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

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 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.

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 Maldives through the hotel industry, 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 six 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; Stable), Aquarelle International Limited (textile; CARE MAU A; Stable), CIEL Finance Limited [finance; CARE MAU A+; Stable] and Aquarelle India Pvt. Ltd (textile; CARE BBB; Stable).

Satisfactory presence of the group in the hotel sector of Mauritius till March 2020; albeit lower 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) and one in Maldives (Kanuhura), 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 FY19-20, Sun Limited operated 1,395 rooms in Mauritius (4-5* category) at an occupancy of 71%.

The financials of Sun Limited is as under: *(Mur Million)*

For the year ended 30th June	2018	2019	2020	Q1FY20	Q1FY21
	Audited			Provisional	
Turnover	6724	6,730	5,058	1,256	22
EBIDTA	1,290	1,260	1,029	41	(252)
Interest	464	455	1,092	147	271
PBT	280	237*	(788)*	(294)	(698)
PAT	194	40*	(827)*	(252)**	(627)
GCA	740	746	(80)		
Dividend Paid	87	130	-		
Total Debt:	8,783	8,453	9,410		
Long Term	8,108	7,454	6,254		
Short Term	675	999	3,156		
Tangible Net worth	5,399	6,910	3,204		
Gearing	1.18	1.22	2.94		
Total Debt/EBIDTA	6.81	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*
*** Hotel Industry in Mauritius is seasonal with major revenue and profit being generated in Q2 and Q3.*

In FY20, Sun's revenue was Mur 5,058 Million, posting a decline of 25% over FY19 due to the COVID-19 impact. In FY20, EBIDTA amounted to Mur 1,029 Million (Mur 1,260 Billion in FY19). Net Debts (excluding lease liabilities) stood at Mur 9,410 Million (Mur 8,453 Million for FY19), partly due to an increase of Mur 650 million arising from the revaluation loss of the foreign-denominated debt triggered by the depreciation of the Mauritian rupee. This in conjunction with the losses in the company and impairment under IFRS -9, resulted in an increase in gearing from 1.22x to 2.94x.

Most of the resorts of the company were closed till September 2020. The resorts were opened in a phased manner, based on demand among the locals.

In Q1FY21, Sun Limited posted an EBIDTA of Mur (252) Million against the EBIDTA of MUR 41 Million for FY19. As a consequence of the depreciation of the Mauritian currency and of a minimal foreign currency revenue base during the quarter, Sun booked a cash flow hedge loss of Mur 126 million, resulting in a net loss of Mur (627) Million for Q1FY21.

Further to an announcement dated 7 October 2020, Sun disclosed that it 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 informed that they will receive the MIC money in 4 tranches.

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 25 Million out of the 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.

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 hotel.

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.

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 ADR growth of 7% and occupancy of 81% until the lockdown (i.e., until March 2020).

(MUR Million)

La Pirogue	**2018**	**2019**	**9MFY20**
Average Room Revenue (ARR) in MUR	7,334	7,784	8,329
Occupancy (%)	82%	84%	81%
RevPar (MUR)	**6,036**	**6,544**	**6,746**

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

The revenue source of Sun Limited is as under: ***(MUR Million)***

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

La Pirogue derives around 36% of its revenue from F&B (FY 2019 38%). In FY20, income from room revenue and F&B was lower due to cessation of operation following the COVID-19 and subsequent lockdown from March 2020. Post lockdown, even though the hotels reopened, their operations were impacted by negligible tourist arrivals due to flight restrictions in Mauritius and cost of 14 days of mandatory quarantine.

Popularity of La Pirogue Resort among European tourists

Since inception, La Pirogue has positioned itself as a mid-market (4-star 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), exposing its profits to adverse MUR/EUR movements. Hence, the company raised its borrowings by issuing Euro denominated Bond to mitigate the forex fluctuation risk to an extent.

Financial performance

Room revenue is the major source of income of La Pirogue, followed by income from F&B. Revenue has increased steadily over last 3 years with significant increase in room revenue (due to steady occupancy coupled with increasing ARR post renovation). Total Revenue was lower in FY20 primarily due to the lockdown and travel restrictions across the world. 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 of Government of Mauritius. The company did not pay any dividend during the year. It has an overdraft facility of MUR 15 million from MCB, whose maximum utilization is 30-40% mostly during the month end.

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 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.

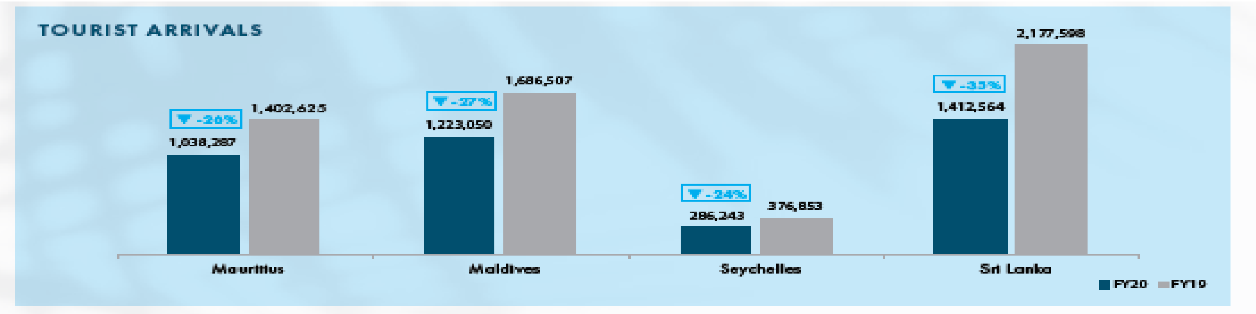
Hotel Industry in Mauritius

Hotel Industry: Tourism which is considered the third pillar of the economy of Mauritius after the E.P.Z. manufacturing sector and Agriculture, contributes significantly to economic growth and has been a key factor in the overall development of Mauritius. In the past two decades tourist arrivals increased at an average annual rate of 9% with a corresponding increase of about 21% in tourism receipts. Since March 20, 2020, Government of Mauritius has restricted the country's air access and has imposed a curfew-like lockdown till June 1, 2020 to limit spreading of the novel Coronavirus. As a result, hotels have suspended their operations for an indeterminate period (until air 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.

The tourism sector has undergone a significant hit from the covid-19 pandemic through the interplay between several factors, namely, ramifications of containment measures deployed locally and internationally, restrictions on international travel, deteriorating health of the airline industry and decline in disposable income in European markets in the wake of pay cuts and/or job losses. Given the high degree of dependency of the Mauritian Hotel sector on the European tourist arrivals & European economy, Mauritian Hotel & Hospitality sector has been significantly affected in 2020. The scenario is expected to last until H1FY21 or beyod. As the situation persists, the value of the hotel properties is being impacted with a spillover effect on the loan-to-value (LTV) covenants imposed by banks. Overall occupancy and average daily room rate (ADR) were also low since re-opening of the hotels.

Government of Mauritius introduced several measures to support economic operators across all sectors impacted by COVID-19. An amount of MUR 9 Billion has been earmarked to provide financial support at macroeconomic and cross sector level including tourism sector. A special relief fund of Mur 5 Billion was provided from 23 March 2020 to 31 July 2020 to economic operators at a discounted interest rate of 1.5% with 6 months moratorium on capital and interest repayment. 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. While the Government is providing financing facilities to the hotel operators to ease their cash flow, it is yet to be determined whether the cash available should be applied toward payment of employees' salaries and maintaining employment thus avoiding a social crisis or on prompt settlement of the dues to the lenders.

The hotel industry of Mauritius is expected to post loss till full-fledged re-opening of borders by the Govt and inflow of tourists from Europe and other countries. For 12 months ended June 30, 2020, there was an overall decrease of 20% in tourist arrivals in the island. Mauritius and the competing neighboring countries witnessed a drop of 24% to 35% for the 12 months ended 30th June 2020.



As compared to June 2019, there was 53.1% drop in tourist arrivals for the same period that is June 2020. Visitor arrivals in Mauritius for October 2020 were 1,149 and 1,177 for November 2020.

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 (maximum MUR 150 million dividend per annum) 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-18	Jun-19	Jun-20
Total Income	893.9	978.9	766.0
EBIDTA	255.9	316.1	145.0
Depreciation	39.8	41.0	41.7
Interest	41.3	31.9	36.9
PBT	174.7	243.3	(66.5)
PAT	146.4	202.5	(76.6)
Gross Cash Accruals (GCA)	186.2	243.4	(34.9)
Dividend paid/proposed	300.0	300.0	0.0
Equity share capital	15.5	15.5	15.5
Tangible net worth	1,140.4	1,133.1	1,131.6
Total debt	512.2	510.0	1,314.9
Cash & Bank balances	3.8	9.5	3.0
Key Ratios			
EBIDTA / Total income	28.63	32.29	18.93
PAT / Total income	16.37	20.68	(10.00)
ROCE- operating (%)	12.72	15.06	4.52
RONW (%)	12.69	17.81	(6.76)
Long term debt equity ratio	0.45	0.45	1.16
Overall gearing ratio	0.45	0.45	1.16
Interest coverage (EBITDA/Interest)	6.19	9.92	3.93
Total Debt/ Gross Cash Accruals	2.75	2.09	(37.67)
Total Debt/ EBITDA	2.00	1.61	9.07
Current ratio	1.13	1.46	4.21
Average collection period (days)	1.9	3.5	2.5
Average inventory (days)	3.0	4.2	4.4
Average creditors (days)	16.2	23.8	23.8
Op. cycle (days)	(11.4)	(16.1)	(16.9)

Adjustments

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 1,440 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 48*

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