

KASA INVESTMENTS LTD (“KIL”)

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.

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

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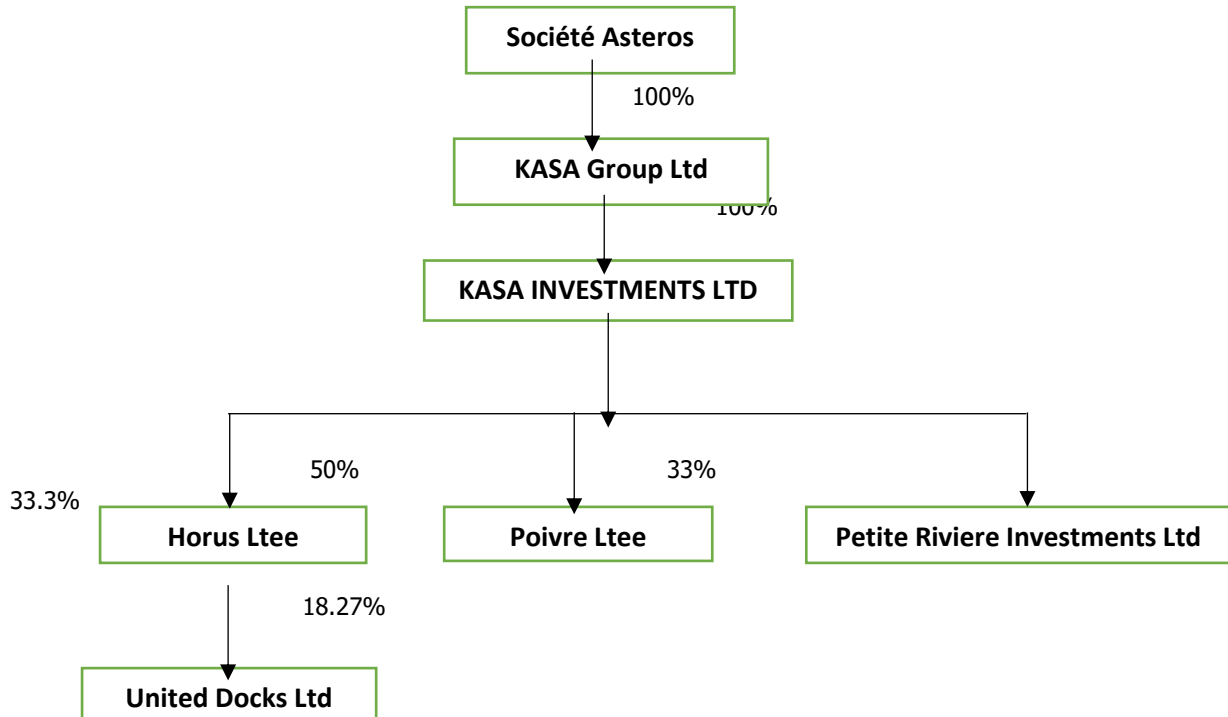
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BACKGROUND

KASA INVESTMENTS Ltd ("**KIL**"), earlier known as Ducrey 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 also holds 50% of Horus Ltee, which in turn 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.

The group structure as of August 2022 is depicted below:



Snapshot of KIL's investments

- Equity shares of listed companies in Mauritius** – Along with the investment in Subsidiaries, KIL also holds the investment in listed Mauritian companies. 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.
- Investment in property business-** KIL, through its subsidiaries Horus Ltee, Poivre Ltee, Petite Riviere Investments Ltd which hold rental yielding properties (land or building) in Mauritius.

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CREDIT RISK ASSESSMENT

Experienced & resourceful shareholders

KIL is held by KASA Group Ltd, a company 100% controlled and managed by Mr. Dominique Galea and his family. Mr. Galea also serves as Chairman of MUA Group, United Docks Ltd and Credit Guarantee Insurance Co. Ltd., which are leading insurance and property management companies in Mauritius. Further, his holding company has investments in Petite Riviere Investments Ltd and Poivre Ltee as associates which hold rental yielding properties (land or building) in Mauritius.

Majority of the investment portfolio is invested in shares of MUA Ltd & MCB Group Ltd

KIL holds investment in listed Mauritian companies, along with investment in subsidiaries. As at December 31, 2021, KIL had an investment portfolio of MUR 1,610 million. Majority of investments of KIL are in 3 listed companies - MUA, MCBG and United Docks. Investment portfolio over last 5 years:

(MUR Million)	Dec-18		Dec-19		Dec-20		Dec-21		Jun-22	
	Value	%	Value	%	Value	%	Value	%	Value	%
MUA Ltd	415	55.6%	518	59.6%	626	73.6%	970	60.2%	975	59.3%
MCB Group Ltd	184	24.6%	251	28.9%	150	17.6%	484	30.1%	492	29.9%
United Docks	139	18.6%	90	10.4%	69	8.1%	149	9.3%	170	10.3%
Other	9	1.2%	10	1.2%	6	0.7%	7	0.4%	8	0.5%
Total	747	100%	869	100%	851	100%	1610	100%	1645	100%

From the above, it shall be noted that KIL's investment has been continuously increasing, over the last few years, from MUR 747 million in FY18, to MUR 1,645 million on June 30, 2022.

Stake in major listed companies is as below:

Name of the company	MUA Ltd				
	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22
Total Shares issued	45,090,000	45,090,000	50,100,000	51,076,000	51,340,000
Investment held by KIL (no. of shares)	6,021,511	6,198,806	6,958,806	7,079,532	7,179,532
% stake of KIL	13.35%	13.75%	13.89%	13.86%	13.98%

Name of the company	MCB Group Ltd				
	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22
Total Shares issued	238,683,096	238,900,661	239,252,238	239,330,000	240,064,000
Investment held by KIL (no. of shares)	672,315	786,703	628,103	1,527,043	1,600,190
% stake of KIL	0.28%	0.33%	0.26%	0.64%	0.67%

Name of the company	United Docks Ltd				
	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22
Total Shares issued	10,560,000	10,560,000	10,560,000	16,844,285	16,844,300
Investment held by KIL (no. of shares)	1,390,853	1,400,853	1,400,853	2,401,340	2,401,340
% stake of KIL	13.17%	13.27%	13.27%	14.26%	14.26%

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Satisfactory track record & profitable operation due to steady dividend received from MUA & MCBG

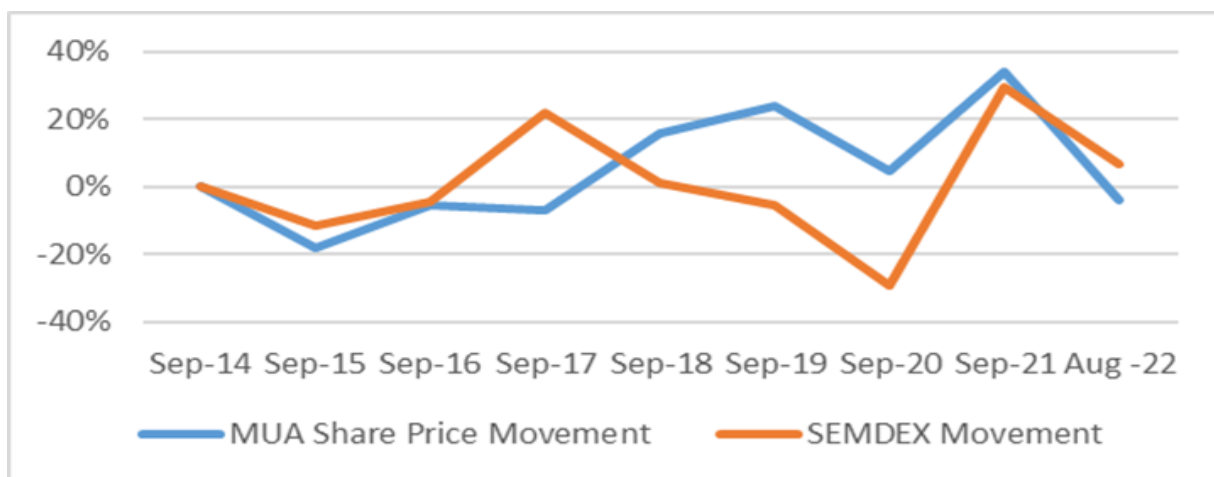
KIL has a stable track record of receiving dividends from MUA and MCBG. The dividend received by KIL in the last 4 years is as below:

Particulars	Dividend income				% of total Dividend Income			
	2018	2019	2020	2021	2018	2019	2020	2021
MUA Ltd	16	17	19	20	69%	63%	86%	11%
MCB Group Ltd	7	10	0	19	31%	37%	0%	10%
Others	0	0	3	153	0%	0%	14%	79%
Total	24	28	22	192	100%	100%	100%	100%

Over the last few years, the majority of the dividend (99%) has been paid by MUA and MCB. In 2020, MCB did not declare any dividend, in line with the directives issued by BOM, regarding the declaration of dividend in FY20. In 2021, both MUA and MCB paid dividend. KIL also received MUR 153 million of dividend from group companies and investments in other entities.

Performance of MUA Ltd & MCB Group Ltd in Stock market: -

MUA Ltd: MUA founded on July 26, 1948, is engaged in providing both General & Life Insurance in Mauritius. MUA is listed on the Stock Exchange of Mauritius (SEM). Mauritius remains the primary market for MUA, maintaining 23% market share for general insurance and a 12% market share for life insurance. MUA ventured into East Africa in 2014 and is headquartered in Nairobi (Kenya). **MUA has a market capitalization of Mur 7 billion as at June 2022.** The table below depicts last 9 years movement, in share price of MUA Ltd vis-à-vis the SEMDEX.



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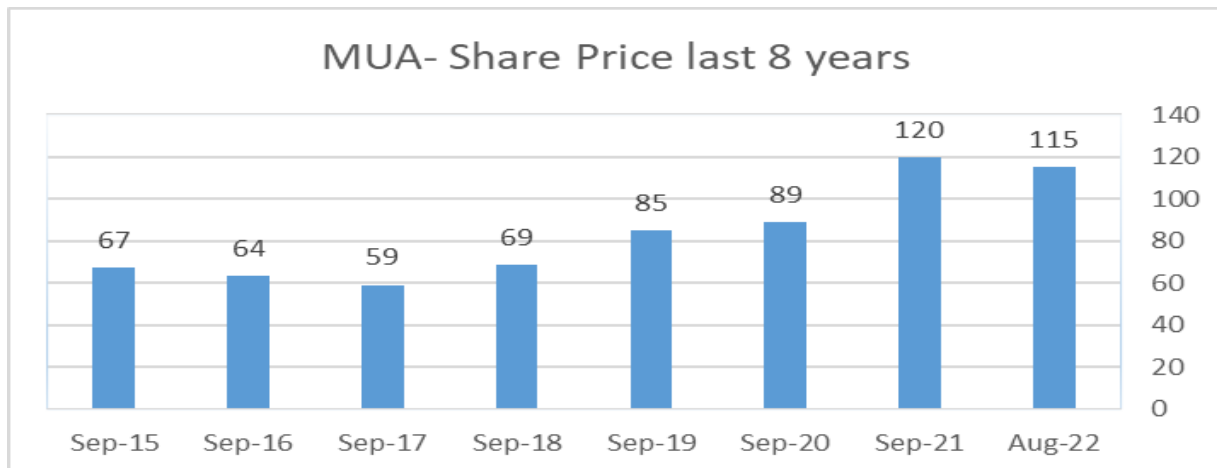
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Share Price (Movement in share price of MUA Ltd. over last 8 years)

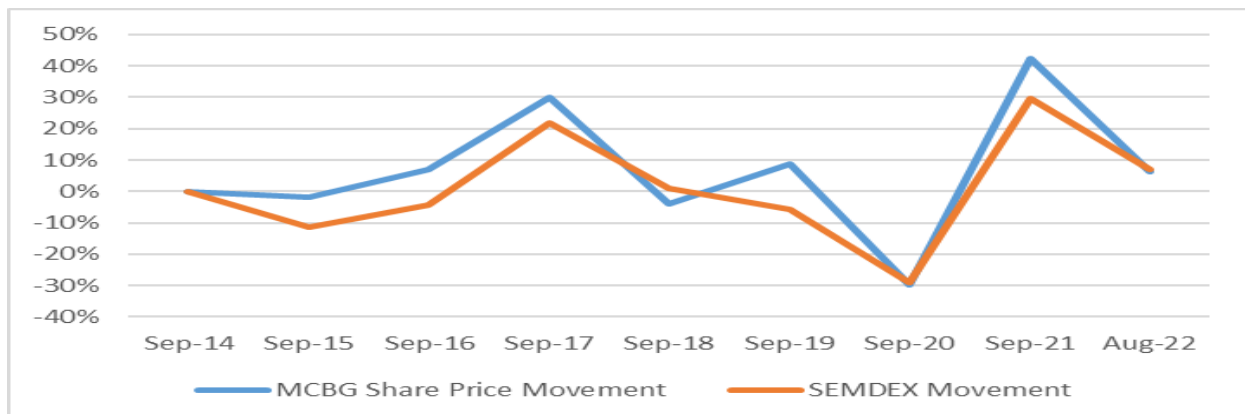


Dividend declared by MUA in last 3 year:

Particulars	Dec-19	Dec-20	Dec-21
Number of shares held by KIL	6,198,806	6,958,806	7,079,532
Dividend declared by MUA (per share)	2.82	2.82	2.89
Total dividend received by KIL (MUR Million)	17	19	20

MCB Group Limited: MCBG has a successful operational track record of more than 180 years. MCBG, has a diversified ownership base of around 21,000 shareholders, with foreign shareholding accounting for around 13% of the total. Top 6 largest shareholders holding in total of 18.8% stake are - National Pensions Fund (7.0%), Swan Life Ltd (3.1%), Promotion and Development Limited (3.0%), SICOM (2.6%), Eastspring Investments (Singapore) Ltd. (1.9%) and MUA Life Ltd. (1.2%).

As on June 2022, market capitalization of MCBG was MUR 74 billion The table below depicts last 9 years movement, in share price of MCBG vis-à-vis the SEMDEX



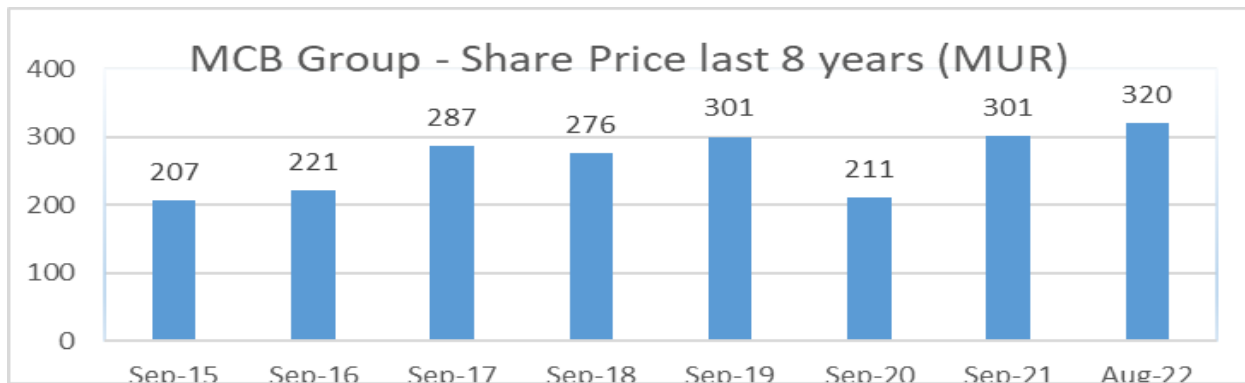
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Share Price (Movement in share price of MCBG Ltd. over last 8 years)


Dividend declared by the company for the last 3 years:

Particulars	31-Dec-19	31-Dec-20	Dec-21
Number of shares held by KIL	786,703	628,103	1,527,043
Dividend declared by MCBG (per share)	13.00	-	14.50
Total dividend received by KIL (MUR Million)	10	-	16

In September 2020, Bank of Mauritius issued Guidelines to all Banks, with respect to, dividend payment. While MCB Bank was profitable with Capital Adequacy Ratio well above Regulatory requirement, MCB Bank did not declare any dividend in CY20.

Stable financial position of KIL

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 improve to 13.2x (1.6x in FY20).

Industry
General Insurance business in Mauritius

In Mauritius there are 15 General Insurance companies, which generated a gross-premiums of MUR 10.3 billion and net premiums of Mur 9.1 billion in CY19. The key players in general insurance are Swan General (30%), MUA (23%), Eagle Insurance (12%) and SICOM (10%). Motor insurance made up the lion's share of general insurance business, accounting for 74% of total policies. Motor and Accident & Health segment is shared between 13 insurers, the major players being Swan (30%), MUA (21%), SICOM (9%), Mauritius Eagle (9%), Phoenix insurance (7%), NIC (5%) and New India insurance (5%). Property (14%), Miscellaneous (6%), Liability (6%), Engineering (3%), Transportation (5%) and Guarantee (<1%) insurance make up the remaining general insurance business. While number of Guarantee and Accident & Health insurance policies grew by 17% and 26% respectively, the total number of general insurance

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policies witnessed a 1.3% increase from 2018 to 2019 mainly on account of less transportation (-19%) and Engineering and Liability (-10%) insurance policies.

Banking Industry

As on 30th June 2021, 19 banks were licensed by the Bank of Mauritius (BOM), of which 6 were domestic-owned banks (MUR 1,210 billion assets), 10 foreign-owned banks (MUR 650 billion of assets) and 3 branches of foreign banks (MUR 50 billion of assets). All the banks combined employed 8,129 persons at June 2021 and had 160 branches and 450 ATMs across Mauritius. The Mauritian banking sector remains dominated by two large banks namely, The Mauritius Commercial Bank (MCB) Ltd and State Bank of Mauritius (SBM) with total assets of MUR 625,541 million and MUR 276,573 million respectively for FY21. Following the issuance of the Guideline for Dealing with Domestic-Systemically Important Banks (D-SIBs) in June 2014, five banks were identified as being systemic to the Mauritian banking sector and its economy given that these bank's Segment A (domestic/resident) assets represented at least 3.5% of GDP at market prices. Following an assessment carried out in June 2022, these five same banks have been determined as being D-SIBs and they are The MCB Ltd, SBM Bank Ltd, Absa Bank (Mauritius) Limited, The Hongkong and Shanghai Banking Corporation Limited and AfrAsia Bank Limited.

The BOM requires all banks to maintain a fortnightly minimum Cash Reserve Ratio (CRR) at the rate of 8% of their rupee deposits while on their foreign currency deposits the banks are required to maintain CRR of 6%. During FY21, the Mauritian banking sector, which was already characterized by an excess of liquidity, witnessed a widening in annual average rupee excess reserves from MUR 18.4 million to MUR 34.6 million while the annual average foreign currency excess reserves held by banks was equivalent to MUR 25.1 million compared to MUR 15.6 million for the previous year. In FY21, Banks' total foreign currency (FCY) deposits rose by 23.9% to reach MUR 937 million with the USD remaining the dominant FCY with a total USD deposit of MUR 753 million held by banks as at 30th June 2021.

Despite the headwinds which the Mauritian economy had to face due to the Covid-19 pandemic and subsequent disruptions in economic activities, the banking sector maintained its resilience which supported in keeping the economy financially healthy. The sector's total assets increased 13% in FY21 to reach MUR 1,911 billion from MUR 1,686 billion in FY20, mainly driven by higher investments in Government and BoM securities, which rose by 26%, from MUR 332 billion in FY20 to MUR 417 billion in FY21. Notwithstanding the difficult economic situation which prevailed throughout FY21, the banks' asset quality improved as shown by the Non-Performing Loans (NPL) ratio which went down to 4.8% from 5.3% in FY20. The banking sector in Mauritius remained adequately liquid throughout FY21, with the Liquidity Coverage Ratio (LCR) increasing from 236% in FY20 to 246% in FY21, indicating that the banks have sufficient High Quality Liquid Assets (HQLA) to meet their liquidity requirements for a 30-day stress period.

Given the high reliance on banks to support an economy, it is important for the banking sector to have a strong capital base to withstand the impact of unexpected economic shocks and protect the economy. In Mauritius, banks are required to maintain at all times ratio of capital base at 11.875% of their risk-weighted assets (CAR). For D-SIBs, an additional buffer of up to 2.5% should be observed. At the end of FY21, the Mauritian banking sector remained robust despite the average CAR declining slightly from 19.2% to 18.6%. Despite the decline the average CAR was well above the regulatory requirement.

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Financial Performance
KASA INVESTMENTS LTD (Standalone)
MUR Million

For the year ended as on	Dec-19	Dec-20	Dec-21
<i>Dividend income</i>	28	22	192
<i>Sale of shares and investment</i>	0	0	0
<i>Other income</i>	0	1	0
Total Income	28	23	192
EBIDTA	27	22	186
Depreciation	0	0	0
Interest	16	14	14
PBT	11	8	171
PAT	11	8	171
Gross Cash Accruals (GCA)	11	8	172
Financial Position			
Equity share capital	136	136	136
Tangible networkth	754	732	1,320
Total debt	288	281	600
- Long term debt	0	0	600
- Short term debt	288	281	0
Key Ratios			
Profitability (%)			
EBIDTA Margin	96.9	91.6	96.6
PAT / Total income	39.2	32.3	89.1
RONW	1.54	1.02	16.7
Solvency			
<i>Long Term</i>			
Overall gearing ratio	0.38	0.38	0.45
Interest coverage (times)	1.68	1.59	13.2
Total debt/ EBIDTA	10.67	13.04	3.23

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 Networkth.

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Annexure I
Details of Instrument - Long-term Bond

Particulars	Instrument	
Type of instrument	Bond Issue	
Issue Size	MUR 600 million	
Tenure	7 years	
Issue Date	October 21, 2021	
Purpose	Proceeds from the Bond issue was partly utilized to repay the outstanding overdraft facility of MUR 280 million from MCB and partly to increase stake in MCBG & MUA	
Interest Commencement	October 21, 2021	
Year	6th year (FY27)	7th year (FY 28)
Amount	MUR 200 million	MUR 400 million
Indicative interest rate	4.05% p.a.	4.20% p.a.
Interest Payment	Semi Annually (19 April and 19 October)	
Investors (Indicative)	ABC Bank Limited (Mur 200 million) and State Bank of Mauritius Limited (Mur 400 million)	

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity.

In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating. 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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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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