CRAF reaffirms 'CARE MAU A- (SO) Stable' rating assigned to the Senior Tranche bond issue of Commercial Investment Property Fund Limited ("CIPF")

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond - Senior Tranche	400	**CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]***	Reaffirmed

**Bond Issue (Senior Tranche) is backed by the first charge on the leased properties of CIPF. Interest payment on the Senior Tranche of Bonds has first priority on lease rentals received by CIPF in an escrow account as per waterfall mechanism. Further, a funded Debt Service Reserve Account (DSRA) equivalent to one semi-annual interest payment to Senior Tranche bondholders has been created and will be maintained during the tenure of the Bond.*

Rating Rationale

The rating is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated senior tranche Bonds, as per the terms of the transaction and this is not a standalone rating of Commercial Investment Property Fund Limited ("**CIPF**").

The structure involves pooling of the various properties previously under ENL Commercial Limited ("**ENLC**") and its subsidiaries into an SPV - Commercial Investment Property Fund Ltd. (CIPF; a wholly owned subsidiary of ENLC) which has in turn issued 10-year bond of MUR 560 mn (MUR 400 million of senior tranche and MUR 160 million of junior tranche) the proceeds of which were utilized for buying the properties from ENLC and its subsidiaries which in turn used the sale proceeds to repay their existing debt (i.e. debt in ENLC and its subsidiaries). CIPF has entered into lease agreement with the subsidiaries/associate concerns of ENLC and lease rentals are utilized towards maintenance of properties and debt servicing of the bond issue. Further, ENLC has provided shortfall undertaking to CIPF for replenishment of DSRA within a month's time of its utilization in case of shortfall of lease rental for interest payments on the bond issue.

The rating factors the strong parentage of the ENL group, more than 70% of the lease rentals being received from profitable subsidiaries (Axess, Grewals and Nabridas) of ENLC, long lease tenure compared to bond tenure with low exit risk, moderate financial risk profile of the lessee's belonging to diverse industries, financial support from ENLC in the form of funded DSRA for one semi-annual interest payment & shortfall undertaking to maintain the same over the tenure of the bond.

The rating is, however, constrained by the subdued financial performance of some of the tenants in FY20 on account of national lockdown (March-May 2020), interest rate risk and high refinancing risk at the time of bond redemption.

Improvement in the performance of the loss-making subsidiaries during the tenure of the instrument, timely receipt of lease rentals, continued maintenance of funded DSRA equivalent to one semi-annual interest payment by ENLC and mode of arrangement of funds for redemption of bonds within stipulated time are the key rating sensitivities.

Background

BACKGROUND

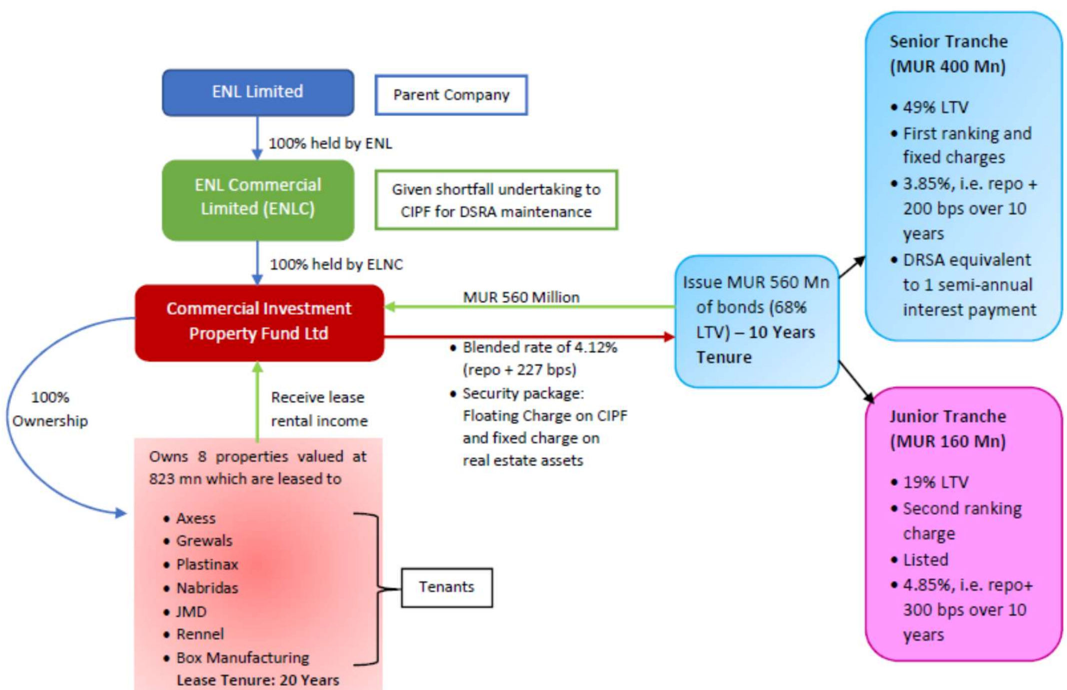
Incorporated in 2016, CIPF is a property fund. It is a wholly owned subsidiary of ENLC and owns eight offices/industrial assets located predominantly in the Moka/St. Pierre and Pailles region in Mauritius. These properties are occupied and currently used by the subsidiaries and associates of ENLC. As per arrangement, the properties have been transferred to CIPF and users have entered into 20 years lease agreement with CIPF.

CIPF has issued bond of MUR 400 mn [Senior Tranche rated **CARE MAU A- (SO); Stable**] and MUR 160 million (Junior Tranche: **unrated**) backed by the lease rentals to be received from its let-out properties which are being utilized for interest payment and bond repayments.

CIPF is a wholly owned subsidiary of ENLC, which is in turn a 100% subsidiary of ENL Limited (rated **CARE MAU A; Stable**). ENLC had initially infused MUR 112 million as equity.

In March 2020, ENLC transferred land and building, worth MUR 153.9 million (Axess warehouse and Michelin building located at Pailles), to CIPF against fresh issue of equity shares of MUR 50.2 million and netting of unsecured loans extended by CIPF to ENLC. Axess is the sole tenant of the new properties. Accordingly, in FY20, CIPF received a rental income of MUR 2.8 million for the newly transferred properties from Axess. As per the agreements, CIPF is set to receive MUR 8 million for a full year of rental in FY21 and subsequently the rentals will increase by 20% in FY22 and 20% in FY23 to MUR 9.6 million and MUR 11.5 million respectively. As from FY24, rental income from the new properties will increase by 5% p.a.

Transaction Structure



The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders from lease rentals.

In FY20, CIPF has achieved a Turnover of MUR 71.6 million and PAT of MUR 17.6 million. Performance of CIPF has improved in FY20 over FY19. As per Rental Agreement, rental for all tenants has been increased by 10% in July 2019 and 5% in July 2020. Annual escalation thereafter will be in line with the percentage increase in CPI subject to minimum of 5% p.a. and a maximum of 10% p.a.

Note: Ms. Aruna Radhakeesoon, employed as Attorney-at-Law/Executive Director/Chief Legal Executive by Rogers and Co. Ltd (an ENL Group company), is one of CRAF's Rating Committee Members. To comply with the regulations, the member has not participated in the rating process and in the Rating Committee Meeting.

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.