Lavastone Ltd
Brief Rationale
CRAF reaffirms CARE MAU A- (Stable) rating assigned to the Proposed Bond Issue of MUR 1,000 million of Lavastone Ltd (“Lavastone”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond	1,000.00	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**

Rating Rationale

The rating assigned to the proposed bond issue of MUR 1,000 million by Lavastone Ltd (Lavastone) derives strength from the satisfactory track record of CIM group, steady cash inflow from its subsidiaries/associate which own prime rent yielding properties, high occupancy level in majority of the properties, strong financial profile of 2 major subsidiaries (Lavastone Properties & Edith Cavell contributing 75-80% of cashflow to Lavastone), strong financial position of their respective tenants, majority of subsidiaries having low leverage and being profitable, longer tenure of lease agreements vis-à-vis tenor of the proposed bond coupled with demonstrated track record of timely renewal of lease agreements and comfortable coverage ratios of Lavastone.

The rating is, however, constrained by tenant concentration risk in the subsidiaries, refinancing risk at the time of redemption of the Bond and project execution risk in Riche Terre Hub, Compagnie Valomé Ltée and Victoria Station Limited.

The rating is sensitive to timely receipt of lease rentals, improvement in performance of dividend paying subsidiaries/associates, successful execution of construction/renovation projects within the envisaged cost and timelines and more than envisaged investment towards any debt funded acquisition and renovations. Ability of Lavastone to demonstrate steady cash build up from operations (around MUR 40 million annually on a cumulative basis for repayment of MUR 500 million in FY28/October 2027 and another MUR 40 million on a cumulative basis for repayment of MUR 500 million in FY29 /October 2028) is major rating sensitivity.

BACKGROUND

Lavastone Ltd (“Lavastone”) was originally incorporated in March 2012 as CIM Property Development Ltd, a wholly-owned subsidiary of CIM Financial Services Ltd (“CFSL” rated CARE MAU AA; Negative), mainly to hold and manage CIM group’s investment in the real estate sector.

Till 2012, CFSL was part of the Rogers group, with controlling shareholders of Rogers group being the Espitalier Noel family and the Taylor family (each controlling 26.5% of the Rogers group). In 2012, the controlling shareholders restructured Rogers group which led to the Taylor Family exiting Rogers and taking control of CFSL with a holding of 53%. During that restructuring activity, CFSL had inherited few buildings (leased out for office space and commercial space) in Port Louis, an industrial park on the outskirts of Port Louis and land bank in the south west region of Mauritius.

CIM Property Development Ltd expanded its portfolio of rent yielding assets over the last few years. In October 2018 (post receipt of all necessary Regulatory approvals including clearance from PMO's office), CFSL's Board transferred cash, property and financial assets portfolio (book value of MUR 1.1 billion) to CIM Property Development Ltd. against issue of shares. All property related entities (mainly Edith Cavell Properties, Le Morne Development Corporation Ltd and South West Safari Group Limited) held by CFSL were also transferred to CIM Property Development Ltd. CFSL also infused MUR 170 million into CIM Property Development Ltd. In November 2018, Cim Property Development Ltd. was renamed as Lavastone Ltd. and the same was subsequently listed on the Stock Exchange.

Lavastone is a holding company having investments in real estate (office space, commercial space, hotels) through its 6 subsidiaries and 1 associate. Lavastone derives its revenue as dividend from subsidiaries and associate, which in turn derives revenue by way of rentals from different properties.

Lavastone, professionally managed company, is governed by 9-member Board of Directors comprising of 3 members from Taylor family, 4 eminent professionals as Independent Director and 2 Executive Directors. Mr. Colin Taylor is the Chairman of Lavastone and Taylor Smith Investment. The strategic affairs of the company are looked after by Mr. Nicolas Vaudin (MD), who joined Lavastone in 2017 and has more than 10 years of experience of working in the Mauritian real estate industry, and his team.

Proposed Bond issue: As of September 23, 2020, Lavastone does not have any long-term debt and has an overdraft utilisation of MUR 327 million from The Mauritius Commercial Bank Ltd ("MCB"). None of the subsidiaries had any external debt and the expansion/renovation and acquisition projects in the subsidiaries had been funded out of internal accruals in different group companies. The company proposes to issue Bond of MUR 1,000 million in 2 tranches of MUR 500 million each (to be subscribed by MCB) for a period of 7 years. The first tranche of MUR 500 million is proposed to be issued in October/November 2020 (bullet repayment in October 2027) and the second tranche is proposed to be issued in October 2021 (bullet repayment in October 2028). Details on utilization of the bond proceeds are as follows:

Tranche 1: The first tranche of MUR 500 million is proposed to be issued in October/November 2020 and will be used to repay its overdraft facility of MUR 327 million and extend to Lavastone Properties Ltd for refurbishment of part of Les Cascades building and part-finance construction of slip lane at Riche Terre.

Tranche 2: The second tranche of MUR 500 million is proposed to be issued in October/November 2021. Lavastone is assessing opportunities for acquisition of yielding office properties. The second tranche will be issued once the company identifies some suitable assets to be acquired. Lavastone is also currently assessing the viability of going ahead with the renovation and extension of the Mourouk Ebony Hotel (owned by Lavastone's wholly-owned subsidiary, Compagnie Valome Ltée.). The rating is sensitive to the company's decision to go ahead with debt funded renovation and extension of the Mourouk Ebony Hotel, without proper visibility on tourist arrivals and demand for hotel in Rodrigues, post COVID-19 pandemic.

Lavastone owns 23 properties (8 commercial buildings, parking lots and land bank) though its various subsidiaries. Lavastone's major revenue will be in the form of dividends, interest and capital repayment of loans (loans given to subsidiaries out of the proposed bond issue) to be received from various companies (5 subsidiaries & 1 associate) engaged in the property sector.

Majority of the cashflows, to be utilized for repayment of the bond (interest and principal), will be from Edith Cavell and Lavastone Properties (75-80% of total cash inflow).

In FY19 (October 1 – September 30), Lavastone posted a PAT of MUR 43 million on a revenue of MUR 60 million. Overall gearing was Nil as on September 30, 2019.

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.