Brief Rationale

CRAF assigns CARE MAU A (SO); Stable rating to the Proposed Bond Issue of Ducray Lenoir (Investments) Ltd

Ratings

Instrument*	Amount	Rating**	Rating Action
Proposed Bond Issue	MUR 600 million	**CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]**	**Assigned**

***Details of facilities/instruments in Annexure I*
***Complete definition of the ratings assigned are provided in Annexure II*

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 rated Bonds, as per the terms of the transaction and is not a standalone rating of Ducray Lenoir (Investments) Ltd. ("DLI").

The rating, assigned to the proposed bond issue of MUR 600 million of DLI, derives strength from the pledge of shares of MUA Ltd. (MUA - CARE MAU AA-; Stable) & MCB Group Ltd. (MCBG - CARE MAU AAA; Negative) with 1.7x cover, part of bond proceeds to be utilised for acquisition of MUA & MCBG shares -post which DLI will have an investment portfolio providing around 2.5x share coverage against proposed Bond issue and creation of Debt Service Reserve Account (DSRA) - equivalent to 1 year coupon payment.

The rating also takes into consideration last 5 years profitable operations & steady dividend payment track record of MUA and MCBG (barring CY20), low volatility & high trading density of both the stocks vis-à-vis SEMDEX during last 7 years, experienced & resourceful promoter, majority of DLI's investment in shares of MUA, MCBG and United Docks and positive cashflow of subsidiaries/associate companies engaged in trading of medical equipment and services business.

The rating is, however, constrained by the lack of any operational cash flows in DLI (being an investment holding company), major revenue source being dividend from MUA & MCBG, envisaged high reliance on sale of MUA & MCBG shares or refinancing of the rated debt at the time of its maturity, exposure to regulatory risk, volatility in share price of MUA & MCBG – security for the transaction and dip in performance of cash generating subsidiaries.

The rating is sensitive to the mode of redemption which is to be finalised before 4 months of due date of redemption of MUR 200 million in Year 6 (2027) and 6 months before due date of redemption of MUR 400 million in Year 7 (2028).

Rating Sensitivities:

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

- 30% increase in share price of MUA and MCBG from September 20, 2021 level
- 30% increase in dividend pay-out by MUA and MCBG compared to the projected pay out. Thus, leading to an increase in Profit After Tax of DLI

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

- Additional debt over and above the proposed bond issue of MUR 600 million in DLI affecting DLI's ability to service debt.
- Any additional debt availed by KASA Holdings Ltd affecting its ability to pay MUR 20 million.
- Lower dividend pay-out by MUA and MCBG compared to the projected pay out.
- Decline in share price of MUA and MCBG by more than 15% from September 20, 2021, level.
- Deterioration in credit profile of MCBG and MUA.

BACKGROUND

Ducray Lenoir (Investment) Ltd ("DLI"), was incorporated in July 2005, as an investment holding company. DLI is an 100% subsidiary of Societe Asteros, a company 100% controlled and managed by Mr. Dominique Galea and his family. Along with the investment in its subsidiaries, DLI also holds the investment in listed domestic companies (primarily in MUA, MCBG and United Dock).

DLI is governed by 3-member Board of Directors comprising of 1 Executive and 2 Non-Executive Director, all belonging to Galea family. The strategic affairs of the company are looked after by Mr. Dominique Galea - Chairman of the group. He is assisted by Ms. Stephanie de La Hogue and Mr. Antoine Galea and a team of experienced professionals for managing the day-to-day affairs.

As at August 31, 2021, DLI has an investment portfolio of MUR 1,246 million (December 31, 2020 - MUR 850 million). Majority of investments of DLI are in 3 listed companies - MUA, MCBG and United Docks. DLI's Investment portfolio has increased steadily over last few years - from MUR 747 million in FY18 to MUR 1,246 million as on August 31, 2021.

DLI has a stable track record of receiving dividend from MUA and MCBG. Over the last few years, majority of the dividend (99%) has been paid by MAU and MCB. Except for 2020, when MCB has not declared any dividend, in line with the directives issued by BOM, regarding the declaration of dividend in FY20.

DLI, has invested in the shares of MUA and MCB and will pledge these shares against the Bond issue of Mur 600 million. The security coverage against the Bond issue will be 1.7x. Hence, DLI will pledge shares of MCB & MUA worth MUR 1,020 million. The shares will be pledged in the ratio of 3/4th in MUA (i.e., Mur 765 million) and 1/4th in MCB (i.e., Mur 255 million).

DLI will maintain a Debt Service Reserve Account (DSRA) with SBM Bank (Mauritius) Limited. DLI will hold enough funds to pay the expected coupon payments for the next 12 months. In case the fund is used for debt repayment, the same will be replenished within one month.

DLI's income depend on dividend from its investment in listed entities (mainly MUA and MCBG) and dividend paid by associates/other group company. Total income increased in FY19 due to higher dividend received from MUA and MCBG. Total Income dipped in FY20 due to nil dividend from MCBG, as restricted by the Bank of Mauritius amidst exceptional circumstances related to the pandemic. Accordingly, the PAT also dipped in FY20. Over the last few years, majority of the dividend (99%) has been paid by MUA and MCBG.

DLI proposes to divest its stake in its medical & services business to a new company called KASA Holdings Ltd (to be owned 100% by Societe Asteros – holding company of DLI) at a cost of Mur 196 million. As per Sale Agreement to be signed between KASA Holdings Ltd and DLI, as from FY22 DLI will receive MUR 20 million annually for next 10 years from KASA Holdings Ltd.

Proposed Bond Issue

DLI proposes to raise a Bond of MUR 600 million and utilize the proceeds partly to repay the entire existing funding facility from MCB – MUR 280 million (o/s as on August 31, 2021) and partly to increase stake in MUA & MCBG. Going forward, DLI will utilize the dividend received from MUA & MCBG for repayment of interest of the proposed bond issue. Bond will be repaid in 6th (Oct 27) and 7th year (Oct 28) from the year of issue (Oct 21).

Annexure II

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".

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.