

Investcorp (Holdings) Ltd (IHL)
09 June 2023

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Bond Issue	1,123	CARE MAU BBB+; CWD [Triple B Plus; Credit Watch with Developing Implications]	Placed under credit watch with Developing Implications

Ratings Rationale

The rating has been placed under credit watch with developing implications due to the Financial Intelligence Unit (FIU) restriction order on the assets of Mr. Nawaz Khan Chady, the promoter of Investcorp (Holdings) Ltd, in association with the ongoing investigation of Mr. Sherry Singh, the former CEO of Mauritius Telecom. Mr. Chady owns 100% stake of Blue Valley Limited which in turn holds 100% stake in Investcorp. **CARE Ratings Africa Private Limited will take a view on the ratings once the exact implications of the above on the credit risk profile for the company are clear.**

Rating rationale

The rating assigned to the bond issue of Investcorp (Holdings) Ltd – IHL derives strength from prime location of the properties (Ebene, Port Louis & Grand Baie), diversified & established tenants with 13% of existing tenants being part of HYVEC Group, improved occupancy rate to 69% with respect to previous year, Debt Service Reserve Account (DSRA) of one semi-annual repayment, presence of covenant restricting dividend payment till full Bond repayment and steady demand for Grade A office properties in Ebene. The rating also takes into consideration that IHL is part of HYVEC Group and the promoter's experience in real estate development.

The rating is, however, constrained by the risk of tenanting the new office properties in Ebene (GLA of 12,306 sqm), low interest coverage ratio (1.5x in FY21 in line with bond covenant), short tenure of lease compared to bond tenure, refinancing risk at maturity and ability to retain the existing tenants in the wake of new office developments in & around Ebene. In the repayment year, IHL will have around MUR 300 million as reserve and it will require around MUR 700 million which will be generated from sale of property or refinancing.

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

- Ability to increase occupancy ratio over 85% for new properties.
- Timely disposal of the building as envisaged by FY26/27
- Ability to achieve the projected occupancy and rentals in the new buildings.

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

- Addition of significant debt by IHL on consistent basis
- Reduction in occupancy by 15%

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

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Background

Incorporated in June 2008, Investcorp (Holdings) Ltd - IHL is a 100% subsidiary of Blue Valley Limited which is fully owned by Mr. Nawaz Khan Chady. Mr. Chady is the founder and CEO of the HYVEC Group. As at August 2022, IHL has a portfolio of nine properties (mix of new & mature properties) with gross leasable area (GLA) of 23,945 sqm into operations with 69% occupancy generating an annual rental of Mur 80 million. These rentals are underpinned by MUR denominated rentals from office space and premium luxury apartments for vacation residence. Prior to December 2021, IHL had direct and indirect ownership of the nine commercial properties through various wholly owned subsidiaries. On December 01, 2021, IHL amalgamated with all of its wholly owned subsidiaries and all the properties are now owned directly by IHL. The Weighted Average Lease Expiry as at June 30, 2022, was 5.25 years.

Office Properties - Hennessy Tower (completed in 2011) is based in Port Louis. The remaining seven office properties are in Ebene namely AXIS building – completed in 2013, HBL Development – completed in 2008, HYVEC House – completed in 2016. The other four office properties were completed in September 2020. The new office properties are 35% occupied as at August 2022.

Luxury Apartment - The premium luxury apartments (Grand Bay suites - completed in 2009 with GLA of 1,870 sqm), of 25 suites with swimming pool & spa, is rented to one of the group companies for a period of 15 years. The rentals are irrespective of the occupancy of the apartments and full rentals have been received until June 2022.

Management: The strategic affairs of the company are looked after by the Executive Management Team which comprises of the CEO, Mr. Raju Jaddoo and the Deputy CEO, Mrs. Christine John Chuan. They are assisted by a team of qualified and experienced professionals. Mr. Raju Jaddoo is a Chartered Accountant with over 30 years of experience having worked for De Chazal Du Mee, Mauritius Chamber of Commerce and Industry and Board of Investment. Mrs. Christine John Chuan is an MBA graduate with more than 40 years of experience with State Bank of Mauritius and ABSA bank at various management positions.

Credit Risk Assessment***Experienced promoter in real estate development***

Mr. Chady started a modest construction company in 1990 which has grown into a leading large building and civil engineering construction company – HYVEC Partners Ltd, in Mauritius. HYVEC was ranked 39th by Business Magazine's Top 100 Companies in Mauritius (2021 Edition). The company has carried out various real estate projects across Mauritius including Melrose Prison, Government Printing Office, MRA Building – Plaisance Airport, commercial malls, upmarket houses, modern offices, luxurious villas, schools, etc.

The Hyvec Group has ventured into diverse activities such as Property Development, Fashion, Retail & distribution, Food and Hospitality sector. The Property and Construction sector remains the backbone of the Group. It contributes to the majority of the revenue for HYVEC Group, and it has been a profitable business for the past 25 years. HYVEC Group is behind most of the renowned international brands in Mauritius such as Tommy Hilfiger, Armani Exchange, Calvin Klein Jeans, Fila, GAP, Ralph Lauren, Gant, CAT, Sebago, Merrell, Hush Puppies, Mont Blanc, Grohe, Duravit, Pentafloor, Atlas Concorde, Neoperl, Stiebel Eltron, Nautilus, Kohler, Siematic, Smeg, Mediclinics, Yvyra, Stosa, OWA and Fursys. Other business segments include Quick Service restaurants (Burger King and US Philly Steak), Fine Dining restaurants (Escale Mauricienne and Bhukara the Tandoor) and Tourism.

Prime location of properties with diversified tenants

All the properties are located in various key locations including Ebene Cybercity, Port Louis and Grand Bay. Around 85% of the total GLA is in the Plaines Wilhems region where more than 30% of the inhabitants live. Additionally, Ebene hosts majority of offices in Mauritius – area of 312,000 sqm of office spaces closely followed by Port Louis. Ebene Cybercity is

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preferred because of the ease to commute, lesser traffic congestion and access to daily amenities. The properties of IHL have diversified tenants with a mix of financial institutions, Government entities and others. Hennessy Tower in Port Louis hosts two key tenants such as SBM (NBFC) and Jan De Nul Pacific, a leading expert in offshore, marine, civil, environment and project development. The Eight Sires property in Grand Bay comprises of 25 suites which target mainly tourists.

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Table 1: Details of Properties

Property	AXIS Building (IHL)	Bonn Properties	HBL Development	Hennessy Tower	Ibiza City (Holding)		Ibiza Properties	Ibiza Investment	Eight Sirs Investment	Total
Location	Ebene	Ebene	Ebene	Port Louis	Ebene		Ebene	Ebene	Grand Bay	
Leasable Area (sqm)	1,475	2,157	4,367	1,770	2,037	408	4,936	4,925	1,870	23,945
Property details	2 floors	Ground + 2 floors	2 buildings of 3 floors each	5 Floors	3 floors	Ground + 1st Floor	Ground + 7 floors	Ground + 7 floors	25 suites complex	
Valuation (MUR Million)	113.0	221.0	362.4	174.0	138.5	42.0	400.0	400.0	82.5	1,933
Report Date - December 2021										
Type	Office	Office	Office	Office	Office	Commercial	Office	Office	Commercial	
Key Lessees' & Area Occupied	Axis Fiduciary BLC Robert & Associates Ltd	HYVEC Partners Batismart HYVEC Facilities Management Pine Travel & Tours Bluefire Supertech Equipment	SANNE Mauritius	Jan De Nul Pacific Ltd SBM NBFC Drain Infrastructure Construction	Somnath (Holdings) Ltd	Vacant (ex-Maison Sasha)	Hertshten Group Ltd	SBM Somnath Holdings Ltd SBM NBFC	Pine Travel & Tours Ltd	
Occupancy (in %): Aug 31, 2022	100%	100%	100%	100%	61%		13%	50%	100%	69%
Dec 31, 2021	100%	100%	100%	100%	61%		13%	25%	100%	66%
Dec 31, 2020	100%	100%	100%	100%	17%		13%	25%	100%	58%
Annual Lease rental: FY21	5.5	14.4	24.0	5.0	2.6		3.0	5.0	1.7	61.1
FY20	5.4	10.4	12.0	11.4	-		0.4	0.4	7.6	47.6
Weighted Lease Expiry (years) – August 2022	1.33	13.66	3.08	1.76	2.05		0.42	5.57	14.09	5.25

#Eagle House – 5 floors out of 8 have been sold to third parties and out of the remaining 3 floors, one floor is vacant (two floors rented out in October 2021 – 3 months rental).

@Ebene – Ebene Cybercity

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Diversified Tenants with 13% of tenants being part of HYVEC group

Area-wise, properties owned by IHL are mostly rented as office spaces. In all, there are 18 tenants in the nine properties. For most of the tenants, the lease term is between 4 to 15 years, with the option to renew for another consecutive term. The weighted average lease expiry is 5.25 years as on August 31, 2022. Further, the tenants in the properties under IHL includes some companies within HYVEC group (around 13% of the tenants) as well as some other companies of repute. Some of the major tenants include SANNE Mauritius, SBM Bank, Somnath Holdings Ltd, Batismart, BLC Robert & Associates Ltd, Axis Fiduciary and Jan de Nul to name a few.

The tenant profile is as follows:

Tenant & Property leased	Tenant Profile
Axis Fiduciary	Axis Fiduciary Ltd is licensed by the Financial Services Commission ("FSC"). It offers a full spectrum of corporate and fiduciary services to a diversified client base.
BLC Robert & Associates Ltd	BLC Robert is the leading independent full service business law firm in Mauritius. The firm has 7 partners and over 30 fee earners serving a diverse client base including regional and multinational companies, financial institutions, funds and public sector bodies amongst others.
Pine Travel & Tours Ltd	Pine Travel is travel agency a passion providing exemplary travel and related services to their clientele in South Sudan and to the worldwide market.
HYVEC Partners Ltd	Hyvec Partners Ltd is a leading Grade A+ building and civil engineering construction company in Mauritius. It has an impressive track record ranges from the Melrose Prison, to commercial malls, upmarket housing, high-rise office buildings, luxurious villas, Schools, traffic centers and other prominent landmarks.
HYVEC Facilities Management Ltd	Hyvec Facilities Management Co Ltd provides facilities management services to all companies of the Group.
Bluefire Ltd	Bluefire Ltd trades under the Hyvec group. It has acquired several well known franchises for its branded fashion retail sector.
Supertech Equipment Ltd	Supertech Equipment Ltd is high-end products dealer. It is an importer and distributor of premium brands which provides designers' lifestyle solutions for the home, offices, villas and any other classy infrastructural projects.
SBM	Established in 1973, The State Bank of Mauritius is a leading bank has a strong franchise in Mauritius, with a market share of more than 20% in domestic advances and deposits. The Group is also present in India, Madagascar, Kenya and also holds a banking licence to operate in the Seychelles.
SANNE Mauritius	Sanne is a leading global provider of alternative asset and corporate services. They deliver tailored fiduciary services to a highly valued international client base through a global network of offices located in 20 leading financial jurisdiction
Jan De Nul	Jan De Nul Group is an international group expert in five main activities namely offshore, marine, civil, environment and project development.
SBM NBFC	SBM Non-Banking Financial Cluster (NBFC) has been operating for more than 15 years and provides services in Asset Management, Securities Brokerage, Private Equity, Factoring, Investment Advisory, Registry, Fund Management and Insurance Agency.
Batismart Ltd	Batismart specialises in equipments and accessories. It provide products and services for retail demands, project promoters, building contractors, hotel and Government bodies requirements for flooring, doors, bathroom accessories and other home accessories.
Hertshten Group Ltd	Hertshten Group (Quantum Insurance) aims to create and build complementary businesses with high growth potential on a global scale.

Moderate occupancy with established track record and high retention rate of tenants

The prime office areas in Mauritius are Ebene, Port-Louis and Moka. The overall occupancy rate for offices in Mauritius is around 90%. There is now an ongoing demand for modern Grade A offices. The current rental for office buildings in Port Louis ranges between MUR 495 per sqm for a basic office to MUR 1,100 for grade A modern office buildings. The rental for

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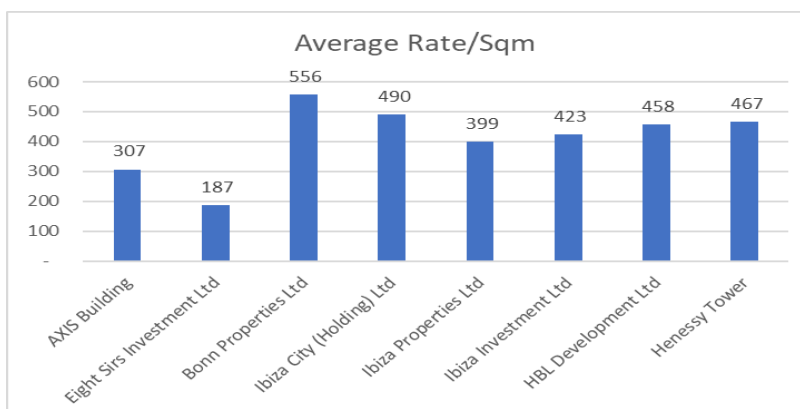
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office properties in Ebene ranges from MUR 330 per sqm for basic office to MUR 900 per sqm for the grade A modern office properties. IHL charges a rental averaging MUR 380 per sqm for a Grade A type property which is very competitive.

Four of the properties have recently built in FY20 and thus they are only partly filled. The remaining five properties exist for a longer period of time and are at 100% occupancy with limited movement of tenants. The overall average rent is moderate at MUR 380 per sqm per month.

The property-wise occupancy trend of 2019-2022:



Occupancy Trend				
Properties	2019	2020	2021	Jan 22 -Aug-22
AXIS Building	100%	100%	100%	100%
Eight Sirs Investment Ltd	0%	100%	100%	100%
Bonn Properties Ltd	100%	100%	100%	100%
Ibiza City (Holding) Ltd	0%	17%	61%	61%
Ibiza Properties Ltd	0%	13%	13%	13%
Ibiza Investment Ltd	0%	25%	25%	50%
HBL Development Ltd	0%	100%	100%	100%
Hennessy Tower	100%	100%	100%	100%
Total	55%	58%	66%	69%

As of August 31, 2022, the overall average occupancy of the nine properties is 69% (66% in December 2021). In FY20, Pine Travel & Tours Ltd (part of HYVEC group) signed an agreement with Eight Sirs Investment for rental of the 25 suites at MUR 4.2 million p.a ensuring a 100% occupancy throughout the year. The other properties, Axis building, Bonn Properties, Hennessy Tower and HBL Development are at 100% occupancy.

Notice Period: The notice period differs for each tenant ranging between 3 to 6 months.

Moderate tenure of lease compared to bond tenure

The weighted average tenure of lease in all properties is around 5.25 years compared to bond tenure of 7 years (remaining bond tenure period for 6 years). Around 13% of the tenants are companies within the HYVEC group and there is minimal risk of these companies vacating the spaces occupied. The existing tenants (Axis Fiduciary, BLC Robert & Associates, and the companies within HYVEC group) have repetitively renewed their lease agreements with IHL and some tenants have been in the properties for nearly 10 years. Majority of the premises have been rented on shell and core basis and the tenants had to cater for the fit-out. It decreases the risk of a tenant leaving within a short span of time due to the significant investment in fit-out.

DSRA for 1 semi-annual payment

IHL created a funded DSRA equivalent to 1 semi-annual interest payment of the Bond i.e., MUR 28.075 million. Further, it has provided a shortfall undertaking for the replenishment of DSRA within a month time of its utilization in case of shortfall of lease rental for interest payments. Additionally, as per bond covenant, IHL cannot take additional debt.

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Refinancing risk pertaining to principal repayment of the Bond

In terms of cumulative cash balance in IHL, the same would be around MUR 375 million at end of bond tenure (in case of nil dividend payment), thereby requiring minimum refinancing of MUR 700 million i.e., 70% of bond issue. Thereby, refinancing risk is high which could increase in case of downturn in real estate pricing wherein the security coverage would decline. LTV is currently at 58% with 4 newly constructed properties generating a yearly rental of MUR 21.54 million.

In FY20 and FY21, the company had successfully sold 2 vacant properties at MUR 330 million and MUR 390 million each. The company is currently in discussion with potential tenants for the newly constructed property which in turn will boost the value of these buildings.

The overall refinancing risk is expected to be moderate considering the likely increase in overall value of office properties with full occupancy. The loan to value ratio is 58% which is moderate. In case the company faces difficulty in sealing the deals with the prospective tenants and fails to increase the occupancy rate in the new buildings, the same will impact the repayment of the principal only. The management stated that if such an issue arises, they will refinance the bond repayment on maturity.

The refinancing risk is partly mitigated considering IHL's ability to sell 2 newly constructed vacant properties at more than MUR 300 million each during last 2 years and that the redemption mode would be decided one year before the bond maturity date providing buffer time for arranging finance. The non-exhaustive list includes (a) a term loan (ii) A new bond issuance; (iii) An equity solution through an IPO, trade sale or raising private capital. Finally, the sale of real estate is the last resort. The ability of IHL to raise funds through any of the sources mentioned in a timely manner would be a key rating sensitivity.

Industry Risk – Real Estate (Office)

The majority of offices is currently based in Ebene occupying some 312,000 sqm GLA (2021 figure) out of which 80% are Grade A properties. Port-Louis ranks second with a total GLA of 174,000 sqm out of which only 31% are Grade A properties. In the recent past the Mauritian real estate scenery has been experiencing a decentralization of office spaces from Port Louis to areas like Ebene and Vivea Business Park. The main drivers of this trend have been the lack of parking spaces, increasing traffic congestion to move in and out of Port Louis and increasing rental prices. The current total operational office stock situated in the main business nodes (Ebene, Port-Louis, Phoenix and Quatre Bornes) is 535,000 sqm of GLA – 75% are Grade A properties. The current operational office space within the smart cities is 58,400 sqm of GLA, with all Grade A properties. This brings the total existing office stock in Mauritius at 600,000 sqm GLA.

Demand-Supply- As per Jones Lang LaSalle (JLL), the total office space in Mauritius is expected to increase by 15% annually over the next three years. On average, some 30,000 sqm of office spaces are being built yearly. The construction of offices is expected to grow further by 64,000 sqm of GLA after three years to meet the high demand for business parks and modern Grade A offices. ***Over the past five years, demand for office space has been growing at an increasing pace and has exceeded the supply of Grade A office properties.*** The trend is expected to continue. The main drivers for demand are steady GDP growth, currency, political stability, and favourable investment incentives. Office developments in Mauritius is considered to be potentially lucrative.



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Rentals: The current rental for office buildings in Port Louis ranges around MUR 480 per sqm for a basic office to MUR 1,100 for grade A modern office buildings. The rental for office properties in Ebene ranges from MUR 330 per sqm for basic office to MUR 900 per sqm for the grade A modern office properties. We have seen that tenants are willing to pay higher rentals for Grade A modern office buildings. The main requirements of these tenants are offices being strategically situated mainly in the centre of the island, flexible layout within the building to cater for future expansion, sufficient parking spaces and attractive work environment (which is catered by business parks with green spaces, daily conveniences within reach and modern spaces).

Performance of IHL: In FY22 (January - December 31), total income of IHL post the amalgamation was MUR 75.8 million and EBITDA was MUR 66.1 million. PAT for the year was MUR 32.5 million. Overall gearing was 1.3x and interest coverage was 1.1x.

Financials of IHL

(MUR Million)

As on	Dec-20	Dec-21	Dec-22*
	Audited		
Rental Income	5.4	19.2	75.8
Revenue from contract with customers	1.1	13.0	12.9
Turnover	6.6	32.3	88.7
EBITDA	1.5	14.5	66.1
Depreciation	-	0.5	0.1
Interest	2.3	17.9	58.1
Non- operating Income (Gain on disposal of property)	29.2	-	24.6
PBT	28.4	-3.9	32.5
PAT	28.4	-3.9	32.5
GCA	28.4	-3.4	32.6
Share Capital	100.0	100.0	755.3
Tangible Networth	381.7	825.3	857.9
Total Debt	36.5	1,123.0	1,123.0
Shareholders loan	443.8	-	-
EBITDA Margin	0.2	0.5	0.7
PAT Margin	4.3	NM	0.4
Gearing	0.1	1.4	1.3
Debt to Rental	6.7	58.4	14.8
Interest Coverage	0.6	0.8	1.1

**Post amalgamation of the subsidiaries into IHL.*

Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve and intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax.
3. Total cash inflow includes cost of land
4. Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Net worth.
5. Total Operating Income includes revenue from others (Dividend income, rental income, Management fees, rebate on purchase, etc.).

Details of instrument

Details of long-term bond issue

Instrument	Amount (MUR Million)	Repayment	Interest Rate
Bond Issue	1,123	7 years from disbursement (November 2028)	Fixed 5% p.a

Disclaimer

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Annexure I

Rating Symbols

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.

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About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited. CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.

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