KASA INVESTMENTS LTD

November 01, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Bond Issue	MUR 600 million	**CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]**	**Reaffirmed**
Total	**600**		

Rating Rationale

The rating assigned to the Bond issue of KASA Investments Ltd (KIL) 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 the company.

The rating, assigned to the bond issue of MUR 600 million of KIL, derives strength from the pledge of shares of MUA Ltd. (MUA – rated CARE MAU AA-; Positive) & MCB Group Ltd. (MCBG – rated CARE MAU AAA; Stable) with 1.7x cover, part of bond proceeds to be utilised for acquisition of MUA & MCBG shares -post which KIL 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 CY21), low volatility & high trading density of both the stocks vis-à-vis SEMDEX during last 9 years, experienced & resourceful promoter, majority of KIL'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 KIL (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.

Rating Sensitivities

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

- Investment value to debt moves over 2.5 times
- 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 KIL

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

- Additional debt over and above the bond issue of MUR 600 million affecting its ability to service debt.
- Decline in Investment value to debt moves below 1.2 times or decline in share price of MUA and MCBG by more than 20%
- Lower dividend pay-out by MUA and MCBG compared to the projected pay out which affect KIL ability to service debt/interest.
- Deterioration in credit profile of MCBG and MUA

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

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BACKGROUND

KASA INVESTMENTS Ltd **("KIL"),** earlier known as Ducray Lenoir (Investments) Ltd was incorporated in July 2005, as an investment holding company. KIL is held by KASA Group Ltd, a company 100% controlled and managed by Mr. Dominique Galea and his family. Along with the investment in its subsidiaries, KIL also holds the investment in listed domestic companies (primarily in MUA, MCBG and United Docks).

KIL is the holding company of Horus Ltee (which owns 18.27% in United Docks Ltd). Additionally, the company has investments in Petite Riviere Investments Ltd and Poivre Ltee as associates which hold rental yielding properties (land or building) in Mauritius.

As of June 30, 2022, KIL had an investment portfolio of MUR 1,645 million (December 31, 2021 - MUR 1,610 million). Around 59% of the investment portfolio is invested in shares of MUA Ltd (rated CARE MAU AA-; Positive), 30% in MCB Group Ltd (rated CARE MAU AAA; Stable) and 10% in United Docks Ltd.

Performance in FY21

The main source of dividend for KIL is dividend received from its investment in listed entities (mainly MUA and MCBG) and from group companies. Total income increased significantly from MUR 22 million in FY20 to MUR 192 million in FY21 resulting from higher dividend income from KIL's group entities Ducray Lenoir Limited and Ducray Lenoir International Ltd. Over the last few years, majority of the dividend has been paid by MUA and MCBG except for 2020, when MCBG has not declared any dividend, in line with the directives issued by banking regulators in Mauritius, regarding the declaration of dividend. PAT for FY21 was MUR 171 million as compared to MUR 8 million in FY20. Gearing increased to 0.45 times (0.38x in FY20) following the bond issue availed in FY21 and interest coverage improved to 13.2x (1.6x in FY20).

Bond Issue

KIL has raised 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 its stake in MUA & MCBG. Going forward, KIL will utilize the dividend received from MUA & MCBG for repayment of interest of the proposed bond issue. Bond will be repaid on the 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.

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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.