

## Creative Properties Ltd

April 28, 2022

### Ratings

Facilities/Instruments	Amount (Mur Million)	Rating <sup>1</sup>	Rating Action
<b>Bank Facilities - Non-Fund based facilities (Garantie Financière Extrinseque D’Achèvement (GFA) issued by the Bank)</b>	1,847	CARE MAU A+ (SO); Stable [Single A Plus (Structured Obligation); Outlook: Stable]	<b>Assigned</b>
<b>Bank Guarantees (Long-Term)</b>	111	CARE MAU A1 (SO) [A One Structured Obligation]	
<b>Overdraft facilities</b>	285	CARE MAU A+ (SO); Stable [Single A Plus (Structured Obligation); Outlook: Stable]	
<b>Total</b>	<b>2,243</b>		

***Structured Obligation is for the ring fencing of cash flow by way of escrow mechanism completely under the purview of bank at each GFA level. Any surplus cash can only be paid to the sponsor only with the prior approval of the bank in charge of the escrow account.***

### Rating Rationale

The rating, assigned to the bank facilities of Creative Properties Ltd, derives strength from the experienced promoter with 20 years track record in development of high-end residential real estate in Mauritius- mostly for overseas buyers (European & South African), prime location of the developed properties and newly constructed property, sale and build concept followed for all projects, satisfactory reputation of Evaco group among its clients & bankers (GFA providers) for quality of construction & completion of most of the projects well within envisaged timelines and strong demand for luxury residential in Mauritius. The rating also takes into cognisance the sales record for the developed projects (more than 95%), significant sale (99%) under phase I of the Cap Marina project and total sale of 190 units (320 units to be sold), GFA backing from banks provided to guarantee the completion of the project to the end-buyers under VEFA regulation and presence of structured mechanism and designated account – ensuring priority of usage of excess cashflow from Cap Marina project for debt servicing. The structured mechanism is to ring-fence the cashflow by escrow mechanism and any surplus cashflow cannot be utilised for any other future real estate development and can be up streamed to Evaco only with the approval of the bank. Additionally, rating also factors in the comfortable financial and cash position at Evaco level.

The Rating, is however, constrained by the project implementation risk associated with development and construction of the various phases of the project in case of any default by the contractor, timely receipt of payment from the customers, marketing risk associated with sale of remaining luxury residential and property development, volatility in interest rate and the regulatory risk in case there are changes pertaining to laws associated with property development and sale.

### Rating sensitivities

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

- Ability to execute the project as envisaged within the timelines
- Ability to maintain steady cash surplus throughout the projected years by way of receipt of payments from customers without any delay.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsafrica.com](http://www.careratingsafrica.com).

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

- Delay in construction of the villas at Cap Marina thus delay in receipt of sale proceeds.
- Significant increase in construction costs and inability to absorb the cost which may lead to delay in execution.

***Background of the Company***

Incorporated on May 11, 2015, Creative Properties Ltd is a 100% subsidiary of Evaco Ltd ("Evaco" - rated CARE MAU A-(SO); Stable) and the owner of the land at Cap Malheureux. It also acts as the property developer for the Cap Marina project.

Evaco Ltd (incorporated on April 3, 2002) emerged from a real estate development company to a holding and investment entity. It is a 100% subsidiary of Société A. Mayer which is fully owned by Mr. Arnaud Mayer, the founder, and Chairman of Evaco Group. Evaco acts as a group corporate executive office with its global head offices located in Mauritius. It is a public limited liability company, and its principal activities consist of property and real estate development, construction, manufacturing, and hospitality & leisure. As of December 31, 2021, Evaco Group has developed real estate projects on a total area of 431,000 sqm. With over 20 years of experience, Evaco group is recognized as one of the key players in important sectors of the economy.

**Evaco's four main fundamental competency clusters include:**

1. **Evaco Property – Property Development & Real Estate** – This cluster is responsible for development of real estate projects from inception to realisation.
2. **Evaco Solutions – Consulting & Corporate Services** – This cluster provides personalised services such as company incorporation services, corporate services, business support services, consulting services and relocation assistance to new investors and residents in Mauritius. The entities under Evaco solutions are Stantons, Mereo, Evaco Marketing and Evaco Corporate Services.
3. **Evaco Creations – Engineering, Construction, Manufacturing and Design** – This cluster looks at the optimisation of various aspects associated with building design, material supply and construction. The main subsidiaries under this cluster are FairStone, FineLine Contracting and I.D.E.A.
4. **Evaco Escapes – Leisure & entertainment** – This cluster provides entertainment and leisure services. It consists of a Beach Club – La Plage / Ko Tao and Intense Experience. Its subsidiary: Evaco Beach Club Limited trades as 'La Plage'. It comprises of a beach-side restaurant in Trou-aux Biches. Intense Experience provides tailor-made itineraries to Rodrigues, Reunion, St Brandon, and Mauritius.

**CREDIT RISK ASSESSMENT**

***Long track record of Evaco group & experienced promoters***

Evaco is among the better performing real estate groups in Mauritius. Evaco Ltd. was formed in April 2002 by Mr. Arnaud Mayer (current Chairman of the group). He is a first-generation entrepreneur with focus on the real estate sector. Over the last 20 years, Mr. Mayer has developed more than 10 residential & commercial real estate projects (Sale & build model) on a total area of 431,000 sqm in North of Mauritius.

Evaco buys land from local owners and develops high end residential projects under GoM approved schemes - Integrated Resort Scheme (IRS), the Real Estate Scheme (RES), the Property Development Scheme (PDS) mainly for foreigners and expats. The company's residential projects have gained popularity among the South African and European (mainly French) property buyers.

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Over the period to achieve cost efficiency, Mr. Mayer has integrated the operations of Evaco Ltd by creating construction materials manufacturing company (engaged in manufacturing of blocks, concrete, fittings & furniture's, etc with experienced engineers from Europe and Mauritius) and consultancy company (sales team including executives from Europe and legal and finance team). Evaco also manages a beach club restaurant in the North, which is also very popular among the owners of residential properties, tourists, and expats.

#### **Financial Guarantee backing from banks under VEFA regulation**

As per GoM Regulation, all residential developments under PDS Schemes (targeted for international clients) should be under VEFA Regulation (Vente en État Futur d'Àchèvement) – governed by Civil Law of Mauritius and requires a Financial Completion Guarantee (GFA) from a reputed Bank. A GFA is a financial guarantee given by a financial institution such as bank or insurance company to ensure the buyer that the property he bought off plan will be built and delivered even in the event the developer defaults. In other words, the Bank or the Insurance Company guarantees the full completion of the project should, for any reason, the developer fails to do so and is not able to complete construction.

Banks provide GFA only when the developer has achieved breakeven of the project cost and after analysing past track record of the promoter and group's popularity among the international clients. As per the GFA regulations, GFA providing Bank will create a Designated Account, where in the sale proceeds from that development phase will be deposited in that Designated Account. Bank will monitor the expenses and will release the payments in line with the expenses schedule submitted by the developer and on receipt of bills from the contractors. If the bank is not satisfied with the progress of work, they will not release any payment. If the development is also not in line with the plan committed by the developer, the bank will step in, take charge of the project, complete the project, and then hand over the same to the buyer.

#### **Successful track record of sales & timely delivery of past developments**

Over the past 20 years, Evaco Group has acquired several plots of land in the North of Mauritius and has built several residential projects including Oasis, Les Villas Athena, Domaine des Alizees, Clos du Littoral and Grand Baie Business Park. These projects are developed on the 'Sell and Build' concept whereby the projects are marketed to the public and once the prospective buyer shows interest to purchase and upon receipt of an initial payment, the developer starts construction in phases.

Evaco receives 15% of the payment on reservation, 15% on signature of contract, 5% of the payment on completion of foundation, 35% on completion of building structure, 10% on completion of plastering, 10% on completion of internal painting and tiling, 5% on completion of works and 5% on submission of key.

#### **Sales track record of completed projects**

Project	Completion Date	No. of units	Units sold	Area (sqm)
Oasis	2004	51	51	n/a
Les Villas Athena	2011	37	37	12,000
Le Domaine des Alizees	2013	90 apart	8	7,175
Le Clos du Littoral (Phase I)	2016	63 villas	63	50,652
Le Clos du Littoral (Phase II)	2021	93 villas	90	76,163

#### **Prime location of existing & newly constructed properties**

All the projects have been developed around **Grand Baie** (situated in North of Mauritius) - popular residential area for South Africans and Europeans. The luxury apartments and villas are mostly sought after by European tourists or expats who prefer the coastal regions. Grand-Baie is a tourist hotspot with a number of beach restaurants, clubs, hotels, and two shopping malls (Grand Baie La Croisette and Super U Grand Baie). Healthcare and educational institutions are within easy reach as well as a wide range of sports activities with numerous fitness clubs. Public transportation is also a reliable mean

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to commute within the village of Grand Baie. Cap Marina is located in **Cap Malheureux** which is well-known for the iconic church with red roof and stunning views of the Coin de Mire islet. It is considered to be one of the most beautiful villages of the North of Mauritius which stands around ten minutes from Grand Bay.

**Background of the Cap Marina Project and status of the project**

Cap Marina is the only real estate (residential) project currently being developed by Evaco Group in the village of Cap Malheureux (North of Mauritius near Grand Baie). The project comprises of construction of high-end residential villas, duplexes, and apartments under the Property-Development-Scheme (PDS) of Govt. of Mauritius (GoM) for selling to foreigners & expats (primarily South Africans and Europeans) and development of 21 Villas for the locals (MUR 15-17 million per unit) outside the PDS Scheme.

This high-end residential project stretches on an area of more than 22 hectares and has been designed to reflect modern architecture in an environmentally friendly surrounding. The project consists of 320 luxury residential units all surrounded with green parks with over 180,000 various plants and a freshwater canal which will run on 2 kilometres through the Cap Marina residential village. The residents can move from one place to another in kayaks using the canal. Additionally, Cap Marina will have onsite, a beach lounge, restaurants, swimming pool, roof top bar, gymnasium, kids' club, spa, grocery store, pharmacy, bakery, a shell museum, and shops. The residents can also benefit from the direct access to the main beach of Cap Malheureux.



The project is being built in two phases and there will be a variety of villas, duplexes and apartments targeting young people to senior citizens, both locals and foreigners. The residential units are priced between MUR 10 million to MUR 240 million. Development of residential units under PDS scheme is as under:

- I. 241 high-end residential villas (Euro 350,000 – Euro 480,000 per unit)
- II. 79 apartments (MUR 6-10 million per unit)

The entire Cap Marina project is on "Sale and Build" model. The company has purchased the land in Cap Malheureux in 2016 and has only started development of the project in 2021 after achieving breakeven sales. As on March 2022, out of 320 villas to be sold (detailed in Business Risk Analysis), Evaco has signed Agreement for 190 villas and has received part payments (5%-15%) for such sale.

Since the project is being developed under the PDS Schemes (targeted for international clients), it requires a GFA from a reputed bank as per the VEFA Regulation. Banks provide GFA only when the developer has achieved breakeven of the project cost and after analysing past track record of the promoter and group's popularity among the international clients.

Evaco is developing Cap Marina project in various phases and some of this phase has already achieved more than breakeven sales and has received GFA from different banks. **Status of these projects:**

	GFA from Bank	No of units	Units already sold	Project Execution Stage
<b>Phase I (Under construction)</b>				
PDS1	Under GFA	24	23	Commenced Construction
PDS2 (Phase 1)	Under GFA	2	2	Commenced Construction
Secret (Phase B)	Under GFA	20	20	Commenced Construction
Bayview	Under GFA	50	50	Commenced Construction
Marina (Phase 1)	Under GFA	9	9	Signature scheduled mid-May/June
Harmony	Under GFA	25	20	Commenced Construction

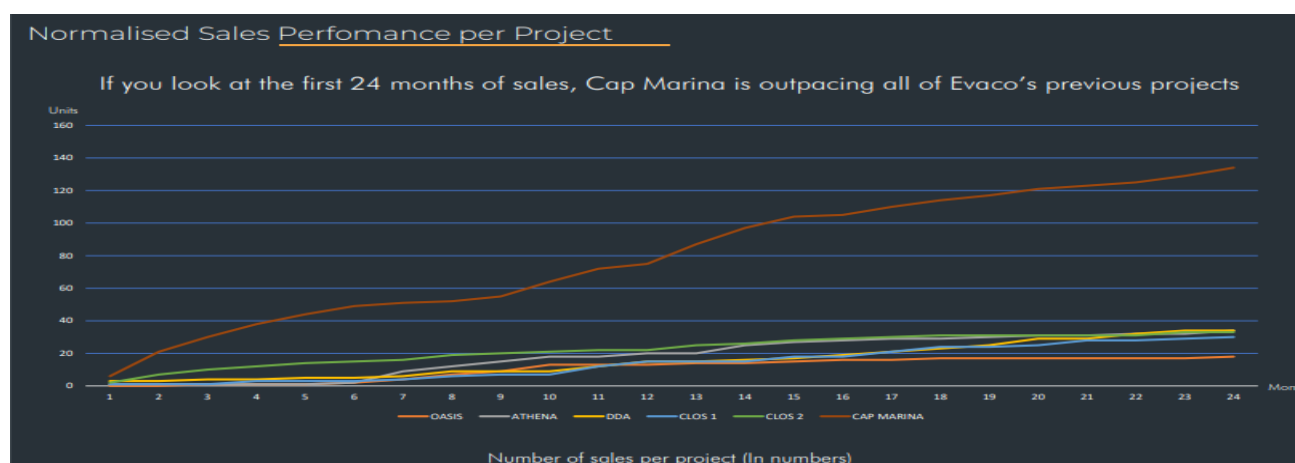
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Local	No GFA required	21	21	Commenced Construction
<b>Under Construction</b>		<b>151</b>	<b>145</b>	
<b>Phase II (Construction yet to commence)</b>				
La Terrasse		79	34	Construction to commence between April-September 2022 after achieving break even and signature of Title deeds
Secret (Phase C)		17	2	
Villas du Parc		23	9	
PDS2		3	-	
Marina		47	-	
<b>Yet to be launched</b>		<b>169</b>	<b>45</b>	
<b>Total units to be sold</b>		<b>320</b>	<b>190</b>	

Construction of the Phase I has commenced in FY21, and it is expected to be completed by FY23-25. Till March 2022, Evaco Group has sold 190 units out of which title deed has been signed for 70 units and reservation contract has been signed for 120 units. Sale of another 19 units is in progress from foreigners who will be coming to Mauritius to conclude the sale

As per the management, on a comparison for all the projects, Cap Marina has received more interests and sales over a period of 24 months as compared to the other projects.



Evaco is in discussion with banks for GFA for the balance phases. Signature with the buyer and construction of these villas will start only after securing GFA from Bank.

Projects (MUR million)	PDS1	PDS2 (Phase 1)	SECRET (Phase B)	BAYVIEW	Marina (Phase 1)
	MUR				
<b>Total cost of project</b>	691,430,220	259,974,294	323,541,633	672,268,788	624,398,854
<b>Cost incurred as on March 31, 2022</b>	168,059,754	-	108,318,393	123,345,571	-
<b>% Of cost incurred out of total project cost</b>	24%	-	33%	18%	-
<b>Means of finance</b>					
Equity	-	-	7,000,000	-	-
Debt	70,000,000	-	60,000,000	40,000,000	-
Advances from sale of villas	98,464,496	-	41,332,753	91,354,165	-

### Project Execution risk

The company has appointed Fairstone Ltd (formerly known as Evaco Construction Ltd), a group company of Evaco Group, which was incorporated in February 2013 to operate as a building and engineering contractor for the Evaco group. It is a grade A construction company and has been the main contractor for all the major projects such as construction of Evaco Head Office, Fine and Country's office and Le Clos du Littoral project. Fairstone has experience of completed contracts worth more than MUR 1 billion over a period of 4 years.

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### ***Mitigation of project risk through insurance covers and guarantees***

Fairstone has provided a **performance bond guarantee** assigned to the Bank covering around 70-80% of the builders' cost for the different phases. In case of any default by the developer, the Bank can claim the insurance amount to complete the projects.

Additionally, Creative Properties Ltd have contracted an **Inherent Defects Insurance Policy** to cover the different phases of construction for 2 years for non-structural works, equipment, fixtures and fittings and 10 years for structural works of the building. The monitoring is done by technical experts.

The construction is further secured by the presence of a contract (**Advance Payment Bond**) between Creative Properties Ltd and FairStone Ltd that any advance payment made by Creative Properties Ltd to the contractor will be reimbursed should the contractor use the advance payment for purposes other than the costs of mobilisation in respect of the Works. Thus, there is minimum risk that the contractor delays the construction works or uses the advance payment for other purposes.

### ***Industry Risk***

#### **Real Estate sector in Mauritius**

Mauritius is recognized as one of the best countries in Africa to invest in Real Estate. Over the last few decades Mauritius has witnessed a booming real estate sector, to such an extent that today, the real estate sector attracts major Foreign Direct Investment for the country. This can be explained by an increasingly growing number of construction projects across the island in addition to government introducing schemes such as the Integrated Resort Scheme (IRS), the Real Estate Scheme (RES), the Property Development Scheme (PDS) and the Smart City scheme, lifestyle, good infrastructure, and economic stability. Such schemes have transformed the dynamics of the real estate market locally over the years. IRS, RES and PDS are programmes designed to facilitate the acquisition of property mainly luxury residential units by non-citizens in Mauritius.

**IRS properties** are based within large resorts for e.g., golf estates or marina located mostly on coastal regions. It consists of luxury and high-end freehold property types which are priced at or more than \$ 500,000 by GoM. The buyer receives a residence permit as long as they are owner of such a property however the buyer cannot purchase other properties in Mauritius except for another approved resort or scheme.

**RES properties** are more affordable as they are smaller residential developments built on an area ranging between 4,220 sqm to 100,000 sqm which can be sold at no minimum price. The buyer receives a residence permit only if the property is worth at least \$375,000.

**PDS** allows for development of a minimum of 6 luxurious residential units on freehold land on an area of at least 1 arpent to 50 arpents. It provides high quality public spaces that helps to promote socialization and a sense of community.

Today, apart from houses, other options such as apartments, studios, apartment hotel residences, IRS and RES villas are available.

**Besides above scheme to boost the Real Estate sector, The Government of Mauritius has provided further incentives such as:**

1. MUR 2 billion has been earmarked to support the purchase of residential land and properties by individuals.
2. 5% refund on cost of acquisition of a house, apartment, or land to build a residence up to MUR 500,000.
3. A 5% refund on home loan to be refunded up to MUR 500,000
4. Exemption on registration duty on the first MUR 5 million of the cost of a residential property
5. Loan schemes for self-employed individuals and contractual employees on home loans

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## Financial Performance

### Financials – Summary table (Standalone – Creative Properties Ltd)

MUR Million

For the Year ended	2020	2021
	Audited	
Total income	0	81
EBIDTA	0	-31
Interest	0	1
Depreciation	0	0
Profit/(Loss) Before Tax	0	-31
Profit/(Loss) After Tax	0	-31
Gross Cash Accruals (GCA)	0	-31
Equity Share capital	100	100
T. Net Worth (TNW)	199	117
Total Debt	0	67
Loan from holding company	326	419
Key Ratios		
EBIDTA / TOI	N/A	-39%
APAT / TOI	N/A	-39%
Overall Gearing (x)	0.00	0.57
EBIDTA / Interest (x)	N/A	-50.89
Total Debt / EBITDA	0.00	-2.13

### Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve, and non-purchased intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Network.

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### Annexure I

#### Details of Rated Facilities

Facility	Bank Facilities	Amount (MUR Million)	Rating
GFA 1 – Bayview	GFA (Garantie Financière Extrinseque D’Achèvement – Long Term)	400	<b>CARE MAU A+(SO); Stable</b> Single A plus (Structured Obligation) with Stable Outlook
	Bank Guarantees (Long-Term)	27.6	
	Overdraft facilities (Short-Term)	45	<b>CARE MAU A1 (SO); Stable</b>
GFA 2 – PDS2	GFA (Long-Term)	200	<b>CARE MAU A+(SO); Stable</b> Single A plus (Structured Obligation) with Stable Outlook
	Bank Guarantees (Long-Term)	13.9	
	Overdraft facilities (Short-Term)	25	<b>CARE MAU A1 (SO); Stable</b>
GFA 3 – PDS1	GFA (Long-Term)	515	<b>CARE MAU A+(SO); Stable</b> Single A plus (Structured Obligation) with Stable Outlook
	Bank Guarantees (Long-Term)	32.2	
	Overdraft facilities (Short-Term)	70	<b>CARE MAU A1 (SO); Stable</b>
GFA 4 - Secret	GFA (Long-Term)	252	<b>CARE MAU A+(SO); Stable</b> Single A plus (Structured Obligation) with Stable Outlook
	Bank Guarantees (Long-Term)	13.7	
	Overdraft facilities (Short-Term)	60	<b>CARE MAU A1 (SO); Stable</b>
GFA 5 – Marina	GFA (Long-Term)	480	<b>CARE MAU A+(SO); Stable</b> Single A plus (Structured Obligation) with Stable Outlook
	Bank Guarantees (Long-Term)	24	
	Overdraft facilities (Short-Term)	85	<b>CARE MAU A1 (SO); Stable</b>
<b>Total</b>		<b>Total MUR 2,243 million (Two thousand two hundred and forty-three million only)</b>	

#### **Disclaimer**

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CRAF’s ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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