hotel for local people (affected with COVID-19). The hotel continued its operation as a quarantine hotel up to end August 2021. Post which the hotel switched to an in- resort operation.

Total revenue declined by 75% in FY21 over FY20, due to the COVID-19 pandemic with borders closed to tourists for much of the year and a second lockdown period during March-May 2021. Both EBITDA and PAT level also witnessed significant decline in FY21 over FY20 due to low accommodation. The company's focus over the last financial year was geared towards the optimization of food and beverages activities with local clients. Unfortunately, the level of revenue achieved was encouraging but insufficient to cover the operating expenses. The company was benefited from Government Wage Assistance Scheme. CBHL received funds from SUN Limited and utilized the same to finance its losses.

CBHL's total debt remained same at Euro 30 million. The debt value increase in MUR due to depreciation of MUR vis-à-vis Euro. CBHL receives 70-80% of its revenue in Euro and hence the impact of MUR depreciation is positive for the company, since the same will boost its profitability. Gearing was at 1.17x as on June 30, 2021.

Hotel Industry in Mauritius

Mauritius has a relatively diversified economy with the tourism and hospitality industry being one of the main economic pillars. The country welcomed 1.3 million tourists in 2019 with a total tourism earnings of MUR 63, 107 million the same year. At the end of 2019, Mauritius had 112 hotels in operation with a total of 73% room occupancy rate.

Impact of Covid-19 pandemic

The tourism and hospitality industry has been facing severe hardship since the beginning of the COVID-19 pandemic, with reduced international travel, closure of borders and lockdown periods. Tourist arrivals decreased with only 308,908 arrivals in 2020 compared to 1.3 million in 2019.

In order to support the industry, Government of Mauritius introduced several measures to support economic operators across all sectors impacted by COVID-19. An amount of MUR 5 billion was earmarked to provide financial support at macroeconomic and cross sector level including tourism sector. A special relief fund of Mur 5 billion has been extended till June 2022 to economic operators at a discounted interest rate of 1.5% with 6 months moratorium on capital and interest repayment. Until December 2021, a special Wage assistance scheme was provided by the government of Mauritius, whereby Government provided a wage subsidy to Employers, to ensure that all employees are duly paid their salary. Following the outbreak of the Covid-19 pandemic, the national borders of Mauritius were closed twice (2020 and 2021) to control the propagation of the virus. In October 2021 Mauritius re-opened its borders to all vaccinated travellers and welcomed 170,000 tourists in the month of October -December 21.

Outlook on the tourism

- MUR 420 million is being allocated to the Mauritius Tourism Ports Authority (MTPA) for the Promotion and destination marketing in France, Reunion, UK, Germany, Italy, South Africa and China. Several cultural tourism events are being organised locally and internationally and E-promotion through e-marketing, online events and virtual road shows.

- Strong demand to travel to Mauritius is prompting Air Mauritius to increase its flights. Air Mauritius is operating a daily flight from Paris to Mauritius since November 2021 and three weekly flights to and from London, which is likely to increase to five weekly flights during Christmas and New Year period.

Prospects

La Pirogue's prospects depend upon ability to maintain the pre-Covid ARR and occupancy rate of its hotel post opening of the international borders and restoring the pre-covid business performance for the hotels. The rating is sensitive to any new debt funded acquisition & renovations, higher than projected dividend payment and support to Sun Ltd and CIEL Ltd continuing to remain as the major shareholder.

Financial Performance - City and Beach Hotels (Mauritius) Limited **Mur Million**

For the year ended as on	Jun-19	Jun-20	Jun-21
		Audited	
Total Income	979	766	182
EBIDTA	316	145	(49)
Depreciation	41	42	44
Interest	32	37	41
PBT	243	(66)	(141)
PAT	202	(77)	(117)
Gross Cash Accruals (GCA)	243	(35)	(73)
Dividend paid/proposed	300	0	0
Equity share capital	16	16	16
Tangible Networth	1,133	1,132	1,285
Total debt	510	1,332	1,505
- Long term debt	510	1,315	1,485
- Short term debt	0	17	20
Cash & Bank balances	10	3	21
Key Ratios			
EBIDTA / Total income	32.29	18.93	NM
PAT / Total income	20.68	NM	NM
ROCE- operating (%)	15.06	4.50	NM
RONW (%)	17.81	NM	NM
Long term debt equity ratio	0.45	1.16	1.16
Overall gearing ratio	0.45	1.18	1.17
Interest coverage (EBITDA/Interest)	9.92	3.93	NM
Total Debt/ EBITDA	1.61	9.19	NM
Current ratio	1.46	0.14	0.88
Average collection period (days)	3.5	2.5	0.4
Average inventory (days)	4.2	4.4	9.4
Average creditors (days)	23.8	23.8	47.5
Op. cycle (days)	(16.1)	(16.9)	(37.7)

#NM – Not Meaningful

<u>Adjustments</u>

1. GCA is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
2. Overall Gearing ratio is calculated as total debt (long and short-term debt)/Tangible Net worth.

Details of Instrument

1. Details of proposed Bond Issue

Instrument	Amount	Repayment
Long term Bond	EUR 30 million (Mur 1,485 million)*	- 3 years from disbursement (January 2023) – EUR 8.0 million - 5 years from disbursement (January 2025) – EUR 8.5 million - 7 years from disbursement (January 2027) – EUR 8.5 million - 10 years from disbursement (January 2030) – EUR 5.0 million

***** *1 Euro = Mur 49.5*

The repayment terms are as follows: (***EUR Million)***

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Principal	0.0	0.0	0.0	8.0	0.0	8.5	0.0	8.5	0.0	0.0	5.0