Commercial Investment Property Fund Limited ("CIPF")

December 08, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Bond (Senior Tranche)	1,000	**CARE MAU A; Stable [Single A; Outlook: Stable]**	**Reaffirmed**
Bond (Junior Tranche)	350	**CARE MAU A-; Stable [Single A; Minus; Outlook: Stable]**	**Reaffirmed**
Total	**1,350**		

Rating Rationale

The ratings assigned to the bond issue of Commercial Investment Property Fund Limited, continue to derive strength from the constant annual increase rentals of its properties having 100% occupancy and the average lease tenure of 20 years. The ratings also derive strength from the experienced promoter and strong parentage of the ENL group, which has an established track record in real estate development in Mauritius, the satisfactory financial risk profile of the lessees belonging to diverse industries, the existence of a structured payment mechanism with lease rentals being received in an escrow account and interest payment on senior tranche bond having first priority on the lease rentals as per the waterfall mechanism and the comfortable coverage ratios.

The rating is however, constrained by the volatile financial performance of some of the tenants during the last three years, future performance of the rental paying subsidiaries and their ability to pay rental in a timely manner, interest rate risk and refinancing risk at the time of bond redemption.

Rating Sensitivities

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

- Improvement in credit profile of the lessees
- Timely receipt of agreed lease rentals
- Increase in rentals and improvement in performance

Negative Factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Additional debt by CIPF resulting in deterioration of gearing and debt serving capability
- Higher than projected dividend pay-out to group companies' vis-vis profit
- Inability to increase the annual rentals as per the escalation clause

BACKGROUND

Incorporated in 2016, CIPF is a property fund and wholly owned subsidiary of ENL Commercial Limited ("**ENL Commercial**" is a wholly owned subsidiary of ENL Limited (CARE MAU A Stable)). It owns twelve offices and industrial assets located predominantly in Moka/St. Pierre region and Pailles in Mauritius. These properties are occupied and currently used by the subsidiaries and associates of ENL Commercial.

CIPF has entered into 20 years lease agreement with all the tenants. ENL Commercial had infused equity of MUR 112 million in FY16-17 and additional equity of MUR 50.2 million in FY20 (transfer of land and buildings located at Pailles (Mainly Axess Warehouse and Michelin Building). The details of the properties are as under:

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

Assets	Gross Leasable Area (Sqm)	Rental income (MUR million)	Valuation 2022 (MUR million)	Rental yield
Axess Limited (Axess)	18,759	19.6	266	7.4%
MotorCity- Car Club / By the Way		0.4		0.2%
Axess (warehouse/Michelin/Motor City)	12,173	8.8	155	11.4%
Axess - JLR showroom	9,018	5.7	304	3.7%
Axess Motor city	20,159	3.8	311	0.0%
MotorCity				2.4%
Grewals	30,225	8.4	183	5.8%
Grewals -Extension		0.8		0.9%
JMD		2.2		2.4%
Nabridas Limited (Nabridas)	4,638	5.5	69	8.0%
Nabridas Ltd	11,497	0.3	20	2.7%
Plastinax Austral Ltd (Plastinax)	17,776	5.8	99	5.9%
Box Manufacturing	3,567	1.9	25	7.6%
Rennel	4,221	3.3	47	7.1%
ENsport Ltd (Decathlon)	12,231	4.7`	266	3.5%
Total	**144,264**	**71.2**	**1,746**	**4.6%**

The company utilises the rent received from these properties for debt servicing and cash build up for repayment of the Bonds.

Strong parentage of ENL Group

CIPF is a 100% subsidiary of ENL Commercial, which is a wholly owned subsidiary of ENL Limited (rated CARE MAU A Stable). ENL Limited is one of the large conglomerates in Mauritius having diverse business interest such as agriculture, land, real estate, hospitality, logistics, fintech, commerce and manufacturing. Agriculture, land, and property are the major business segments of ENL. Listed on the Stock Exchange of Mauritius, ENL Limited, holding company of ENL group, has a market capitalization of over MUR 10.3 billion (June 2022).

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

ENL Limited (Consolidated)	2019	2020	2021	2022
For the Year ended / As of June 30,	**12m, A**	**12m, A**	**12m, A**	**9MFY22**
Working Results				
Total Op. Income (TOI)	16,027	14,362	13,547	13,433
EBIDTA	3,117	1,178	650	2,066
Interest	1,169	1,257	1,110	863
Reported PBT	1,304	-917	-865	595
Reported PAT	1,061	-1,050	-1,065	608
Gross Cash Accruals (GCA)	1,706	-212	-243	
Equity Share capital	3,358	3,358	3,358	
T. Net Worth (TNW)	36,044	38,883	39,485	
Total Debt	23,946	26,012	28,517	30,000
Cash and Bank	2,231	3,260	4,655	4,268
Key Ratios				
EBIDTA / TOI	19.45	8.20	4.80	
PAT / TOI	7.00	-3.70	-7.86	4.53
RONW	3.66	-1.42	-2.72	1.55
Overall Gearing (x)	0.66	0.67	0.72	
EBIDTA / Interest (x)	2.67	0.94	0.59	
Total Debt / EBITDA	7.68	22.08	43.87	

ENL's performance was impacted by the COVID-19 outbreak and lockdown which led the group to incur losses for two consecutive years, FY20 (MUR 1 billion) and FY21 (MUR 1.1 billion). The Group's segments were affected at various levels with the hospitality sector being the most impacted due to closure of international borders. In 9MFY22, performance has improved with positive PAT of MUR 608 million.

Tenure of lease Agreements matching bond tenure with negligible exit risk

The tenure of lease agreement for all properties is 15 years or more (signed for 20 years in January 2017) which matches the tenure of the bond of 15 years hence providing stability of cash flows in form of lease rentals. The lease rentals are triple-net (lessee would bear real estate taxes, building insurance and maintenance) and inflation indexed. Increase in lease rentals is linked to increase in inflation (with cap of 10%) with minimum escalation of 5%. Thus, it also mitigates the inflation risk to lease rentals to certain extent.

Further, the risk of early termination of the lease agreement is negligible given that the lessees are the subsidiaries/associates of ENL Commercial and part of ENL group. Prior to the transfer of the properties to CIPF, the tenants have been in the properties for over past 10 to 15 years. Post transfer in 2017, the tenants have been in the properties for five years. Given, these are all ENL group companies, the management has indicated that all lease agreements will be renewed for another 20 years well before maturity. Key features of existing Lease agreements are as follows:

Lessee	Start Date	Expiry Date	Lease Period (years)	Rental income FY22 (MUR million)	Annual Indexation	Remaining lease period
Axess Limited (Axess)	15/01/2017	15/01/2037	20.0	19.6	Min 5%	14.2
Motor City- Car Club / By the Way	01/03/2022	30/06/2023	1.5	0.4	Min 5%	0.7
Grewals (Mauritius) Ltd (Grewals)	15/01/2017	15/01/2037	20.0	8.4	Min 5%	14.2
Grewals -Extension	01/01/2022	15/01/2037	15.0	0.8	Min 5%	14.2
JMD	01/10/2017	01/10/2037	20.0	2.2	Min 5%	14.9
Nabridas Limited (Nabridas)	15/01/2017	15/01/2037	20.0	5.5	Min 5%	14.2
Plastinax Austral Ltd (Plastinax)	15/01/2017	15/01/2037	20.0	5.8	Min 5%	14.2
Box Manufacturing	15/01/2017	15/01/2037	20.0	1.9	Min 5%	14.2
Rennel	01/07/2018	01/07/2038	20.0	3.3	Min 5%	15.7
Axess (warehouse/Michelin/Motor City)	19/02/2020	19/02/2040	20.0	8.8	Min 5%	17.3
Axess - JLR showroom	01/03/2022	01/03/2042	20.0	5.7	Min 5%	19.3
Axess Motor city	01/03/2022	01/03/2042	20.0	0.0	Min 5%	19.3
MotorCity	01/03/2022	01/03/2042	20.0	3.8	Min 5%	19.3
Ensport Ltd (Decathlon)	01/03/2022	01/03/2042	20.0	4.7	Min 5%	19.3
Nabridas Ltd	01/03/2022	01/03/2042	20.0	0.3	Min 5%	19.3

Key features of the Lease Agreement

Feature	Details
Lease Rentals	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%).
Rental payment terms	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. 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.
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 the 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.
Lock In Period	No lock-in period. However, lease agreement is between the subsidiaries of ENL and CIPF wherein former has established track record of operations and is currently utilizing that property and on early termination entity has to pay rent for entire lease period.

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

All the tenants are the part of ENL group and are direct subsidiaries of ENL Commercial 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 such as Automobile dealership, Fashionable Eyewear, 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 70 million in FY23 (to be increased by 5% annually) and rental from Decathlon will be MUR 19 million sum of which (MUR 89 million) is adequate to cover interest payment of the bond (MUR 81 million in FY23). In September 2021, CIPF extended loans of MUR 24.7 million to ENLC, MUR 9.2 million to Grewal's and MUR 0.4 million to JMD, which are receivable on demand.

Funded DSRA for two interest periods for Bond issue of Mur 1,350 million

CIPF has to maintain DSRA equivalent to or greater than two interest periods (two quarters) for payment of the Bond Issue, which is Mur 40 million (for two quarters). The DSRA has been set up by way of a bank guarantee from ENLC in favour of CIPF. The bank guarantee has been carved out by The Mauritius Commercial Bank Ltd ("MCB") by blocking/reducing the sanctioned fund based working capital limit of ENLC with MCB. MCB, has confirmed that – ENLC has issued a bank guarantee in favour of CIPF and that the bank guarantee is part of ENLC's overall credit limit with MCB.

Interest rate risk

The bond issue of MUR 1,350 million has interest rate which is partly fixed and partly floating. The floating rate portion is 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. Repo rate was reduced to 1.85% in April 2020 and has been maintained at the same level till 8th March 2022. In March 2022, same was revised upward to 2% and then to 2.25% in June 2022. In September 2022, it increased further to 3% and the last increase was in November 2022 by 1% coming to 4%. As such, cost of borrowing has increased for CIPF by an additional 2% since issue of the bond. However, the interest rate has been partly mitigated as the minimum yearly increase in rentals for all tenants is 5%. Interest coverage ratio improved from 3.1x in FY21 to 2.5x in FY22.

Refinancing Risk at time of redemption; albeit remains low on considering cumulative cash balance

CIPF issued a new Bond of MUR 1,350 million in March 2022 and refinanced the bond of MUR 560 million. Repayment of the Senior Tranche will happen annually (MUR 70-125 million) after a moratorium of 5 years (i.e., between FY27-37) and Junior Tranche after a moratorium of 13 years (between FY35-37). CIPF has the option to redeem the whole or part of the Senior Secured Notes after the fifth anniversary. The annual cashflow projected to be generated by CIPF will be adequate enough to repay the senior tranche. Annual Coverage for Sr. Tranche Bond repayment is more than 1.9x. (FY27-37) and cumulative coverage is more than 4.2x (FY27-37). Annual Coverage for Total Bond repayment is more than 1.2x. (FY27-37) and cumulative coverage is more than 3.0x (FY27-37).

Given the and strong cashflow of the leases, increase in property value, positive outlook of real estate in Mauritius and minimum 5% increase in rentals of the leases the refinancing risk is low. The same is partly mitigated considering the company being part of ENL group. Finally, the sale of real estate is the last resort. This apart Property value provided for the total Bond issue = MUR 1,746 million (1.3x) 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.

Stable Financial Performance

CIPF has reported positive results for FY22. With new property acquisitions and the 5% increase in rentals, total income has witnessed a growth of 26% (increase from MUR 77 million to MUR 97 million). EBITDA was higher at MUR 92 million and PAT has increased from MUR 29 million in FY21 to MUR 30 million in FY22. GCA was at a similar level compared to FY21. Interest cost increased during FY22 with issue of the new bond. Similarly, overall gearing increased to 5.2 times compared to 2.4 times in FY21 due to the new bond of MUR 1,350 million. The new bond was partly utilised to pay existing bond of MUR 560 million. Interest coverage for FY22 was 2.5 times.

Performance of the rental paying subsidiaries

- Axess witnessed steady revenue growth in the sale of vehicles, spare parts, and sale of services in FY22. Revenue increased by 11% from MUR 3,366 million to MUR 3,032 million. Total income increased from MUR 3,428 million to MUR 3,085 million. EBIDTA and PAT were also higher in FY22 at MUR 252 million (MUR 216 million in FY21) and MUR 74 million (MUR 69 million in FY21). GCA was comfortable at Mur 171 million. Total debt in the company as of June 30, 2022, was MUR 289 million with majority of the debts being short term borrowings (MUR 209 million). Overall gearing was 0.47x in FY22 (improved from 0.73x in FY21) due to repayment of MUR 250 million of the loan from ENL Limited. The management stated that they will be primarily using working capital to finance inventory and debtors. Current ratio has been above unity over the few years since the company uses advance from customers to part finance its inventory. Interest coverage was 4.11x in FY22.
- Grewal's performance has improved in FY22. During last 2 years, Grewals has diversified their business activities into metals (supply of iron sheets) & waterproofing services along with change of senior management. Total income increased by 32% in FY22 while PAT was maintained at the same level as in FY21 at MUR 8 million.

- In FY22, Plastinax posted a total income of MUR 322 million (MUR 318 million in FY21) and PAT of MUR 24 million (MUR 37 million in FY21). Given the popularity of Plastinax's eyeware among its new customers and repeat orders from them, the outlook looks positive for the company.
- Nabridas, has reported a 25 % growth in turnover and PAT increased by 1.4 times in FY22 over FY21, due to high demand in its innovative products both in the local and regional market. GCA was comfortable at MUR 24 million in FY22. The company is expected to be continuously profitable in the forthcoming years due to its demand and good positioning.
- In FY22, JMD posted total income of MUR 120 million (MUR 86 million in FY21) and PAT of MUR 3 million (MUR 2 million in FY21). With the emergence of business activities of the company, which has boosted demand by more than 40%, it is expected to remain profitable over next few years
- Ensport Limited, representing Decathlon brand in Mauritius, was launched in May 2021. Since its launch, it has become the most popular sports outlet of Mauritius. The company has achieved a turnover of MUR 487 million (against MUR 400 million budgeted) in FY22 and PAT of MUR 52 million. Since the company provides one stop shop for all sports equipment, it has captured a very good market share of sports goods.

Financials of Commercial Investment Property Fund Limited **MUR Million**

CIPF	**FY20**	**FY21**	**FY22**
12M	**Audited**		
Rental Income	*45*	*53*	*71*
Other Income (Straight line rental income accrual) *Interest income*	*26*	*24*	*26*
Total income	**71**	**77**	**97**
EBITDA	67	73	92
Depreciation	12	14	18
Interest	30	24	37
PBT	26	35	37
PAT	18	29	30
GCA	38	49	48
Share Capital	162	162	162
Tangible Networth	200	229	259
Total Debt	560	560	1,344
EBITDA Margin (%)	94	95	95
PAT Margin (%)	26	40	33
Cash & cash equivalents	0	0	0
Excess Cash invested in group companies	10	29	1
Overall Gearing	2.8	2.4	5.2
Interest Coverage	2.3	3.1	2.5
Current ratio	8.5	53.8	8.1

Annexure I

Details of Instrument - Long-Term Bonds

Instrument	Amount (Mur million)	Tenure	Amount (MUR million)	Interest Rate	
Long-Term Bond – MUR 1,350 million (issued in March 2022)					
Senior Secured floating rate notes and senior secured fixed rate notes	1,000	5	70	Floating Rate	Repo + 1.60% (5.60%)
		6	80	Floating Rate	Repo + 1.70% (5.70%)
		7	90	Floating Rate	Repo + 1.80% (5.80%)
		8	95	Floating Rate	Repo + 1.90% (5.90%)
		9	110	Floating Rate	Repo + 2.00% (6.00%)
		10	27	Fixed Rate	5.10%
		10	93	Floating Rate	Repo + 2.05% (6.05%)
		11	125	Floating Rate	Repo + 2.10% (6.10%)
		12	125	Floating Rate	Repo + 2.15% (6.15%)
		13	65	Floating Rate	Repo + 2.20% (6.20%)
		15	120	Fixed Rate	5.75%
Junior secured floating rate notes	350	13	100	Floating Rate	Repo + 2.30% (6.30%)
		14	125	Floating Rate	Repo + 2.35% (6.35%)
		15	125	Floating Rate	Repo + 2.40% (6.40%)
		13	100	Floating Rate	Repo + 2.30% (6.30%)

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