Brief Rationale

CRAF downgrades the rating assigned to the existing Bond Issue of Emtel Limited ("Emtel") to CARE MAU AA- (Stable) from CARE MAU AA (Stable) and assigns CARE MAU AA- (Stable) to the proposed Bond Issue.

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	1,000.00	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Downgraded from CARE MAU AA; Stable**
Proposed Bond Issue	1,150.00	**CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]**	**Assigned**

Rating Rationale

The rating continues to derive strength from the strong parentage of Currimjee group and Bharti group, extensive experience of both groups in the telecom sector, Emtel Limited's ("Emtel") strong brand presence with its position as the second largest player in the Mauritian telecommunication market, integrated telecommunications operations, additional income in the form of dividend from EMVision Ltd, economies of scale in procurement with the Bharti and Currimjee groups, established & reasonably large subscriber base, robust spectrum profile, strong distribution network allowing consistent growth in subscriber base and growth in usage of data and strong financial position along with adequate debt coverage & strong liquidity indicators. CRAF has also taken into account the very strong articulation by Emtel's management to restrict dividend pay-out in future years.

The rating assigned to the existing Bond issue of Emtel of Mur 1,000 million has been revised because of the proposed additional borrowing of Mur 1,150 million in 2 tranches (Mur 700 million in March 2020 and Mur 450 million in March 2021) to acquire 90% stake in EMVision Ltd. (which holds 52.94% stake in MC Vision Ltd.) from its promoter Currimjee Jeewanjee & Co. Ltd. While, MC Vision Ltd. is a debt free and cash generating company with a consistent dividend paying track record for last 5 years, however this fully debt funded acquisition will lead to higher than projected debt in Emtel which in turn will impact the projected debt coverage ratios vis-à-vis the level considered by CRAF during Initial Rating exercise.

The rating is, also constrained by increasing competition among existing service providers, capital intensive nature of the industry leading to significant capital expenditure, high exceptional dividend pay-out ratio leading to depletion in net worth for last 2 years and its exposure to regulatory and obsolescence risks.

The rating is sensitive to the company's ability to sustain profitability, maintain & increase market share in the Mauritian telecom market, improve its capital structure & net worth and timely execution of the projects within stipulated cost. Going forward, high dividend pay-out ratio leading to depletion of net worth and higher than envisaged debt and overall gearing may trigger a rating downgrade scenario.

BACKGROUND

Emtel Limited (“Emtel”) was incorporated in July 1987 by the Currimjee group (currently owning 75% stake in Emtel). In May 1989, Emtel became the first operator to commercially launch mobile telephony in the whole southern Hemisphere as an international joint venture of the two pioneering groups, the Currimjee Jeewanjee Group of Mauritius and a Swedish company, Comvik which later to become Millicom International Cellular (MIC) S.A, a global telecommunications group based in Luxembourg. In 2014, the Currimjee group procured the entire stake of Millicom in Emtel. In 2015, Emtel partnered with Bharti Airtel Limited, India’s leading provider with operations in 20 countries across Asia and Africa. As such, Indian Continent Investment Limited, (ICIL) a promoter entity owned by the Bharti group of India acquired 25% stake in Emtel. Emtel was also one of the founding partners of Bharti Cellular in India which is now branded as Airtel the third largest mobile operator in the world.

Emtel signed a Technical Services Agreement with Bharti Airtel Limited to benefit from the technical and commercial knowhow and business support of Airtel in various areas**.**

Popularization of the mobile phone in Mauritius had a direct increase in demand for Emtel’s services, it being the only mobile phone operator of the Island until 1996 (when Cellplus Mobile Communications Ltd belonging to Mauritius Telecom - GoM owned company, entered the market). Emtel has been in the forefront in technology and innovation.

Mauritius has 3 telecom service providers (My.T, Emtel and MTML) and Emtel is the second largest telecom service provider after My.T in the country. As at 31st December 2019, Emtel had a mobile subscriber market share of approximately 42% of the mobile telecom sector in Mauritius (total mobile subscribers in Mauritius are 1.57 million).

Emtel has 23 showrooms across the Republic of Mauritius (including 1 in Rodrigues) and provides mobile telecom services (voice, SMS, mobile data to prepaid & post-paid subscribers), home broadband, fixed line, enterprise business solutions.

Emtel is a professionally managed company. It is governed by an 8-member Board of Directors comprising of eminent industrialists and professionals.

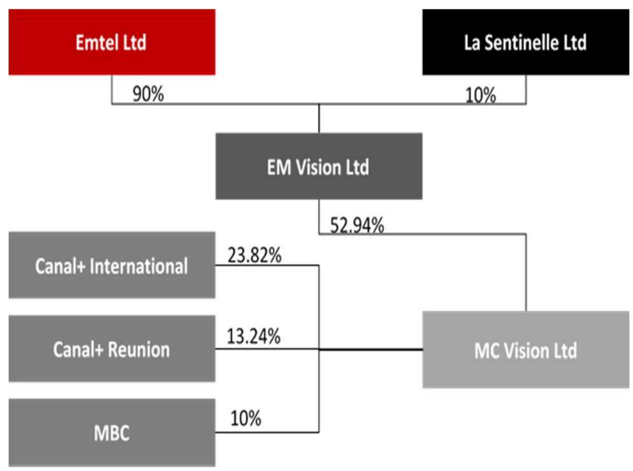
Update since last Review

Emtel proposes to acquire 90% stake in EMVision Ltd (“EMVision”) from its promoter Currimjee Jeewanjee & Co. Ltd, the flagship company of the Currimjee Group at an aggregate cost of Mur 1,150 million. The balance 10% stake in EMVision Ltd will remain with the existing shareholder, La Sentinelle Ltd. EMVision Ltd is an investment holding company which holds 52.94% stake in MC Vision Ltd (“**MC Vision**”), cashflow generating company. EMVision does not hold any other investment and does not have any other business activity. It is a debt free company and only source of income is in the form of dividends from MC Vision.

MC Vision Ltd: -

Incorporated in 1997, MC Vision is the leader in digital pay TV market in Mauritius, with over 124,000 households subscribing to its services. The current shareholders of MC Vision are EMVision (52.94%), Canal+ International (23.82%), Canal+ Reunion (13.24%) and Mauritius Broadcasting Corporation (10.0%). Canal+ International is a French-based pay-TV service which has over 7.9 million subscribers in the Indian Ocean, Africa, the Caribbean, the South Pacific, Poland and Vietnam. Canal+ Reunion is a subsidiary of Canal+ International which operates in Reunion Island. The Mauritius Broadcasting Corporation is Government-owned and is the national public broadcaster of Mauritius, broadcasting on TV & Radio.

Post-acquisition, Emtel will effectively own 47.65% of MC Vision and will consequently be entitled to additional annual dividend income streaming from MC Vision. In addition, revenue and cost synergies are expected to arise from this acquisition due to combined marketing efforts, simpler customer experience management, shared Go to Market costs. Post-acquisition by Emtel, shareholding structure will be as under:



MC Vision operates under the trading name 'Canal+ Mauritius' and its main revenue comes from provision of subscription television direct to home satellite broadcasting and re-broadcasting services and video on demand through its PLAY service - on which it earns subscription fees, rental income and connection & installation fees. MC Vision also offers the MyCanal service through which its customers can have access to contents on their mobile devices, laptops and PC's. MC Vision airs more than 100 channels, including premium content, and also has exclusive rights over channels such as Canal+ and Zee TV. The basic TV bundle starts at MUR 800 per month, with additional channel bundles (e.g. Cine and Series, Foot & Sport, Bollywood Pack, Kids Pack etc.) costing additional MUR 100 to MUR 400 per month. MC Vision also provides its subscribers with access to Netflix as from MUR 300 per month. Customers opting for all channels available are charged MUR 2,000 per month. MC Vision also markets home broadband (Airbox by Emtel) to its TV subscribers in partnership with Emtel.

As per management Accounts for FY19 (provisional result), MC Vision is debt free company with annual EBIDTA ranging between Mur 400-500 million for last 3 years. As par last 3 years track record, MC Vision pays 70-75% of its PAT as dividend.

Transaction

The transaction will entail a total cash requirement of MUR 1,150 million (Mur 700 million payable by March 2020 and Mur 450 million payable by March 2021) payable to Currimjee Jeewanjee & Co. Ltd by Emtel. Accordingly, Emtel proposes to raise bonds worth MUR 700 million in March 2020 and MUR 450 million in March 2021, in line with payment timeline for the acquisition.

Repayment Terms - The Bond will be repaid out of internal cashflow from operations of Emtel and dividend income to be received from MC Vision.

<table>
<tr><th>Amount (MUR Million)</th><th>Proposed Issue date</th><th>Repayment (MUR million)</th><th>Indicative Interest Rate (Fixed Rates)</th></tr>
<tr><td>Tranche I - 700</td><td>March 2020</td><td rowspan="2">March 2023: 250
March 2025: 300
March 2028: 300
March 2030: 300</td><td rowspan="2">3.95%
4.30%
4.70%
5.00%</td></tr>
<tr><td>Tranche II - 450</td><td>March 2021</td></tr>
</table>

In FY18 (Jan 1 – Dec 31), Emtel posted a PAT of MUR 418 million (MUR 238 million in FY17) on a revenue of MUR 3,005 million (MUR 2,740 million in FY17). Interest coverage was 20.97x in FY18.

Overall gearing ratio has deteriorated over last three account closing dates (0.66 as on December 31, 2016 to 1.23 as on December 31, 2018) due to debt availed for capital expenditure and exceptionally high payment of dividend of MUR 616 million in FY18 (MUR 364 million in FY17) leading to decline in networth in FY18. During the projected period, the management has very strongly stated that the dividend payout ratio will be subject to availability of cash post debt repayment.

During FY16-FY18, GCA was comfortable in the range of MUR 870 -970 million vis-a-vis annual debt repayment obligation of MUR 300 million. GCA was MUR 977 million in FY18 vis-à-vis debt repayment obligation of MUR 287 million.

Total debt/EBIDTA was comfortable at 1.00x times. The average fund based working capital utilisation was at 45-50% during the last 12 months ended March 2019, as confirmed by the management.

FY19 Performance (Provisional)

As per Management Accounts for FY19 (Jan -Dec 31, 2019) provided by Emtel, it has stated to have achieved a revenue of more than Mur 3,200 million, EBIDTA of around Mur 1,400 million and PAT of around Mur 477 million. As per the Provisional Accounts, overall gearing is expected to be in the range of 1.40-1.50x and Total debt/EBIDTA in the range of 1.10-1.20x. Emtel is expected to submit their Audited Accounts by April 2020 and CRAF will conduct Annual Surveillance by May 2020.

CRAF notes that, the additional debt of Mur 1,150 million will impact the company's financial flexibility and debt servicing ratios in near future. CRAF expected the gearing ratio (Total debt/Networth) to hover in the range of 1.6-1.8x and Total debt/EBIDTA to remain in the range of 1.5 -1.7x during the Bond repayment period. Any deterioration from the same will have an adverse impact on the Rating.

Purpose of the proposed Bond issue:

In June 2019, Emtel issued a Bond of MUR 1,000 million and utilized the proceeds for the refinancing of its existing loans and for investment in new Capex. As on December 31, 2019, Emtel had long term debt of MUR 1,309 million and short-term debt of MUR 300 million from MCB, Barclays and SBM. Emtel proposes to raise bonds worth MUR 700 million in March 2020 and MUR 450 million in March 2021 (Additional MUR 1,150 million in total) to finance acquisition of 90% stake in EMVision Ltd.

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.