Rating Rationale
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

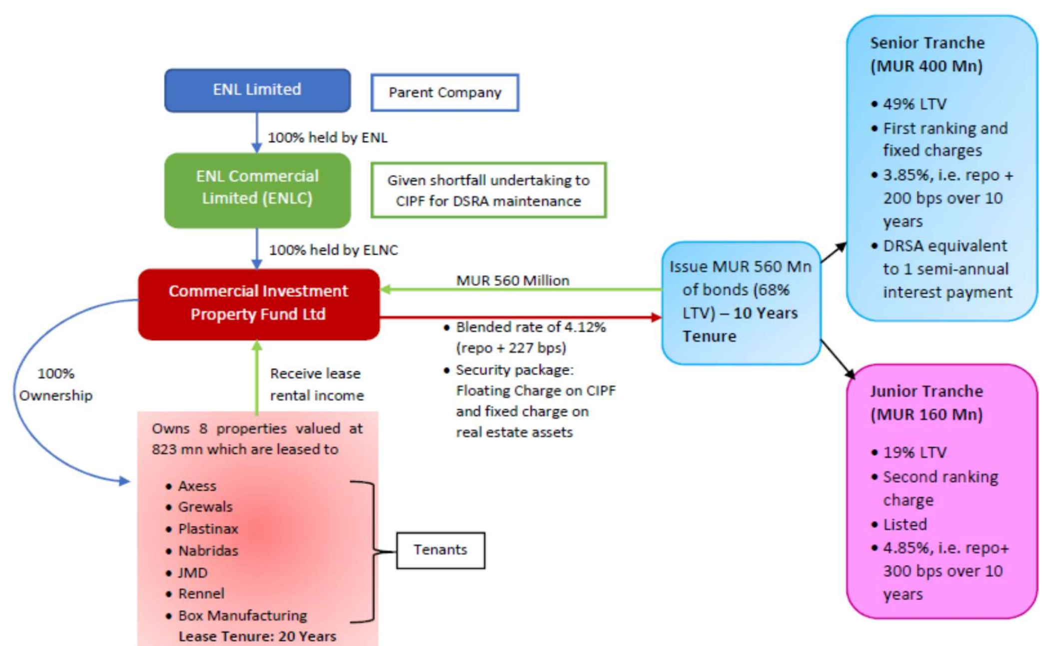
Incorporated in 2016, CIPF is a property fund. It is a wholly owned subsidiary of ENLC and owns eight offices/industrial assets located predominantly in the Moka/St. Pierre and Pailles region in Mauritius. These properties are occupied and currently used by the subsidiaries and associates of ENLC. As 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.

Strong parentage of ENL Group

CIPF is a 100% subsidiary of ENLC, which is a wholly-owned subsidiary of ENL Limited (rated **CARE MAU A; Stable**). ENL is one of the large conglomerates in Mauritius having diverse business interest from agriculture, property, hospitality, logistics, Fintech to IT & ITeS domain. Agriculture and property are two major business segments of ENL.

Financials of ENL Limited (Consolidated) *(MUR Million)*

ENL Limited (Consolidated)	2018	2019	H1FY20
For the Year ended / As at June 30,	**12m, A**	**12m, A**	**6m, P**
Total Op. Income (TOI)	13,935	15,393	8,670
EBIDTA	2,130	2,377	
Interest	1,116	1,166	653
Reported PAT	1,522	1,598	532
Adjusted PBT*	433	589	487
Adjusted PAT (APAT)*	56	353	370
Gross Cash Accruals (GCA)*	637	975	
Equity Share capital	2,138	3,358	
T. Net Worth (TNW)**	31,112	25,210	25,411
Total Debt	21,198	24,059	22,936
Key Ratios			
EBIDTA / TOI	15.28	15.44	
APAT / TOI	0.40	2.29	4.26
Overall Gearing (x)	0.68	0.95	0.90
EBIDTA / Interest (x)	1.91	2.04	
Total Debt / EBITDA	9.95	10.12	

**APAT=Reported PAT - Fair Value gain on revaluation of investment properties (MUR 1,089 million in FY18 and MUR 1,009 million in FY19.)*
***TNW= Total Equity-Revaluation Reserves-Intangible assets*

Debt in ENL Limited was availed for increasing its in stake in Rogers and Company Ltd. (during separation with CIM group), equity infusion for Bagatelle Mall in FY12, and increasing its stake in New Mauritius Hotel (NMH) in FY16-17. As on June 30, 2019, ENL Limited has a total debt of MUR 7,100 million comprising of Bonds of MUR 3,500 million (of which MUR 3,000 million is rated) and bank facilities of MUR 3,618 million. Majority (90%) of the bank facilities are repayable after 10 years. The total value of its stake in Rogers and NMH, listed in Stock Exchange of Mauritius, is around MUR 3,500 million (October 13, 2020), of ENL has unpledged shares worth MUR 1,400 million as on October 13, 2020. These are quoted investments which the company can sell to repay the bonds, if required. ENL group owns around 22,369 arpents (acres) of land in Moka (Centre of the island and most populated & one of the posh areas of Mauritius), Savannah (South) and in Bel Ombre/Case Noyale (South-West). The group has earmarked about 5% of this area (around 1,000 acres near Moka) for real estate development over next 10 years. ENL sells agricultural land in Moka at MUR 8-10 million per arpent and land with developed infrastructure (roads, power, water, boundaries, landscaping & beautification,) at MUR 25-35 million per arpent.

Long tenure of lease agreement vis-a-vis bond tenure with low exit risk

The residual tenure of the following properties leased out by CIPF is 17 years while the residual tenure of the outstanding bonds is 7 years providing visibility of cash flows in the form of lease rentals. The lease rentals are triple-net (lessee would bear real estate taxes, building insurance and maintenance) and are inflation indexed. The basic monthly net rental for all tenants (barring newly transferred property which is leased to Axess and has escalation of 20% in FY22, 20% FY23 and 5% thereafter) has been increased by 10% since July 2019 and by 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.

(MUR Million)

No.		Property Type	Annual rental (FY20)	Annual rental (FY21)	Property Valuation
1	Axess Limited (Axess)	Showroom	20.7	26.7	420
2	Grewals (Mauritius) Ltd (Grewals)	Industrial	7.6	8.0	176
3	Plastinax Austral Ltd (Plastinax)	Industrial	5.3	5.5	91
4	Nabridas Limited (Nabridas)	Industrial / Warehouse	5.0	5.3	68
5	Box Manufacturing	Industrial	1.8	1.9	25
6	JMD	Industrial	2.0	2.1	N/A
7	Rennel Ltd	Industrial	3.0	3.2	43
8	Interest from group companies		3.5		
	Total		**48.8**	**52.6**	**823**

**Interest may vary based on the amounts extended to ENLC/other group companies, which in turn depends on availability of cash surplus in CIPF.*

Note: Overall valuation of property to bond issue is 1.47 times (LTV of 68%)

Key features of the Lease Agreement

<table>
<tr><th>Feature</th><th>Details</th></tr>
<tr><td>Tenure of the lease</td><td>For a period of 20 years from commencement date
<table>
<tr><th>Tenant</th><th>Lease Start Date</th><th>Duration</th></tr>
<tr><td>Axess</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Grewals</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Plastinax</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Nabridas</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Box Manufacturing</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Rennel</td><td>April 2019</td><td>20 years</td></tr>
<tr><td>JMD</td><td>April 2019</td><td>20 years</td></tr>
</table></td></tr>
<tr><td>Lease rental Escalation Clause</td><td>The basic monthly net rental was increased by 5% effective 1st July 2020. From 1st July 2021 and each year thereafter, the basic monthly rental shall be escalated in line with the percentage increase in CPI subject to a minimum of 5% and a maximum of 10%.</td></tr>
<tr><td>Lease Rentals</td><td>The Basic Monthly Net Rental payable excludes
1. Value added tax and the Lessee shall be liable to pay value added tax at the current rate of 15% or such other rate as may be applicable from time to time.
2. Charges payable for services rendered in respect of the Leased Property
3. Payments of insurance, electricity, water, sanitation fees and other utilities
However, Lessee will deduct TDS payable by lessor (currently 5%).</td></tr>
<tr><td>Rental payment terms</td><td>Lessee shall pay the Basic Monthly Net Rental in advance on or before the fifth day of each month upon receipt of a monthly invoice to be issued by the Lessor.</td></tr>
</table>

Feature	Details
	All payments made by the Lessee to the Lessor in terms of this Agreement shall be effected by cheque or by electronic payment directly into the Lessor's nominated bank account or by such other means as the Lessor may from time to time by notice in writing direct.
Delay in Rent payment	Where a Lessee fails to honour its payment obligations hereunder in a timely manner, it shall be liable to pay interest (without the necessity for the Lessor to serve any notice (mise-en-demeure) on the Lessee) at the prevailing legal rate accruing monthly one week after the date due for payment.
Maintenance and other charges	Lessee would be required to pay the cost of all electricity, water, gas and other amenities consumed by the Lessee in or on, or attributable to, the Leased Property directly to lessor or the utility provider. Also, all refuse removal charges, sewerage, sanitary fees and domestic and industrial effluent fees levied from time to time in respect of the Leased Property are to be paid by lessee. Throughout the duration of this Lease, the Lessee shall maintain and repair the interior and exterior of the Premises and all parts thereof, together with all fixtures, fittings and the Appurtenances, in good order and condition and for such purpose shall attend to such repairs and provide such replacements as may be required.
Risk of Early Termination by the lessee	The risk of early termination of the lease agreement is low given that the lessee's are the subsidiaries/associates of the ENLC and in case of early termination of lessee for reasons other than damage of property or breach of agreed terms by lessor, lessee shall pay to the Lessor the rental up to the date of termination, the full value of all arrear amounts owing in terms of this Lease together with the Rental for the remaining Lease Period and all damages suffered by the Lessor as a result thereof.

Moderate financial risk profile of Lessee's belonging to diverse industries

All the tenants are the part of ENL group and are direct subsidiaries of ENLC and step down subsidiaries of ENL Limited. All the tenants have established track record of operations of over 15 years having business interest in diverse industries viz. Automobile dealership, Fashionable Eyewears, Construction, Textile, Plastic products and carton packaging products. This reduces the industry specific risk to overall cash flow in form of lease rentals owing to the inter group financial support as all tenants being part of ENL Group and there has been past instances of financial support from ENLC to its subsidiaries. Total rental from Axess will be MUR 26.7 million in FY21, which is adequate to cover interest payment of Senior Tranche (MUR 15.4 million).

Financial support from ENLC in the form of funded DSRA for 1 semi-annual payment

ENLC had created funded DSRA equivalent to 1 semi-annual interest payment of senior tranche. Further, it had 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. This provides support to cash flows.

ENLC is a holding company for commerce and manufacturing business vertical of ENL group. All tenants are the subsidiaries of ENLC. On consolidated basis, it had reported TOI of MUR 2,133 million and PAT of MUR 31 million for the period January- June 2019.

Interest rate risk

Bonds are issued wherein rate of interest is Repo rate + 200 bps for senior tranche and Repo Rate + 300 bps for junior tranche thereby directly linked to repo rate which is fixed by Bank of Mauritius and reset on a quarterly basis. Accordingly, interest servicing obligation of CIPF is floating with the revision in rate of interest on the back of its cash accruals which is growing at minimum 5% (after initial 3 years) which mitigates the risk to an extent. Further, it has adequate coverage for interest servicing 3.27 times-4.01 times for senior tranche and 2.19 times – 2.69 times for overall interest payments to absorb any adverse movements. The Repo rate stood at 3.35% in January 2020. BOM revised the rate in March 2020 and April 2020 to 2.85% and 1.85% respectively. Accordingly, the interest payable per annum on the Senior Tranche has reduced from MUR 21.4 million (considered during last Annual Surveillance) to MUR 15.4 million. Interest payable per annum on Junior Tranche has benefited a reduction from MUR 10.2 million to MUR 7.8 million. CIPF will be benefiting by MUR 8.44 million reduction in total annual interest payments as a result of the aggregate 150 bps cut in Repo rate in H1CY20.

Refinancing risk

In terms of cumulative cash balance in CIPF, the same would be around MUR 180 million at the end of bond tenure, thereby requiring minimum refinancing of MUR 350 million i.e. 63% of the total bond issue. Thus, refinancing risk would be high and could increase in case of downturn in real estate pricing wherein the security coverage would decline. However, same is partly mitigated considering the company being part of ENL group and the redemption mode would be decided in one and half years before the bond maturity date providing buffer time for arranging finance. The non-exhaustive list includes (a) a term loan –the amount outstanding of MUR 560 million could be financed by term loan; (ii) A new bond issuance; (iii) An equity solution through an IPO, trade sale or raising private capital in CIPF. The company's 20 years lease agreement vis-a-vis repayment period of 10 years will also provide support to the company during refinancing of term loan. Finally, the sale of real estate is the last resort. The ability of ENL group to raise funds though any of the sources mentioned in a timely manner would be a key rating sensitivity.

This apart Property value provided for the Senior Tranche of the Bond = MUR 823 million and in case if property value falls below 1.10 times, the Issuer shall, within 30 days, take all necessary steps to restore the property value to more than 1.10 times. This also provides cushion to the company.

Financials of Commercial Investment Property Fund Limited *MUR Million*

CIPF	FY18	FY19	FY20
	12 M (A)	12 M (A)	12 M (A)
Turnover	64.6	66.6	71.6
EBITDA	60.6	62.7	67.4
Depreciation	11.6	10.8	11.8
Interest	32.9	32.5	29.7
Non- operating Income (Gain on disposal of property)	14.2	-	-
PBT	30.4	19.4	26.0
PAT	26.2	16.0	17.6
GCA	37.6	26.8	29.4
Share Capital	112.3	112.3	162.5
Tangible Networth	110.9	132.1	199.9
Total Debt:	560.0	560.0	560.0
EBITDA Margin	71.8%	94.2%	94.2%
PAT Margin	25.6%	25.7%	26.1%
Cash & cash equivalents	13.6	11.0	0.0
Gearing	5.1	4.2	2.8
Interest Coverage (EBITDA/Interest expense)	1.4	1.9	2.3

A: Audited

Performance of CIPF has improved in FY20 compared to FY19. As per Rental Agreement, Rental for all tenants has been increased by 10% since July 2019. CIPF also posted higher PBT of MUR 26 million in FY20 compared to MUR 19 million in FY19. Henceforth, annual escalation will be in line with the % increase in CPI subject to min 5% p.a. and max 10% p.a.

Axess (accounting for 46% of CIPF's rental income) recorded a 4% decrease in total income (from MUR 3.1 billion in FY19 to MUR 3.0 billion in FY20) on account of halt in sales over the national lockdown period (April-May 2020). Accordingly, EBITDA and PAT were lower. Axess paid total rent of MUR 20.7 million (of which MUR 2.8 million pertains to the recently transferred properties) to CIPF in FY20. With a full year of operations of the showroom as from FY21, CIPF will be receiving MUR 26.7 million in rental income from Axess, which adequately covers the interest payment both senior tranche and junior tranche bond issued by CIPF (i.e. MUR 23.2 million p.a.).

In FY20, Grewals, Nabridas, JMD, Rennel and Box Manufacturing (altogether accounting for 43% of CIPF's rental income for FY20) was EBIDTA positive but posted loss at PBT level due to higher depreciation upon application of IFRS 16 (Rights of Use Assets). In FY20, all these 5 companies posted a combined GCA of MUR 9.5 million after meeting their rental payments

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.

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