Rating Rationale
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.

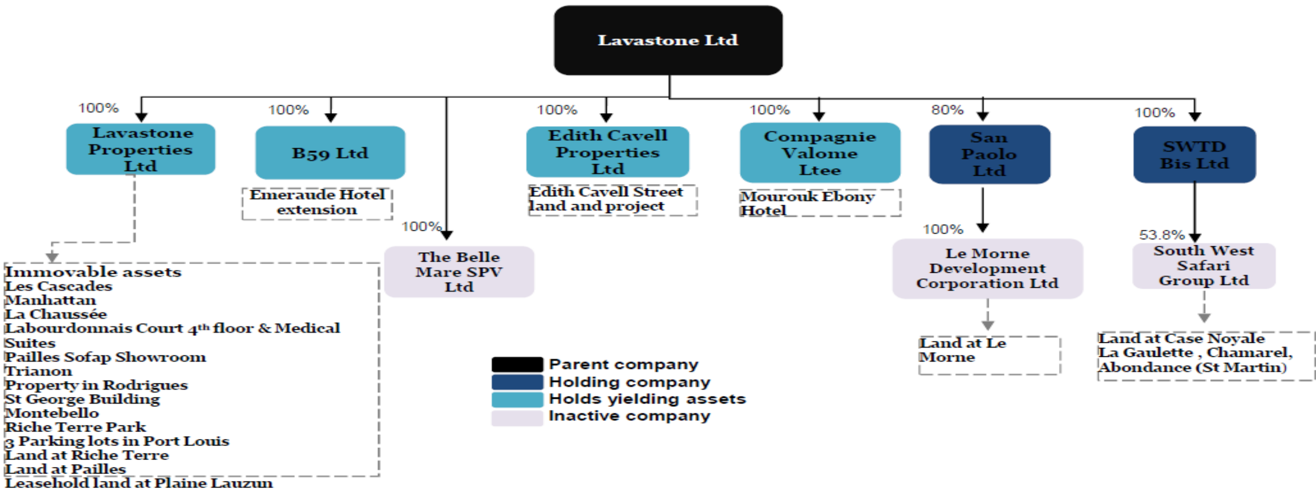
CREDIT RISK ASSESSMENT

Satisfactory track record of CIM group & experienced promoters

Incorporated in 2012, Lavastone (previously known as Cim Property Development Ltd) was the holding company for the property cluster of the CIM Group. It is owned and managed by two Taylor families of Mauritius (Jointly the Taylor Family), having its presence in Mauritius for more than 100 years. The Taylor families have set up Taylor- Smith Investment Company which has interest in the port, logistics and distribution and manufacturing industries, and Scott Investments which has interest in distribution of retail products and financial services with a team of more than 700 people across various business units. The Taylor Family through various entities holds 53% of Lavastone Ltd.

Satisfactory portfolio of rent yielding properties located in prime location of Port Louis

Lavastone holds 8 commercial (office & retail) and industrial properties in and around Port Louis, 2 hotel projects in Mauritius & Rodrigues, few parking lots in Port Louis and land bank in the south (Le Morne, Black River) and prime location of Mauritius (Riche Terre, Trianon and Port Louis) through 6 subsidiaries. The group structure and income source of the major group companies of Lavastone is as under:



MUR Million

Companies [FY19]	Source of revenue	Stake (%)	Revenue	PAT	GCA	Total debt	
Subsidiaries						From Lavastone	From Banks
Lavastone Properties Ltd	Rentals from diff. properties (retail, office, industrial, parking)	100%	157	139	56	37	0
Edith Cavell Properties Ltd *(under renovation in FY19)*	Rentals from tenants of 246 Edith Cavell Court (Retail & office)	100%	19 (FY18)*	16 (FY18)*	16 (FY18)*	157	0
B59 Ltd *(Project stage)*	Rentals from Hotel property (Emeraude Beach Attitude extension)	100%	From FY22			134	0
Compagnie Valome Ltée	Rentals from Hotel Property (Mourouk Ebony Hotel- Rodrigues)	100%	Acquired in FY19 Revenue from FY20			1	0
Associate							
Victoria Station Limited *(Project stage)*	Rentals from retail space, office space and bus terminal	26.98%	As from FY23			0	96

**Revenue, PAT & GCA for FY18. Closed for renovation in FY19 hence Nil revenue/PAT in FY19. Operational from Nov 2019.*

<u>Proposed Bond issue</u>: 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:

<u>Tranche 1</u>: 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.

<u>Tranche 2</u>: 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.

Steady cash inflow (dividend, interest and capital repayment) from group companies

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: *MUR Million*

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Dividend from subsidiaries/associates	68.1	78.0	94.3	99.8	105.2	114.4	117.6	118.9	123.8
Interest from subsidiaries/associates	30.3	39.8	37.1	32.7	29.7	26.7	23.5	20.1	16.7
Capital repayment by subsidiaries/associates	113.2	46.1	79.1	51.7	54.7	58.0	60.6	63.1	65.6
Total	211.5	163.8	210.4	184.1	189.7	199.0	201.6	202.2	206.1
Dividend, interest & capital repayment from Lavastone Properties	94.1	102.0	107.1	108.1	112.7	115.6	114.5	114.4	114.2
Dividend, interest and capital repayment from Edith Cavell	35.1	37.2	37.1	37.3	35.7	38.6	39.0	39.0	39.0
Total cashflow from Lavastone Properties and Edith Cavell	**129.3**	**139.2**	**144.2**	**145.4**	**148.4**	**154.1**	**153.5**	**153.4**	**153.2**
% of cashflow from Lavastone Properties	**44%**	**62%**	**51%**	**59%**	**59%**	**58%**	**57%**	**57%**	**55%**
% of cashflow from Lavastone Properties and Edith Cavell	**61%**	**85%**	**69%**	**79%**	**78%**	**77%**	**76%**	**76%**	**74%**

Strong financial profile of Lavastone Properties & Edith Cavell (contributing 75-80% of the cashflow to Lavastone) and strong financial position of their Lessees

1. Lavastone Properties Ltd: -

Lavastone Properties Ltd. ("Lavastone Properties"; 100% owned by Lavastone) owns 8 commercial buildings and parking lots with a leasable area of over 47,000 m^2 (leased out for office space, retail space and industrial warehouse), located in Port Louis, Riche Terre, Plaine Lauzan, Montebello, Pailles, Trianon and Rodrigues. It receives monthly rentals from these properties. Lavastone Properties will receive a loan of MUR 262 million (5.25%) from Lavastone Ltd, to be utilized for the following:

	Purpose	Amount (MUR million)	Status (September 2020)
1.	Construction of service lane near proposed Development of industrial warehouse at Riche Terre Hub	200	Loan not extended to Lavastone Properties yet. Same will be done in FY21 in line with requirement for construction.
2.	Refurbishment of 7th floor of Les Cascades Building	62	In progress
	Total	**262**	

The principal repayment will be amortized over a period of 15 years. Lavastone Properties will be paying annual interest and dividend to Lavastone. The past & projected financial performance of Lavastone Properties is as under:

(MUR Million)

Lavastone Properties Ltd	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
(MUR Million)	**Audited**		**Prov.**	**Projected**								
Revenue from existing properties (with escalation)	140	157	166	171	177	184	190	197	204	211	218	226
Revenue from BrandHouse in Riche Terre Hub	0	0	0	0	6	12	12	13	13	14	14	15
Revenue from new tenants (existing properties & Riche Terre Hub)	0	0	0	0	6	17	18	18	19	20	20	21
Total Revenue	**140**	**157**	**166**	**171**	**189**	**213**	**220**	**228**	**236**	**244**	**253**	**261**
EBITDA	76	89	100	103	114	128	133	137	142	147	152	158
Depreciation & amortisation	0	0	0	0	0	1	1	1	1	1	1	1
Interest	6	5	1	14	12	11	10	9	7	6	4	2
Fair value gain on Inv. properties	10	83										
PAT	**66**	**139**	**82**	**74**	**84**	**97**	**102**	**107**	**112**	**117**	**123**	**128**
GCA	**56**	**56**	**85**	**82**	**92**	**104**	**108**	**112**	**118**	**123**	**129**	**135**
Dividend Paid/Proposed	**0**	**14**	**14**	**61**	**69**	**74**	**75**	**79**	**82**	**81**	**81**	**81**
Repayment of loan from Lavastone Ltd (principal)		69	13	20	21	22	24	25	26	28	29	31
Total Debt (from Lavastone)	**106**	**37**	**37**	**279**	**258**	**236**	**213**	**188**	**161**	**133**	**104**	**73**
Cash & cash equivalents	38	14	109	128	130	139	149	157	166	181	199	221
Tangible Networth	968	1,094	1,161	1,175	1,190	1,213	1,240	1,268	1,297	1,333	1,375	1,422
EBIDTA margin (%)	53.97	56.42	60.32	60.32	60.32	60.32	60.32	60.32	60.32	60.32	60.32	60.32
PAT margin (%)	46.76	88.74	49.19	43.25	44.39	45.48	46.12	46.75	47.36	47.97	48.56	49.14
Gearing (X)	0.11	0.03	0.03	0.24	0.22	0.19	0.17	0.15	0.12	0.10	0.08	0.05
Total Debt/EBITDA	1.40	0.42	0.37	2.70	2.26	1.84	1.60	1.37	1.13	0.91	0.68	0.46
Interest coverage (EBITDA/Interest)	12.53	16.62	76.88	7.59	9.17	11.43	13.38	16.08	20.07	26.58	38.90	71.22

In FY19, the company has received rentals of MUR 157 million, increase of 12% from FY18, due to higher occupancy in St George and transfer of new properties. The rentals are projected to increase in FY20 due to increase in occupancy in St George building & parking and the company's smaller properties. In FY22, the revenue is expected to increase with progressive income from new tenants in Riche Terre Hub as from H2FY22. Post that the revenue is projected to increase by around 3% in line with rent escalation clauses.

Lavastone Properties derives around 80% of revenue from 5 rental generating properties situated in Port Louis and Riche Terre. These 5 main properties are Les Cascades, Riche Terre Industrial Park, Riche Terre Hub, Manhattan and St Georges. Details of the properties are stated below: *MUR million*

Owner	Lavastone Properties Ltd						
Property	**Les Cascades**	**Riche Terre Industrial park**	**Riche Terre Hub**	**Manhattan**	**St Georges**	**Others**	**Total**
Location	Port Louis	Riche Terre	Riche Terre	Port Louis	Port Louis	Port Louis, Montebello, Rodrigues & Trianon	
Leasable Area in m^2	6,897	15,466	6,110	5,925	1,322	13,666	**49,386**
Valuation (Report Date)	258 (Nov 2019)	266 (Nov 2019)	62 [Land] (Nov 2019)	125 (Nov 2019)	84 (Nov 2019)	544 (Nov 2019)	**1,339**
Type	Office	Industrial	Industrial	Office	Office	Industrial (58%), Parking (18%), etc.	
Key Lessees & % Area Occupied	IQEQ (90%)	Scott Group (60%), The Brand House Ltd (11%), Sukpak Ltd (12%)	The Brand House Ltd	CIM Finance Ltd (100%)	CIM Finance Ltd. (71%)	Small tenants, individuals, parking	

Owner	Lavastone Properties Ltd						
Property	**Les Cascades**	**Riche Terre Industrial park**	**Riche Terre Hub**	**Manhattan**	**St Georges**	**Others**	**Total**
Occupancy	92.3%	100%	(under Construction)	100%	97.6%	93.7%	**96.8%**
Total annual income from property*	52	42	NM	22	15	36	**167**
Weighted Lease Expiry (years)	8	6	NM	8	8	4	

*****_Comprises of Rental income & Operating income_

Lavastone properties will receive an annual rental of MUR 166 million in FY20 (with escalation clause), of which MUR 135 million (i.e. around 78% of the rentals) are from 4 major tenants – CIM group, Taylor Smith group (Scott group and Brand House) and IQEQ Global Business (Mauritius) Ltd (IQEQ). Accordingly, CRAF has analyzed, the financial performance of these 4 key lessees to establish their financial ability to pay lease rental in a timely manner.

Les Cascades' principal tenant is IQEQ, occupying over 6,200 m^2 (90%) of the total leasable area of 6,897 m^2 and contributing to 97% of the annual rental income of the building. **IQEQ's rental agreement is valid until June 2029.** The company provides compliance, administration, asset and advisory services to investment funds, global companies, family offices and private clients operating worldwide. The past financial of IQEQ:

IQEQ Global Business (Mauritius) Ltd (MUR Million)	FY18	FY19
	Audited	
Revenue	521.5	541.1
EBITDAR	65.4	118.7
Rent expense	39.6	50.8
EBITDA	25.8	67.9
PAT	7.6	-4.2
GCA	32.5	54.3
Total Debt (incl. obligations under finance lease)	11.3	347.1
Cash & cash equivalents	41.0	7.4
Tangible Networth	31.1	30.1
Rent-to-income ratio (%)	7.60	9.38
Gearing (X)	0.36	11.53

Riche Terre Industrial Park, located next to the motorway, comprises 15,466m^2 gross leasable area which is occupied by offices, warehousing and light manufacturing units. The main tenants are Scott Group and The BrandHouse (part of Scott Investments), accounting for 64% of the annual rental. Scott Group is engaged in the import & sale of consumer and pharmaceutical products since 1937. **Scott Group's lease agreements is valid for 9 years, expiring on Sept. 30, 2028.**

Scott & Co Ltd (MUR Million)	FY18	FY19
	Audited	
Total income	1,417.5	1,563.4
EBITDAR	101.1	144.2
Rent expense	17.2	23.1
EBITDA	83.9	121.1
PAT	32.7	64.1
GCA	57.7	91.7

Scott & Co Ltd (MUR Million)	FY18	FY19
	Audited	
Total Debt	315.5	216.8
Tangible Networth	389.0	428.3
Rent-to-income ratio (%)	1.21	1.48
PAT margin (%)	2.40	4.32
Gearing (X)	0.81	0.51

Riche Terre Hub is a new property with a budgeted gross leasable area of 6,110 m^2 (55% of which is currently under discussion for development). The Brand House (part of Taylor-Smith group) had signed an intent to lease agreement to occupy 3,410 m^2 from April 2020 to March 2035 for an annual rental of MUR 11.9 million, with a yearly escalation of 3.5% to set up a warehouse for retail products (furniture and electronic items). However, since the COVID-19 pandemic hit the shores of Mauritius, The Brand House has requested Lavastone to keep the project on hold. They will go ahead with their warehouse project only after satisfactory reassessment of demand for retail products (furniture and electronic items) in Mauritius

The Brand House is a leading distributor and retailer of home appliances and consumer electronics in Mauritius. It is a profitable company, making it a strong tenant with strong rent coverage. The past financial performance of The Brand House is as follows:

The Brand House Ltd (MUR Million)	FY18	FY19
	Audited	
Revenue	2,705.8	2,853.4
Operating expenses excluding rent	2,519.6	2,625.0
EBITDAR	186.2	228.3
Rent expense	58.3	61.2
EBITDA	127.8	167.1
PAT	77.2	114.1
GCA	105.9	138.1
Total Debt	41.9	126.4
Tangible Networth	344.4	423.4
Rent-to-income ratio (%)	2.16	2.15
PAT margin (%)	2.85	4.00
Gearing (X)	0.12	0.30

Manhattan and St Georges buildings, located in the heart of Port Louis, contribute to 23% and 5% of annual rental revenue respectively. Cim Finance Ltd. (rated CARE MAU AA; Negative) occupies the whole leasable area in Manhattan building and 71% of leasable area in St Georges building. Other tenants are Global Business Companies accounting for less than 5% of total rental each. **Cim Finance Ltd's rental agreement is valid until 2028 for both properties.**

2. Edith Cavell Properties Ltd: -

Edith Cavell Properties Ltd ("ECP"), owns commercial property at 246 Edith Cavell Court (6,416 m^2) in the centre of Port Louis. A wholly owned subsidiary of Lavastone and has been a profitable over last few years. In December 2018, ECP embarked on renovation of 246 Edith Cavell Court, by preserving the look and feel of the old building while making it a modern attraction inside. Accordingly, the existing tenants has been relocated to other properties and hence the company has not received any revenue in FY19. The renovation concluded in November 2019 and ECP has started housing tenants since. The premises consist of a commercial space (3,200 m^2), space dedicated to art and culture spanning (500 m^2), and office space (2,700 m^2) which can host up to 300 persons. In line with the development, Lavastone made an equity infusion of MUR 37.3 million in FY19 and lent a total of MUR 256 million to ECPL from overdraft facilities and internal accruals. The MUR 256 million interest-bearing (5.25%) loan will be repayable to Lavastone over a period of 15 years. The past and projected financials of ECP is as under:

MUR million

Edith Cavell Properties Ltd	Audited		Prov.	Projected									
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Total income	18.6	0.0	28.1	47.4	55.8	58.1	60.4	62.8	65.3	67.9	70.6	73.5
EBITDA	18.6	-3.2	9.8	27.4	37.9	38.5	37.8	38.7	40.2	40.8	42.5	44.2
Interest	0.0	0.0	8.1	14.4	13.7	12.9	12.1	11.3	10.4	9.5	8.5	7.4
PAT	16.4	-3.0	0.7	10.8	20.1	21.2	21.3	22.8	24.7	26.0	28.2	30.5
GCA	16.4	-3.2	0.7	10.8	20.1	21.2	21.3	22.8	24.7	26.0	28.2	30.5
Dividend Paid/Proposed		0.0	0.0	7.4	9.3	9.2	9.3	7.5	10.3	10.6	10.6	10.6
Repayment of loan from Lavastone		0.0	12.6	13.4	14.2	15.0	15.9	16.8	17.8	18.9	19.9	20.9
Total Debt from Lavastone	50.0	157.1	243.8	260.5	246.3	231.3	215.4	198.5	180.7	161.8	141.9	120.9
Cash & cash equivalents	1.9	0.0	55.0	45.0	41.6	38.6	34.7	33.1	29.6	26.2	23.8	22.8
Tangible Networth	215.4	249.7	250.4	253.8	264.5	276.6	288.6	303.8	318.2	333.6	351.2	371.1
EBIDTA margin (%)	100.00	NM	34.93	57.72	67.85	66.24	62.56	61.67	61.60	60.12	60.12	60.12
PAT margin (%)	247.43	NM	2.46	22.73	35.98	36.49	35.24	36.24	37.88	38.30	39.92	41.48
Gearing (X)	0.23	0.63	0.97	1.03	0.93	0.84	0.75	0.65	0.57	0.48	0.40	0.33
Total Debt/EBITDA	2.69	NM	24.88	9.52	6.50	6.01	5.70	5.13	4.49	3.96	3.34	2.74
Interest coverage (EBITDA/Interest)	NM	NM	1.21	1.90	2.77	2.97	3.11	3.43	3.86	4.30	5.00	5.93

As on September 2020, ECP has signed lease agreement for around 76% of the leasable area and the major tenants are The Brand House Ltd, Eversheds Sutherland Mauritius (legal firm), Luxemerken and Scott Ltd. All these tenants have signed rental agreements for 10 years (Luxemerken for 5 years) and covers around 58% of the total rentals. There is also an area for art and culture which is used for event specific purpose and generates revenue. FY20 has been the first revenue-generating year since the renovation. The FY20 performance has been impacted by lower occupancy in the initial period (around 55% between Nov- June and 76% post July 2020) and support measures given to retail tenants due to the impact of COVID-19 pandemic and national lockdown on their performance. Post- COVID commercial support to retail tenants are as follows:

- 5% marketing fee waived from February 2020 to December 2020
- 50% of basic rent waived for the period of lockdown (April & May)
- 15% of basic rent waived from June 2020 to November 2020, subject to achievability of turnover
- No escalation in rent until December 2021

Lavastone's management informed that as on September 1, 2020, they had outstanding debtors of MUR 17 million, of which the company has recovered MUR 10 million by September 20, 2020 post signing of discount agreements with the clients. They are in discussion with the tenants to recover the outstanding MUR 7 million, of which Lavastone expects to recover at least another MUR 3-4 million by mid-October 2020. They have created a provision for bad debts of around MUR 3-4 million accordingly.

The measures have been captured in the FY20 and FY21 financial projections of ECP. The company is in advanced stage of discussion to sign 20% of the remaining leasable area by June 2021. Hence, the property is expected to reach near full occupancy by end of FY21 (September 2021). Accordingly, total revenue is expected to increase by around 65% in FY21, compared to FY20. In addition, post December 2021, revenue is projected to increase by the average escalation of 4%, as per the rental agreements in place.

3. Compagnie Valome Ltée: -

Compagnie Valome Ltée ("CVL") owns the premises of the Mourouk Ebony Hotel, a 35 rooms 3-star hotel located in Rodrigues island with a track record of over 20 years. CVL was acquired by Lavastone in July 2019 at an aggregate cost of MUR 143 million. The hotel is built on an area of 35,326 m^2 , and comprises of beach restaurant, conference Centre and a multi-purpose/reception venue hall.

In April 2019, CVL has entered into a triple net lease agreement with Mourouk Ebony Management Ltd (Subsidiary of Trimetys Hotels, a successful hotel operator in Rodrigues and Mauritius) to lease the hotel property up to June 2031. CVL has been receiving MUR 465,000 per month from September 2019 to August 2020. There were plans to close down the Hotel's activities from January -November 2020 to undergo an expansion (addition of 30 more rooms) and renovation.

The expansion of the hotel has been postponed due to the COVID-19 pandemic. During discussion, the management stated that the hotel was operational in FY20, barring April and May 2020. In between June-September 2020, the hotel has been operational at 40-100% monthly occupancy, since it was the only travelling destination for the Mauritians, given the closure of the borders. Given the booking status and low visibility of the tourist arrivals to Rodrigues in CY21, the management has kept the expansion on hold. They will reassess the expansion proposal in Jan-March 2021, based on the booking status and clarity on the performance of the hotel sector. No rental income will be received during expansion and renovation period.

The expansion and renovation, comprising of adding a minimum of 30 rooms, is expected to cost a maximum of MUR 172 million. Post renovation, CVL is entitled to receive rentals as a percentage of the renovation cost plus acquisition cost (around MUR 25-26 million). The rent will subsequently be subject to an annual escalation clause.

If the CVL decides to go ahead with the renovation, Lavastone will extend a 15-Year MUR 214 million loan to CVL for the renovation (MUR 172 million) and for acquisition of a leasehold land near the hotel (MUR 42 million). The loan will bear an interest rate of 5.25% and capital will be repaid on a monthly basis. Post renovation, CVL is expected to have a positive PAT after interest payment, adequate to cover principal repayment to Lavastone. Projected performance of Compagnie Valome Ltée, is as under:

(MUR Million)

Compagnie Valome Ltée (MUR Million)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**
Revenue/Rent	2.8	27.1	30.9	31.7	33.3	34.1	35.0	36.3	37.5
EBITDA	-0.1	26.7	30.5	31.2	32.8	40.2	34.5	35.8	37.0
Interest	0.0	11.4	11.2	10.6	9.9	9.2	8.4	7.7	7.0
PAT	-0.1	12.7	16.0	17.1	19.0	25.8	21.6	23.3	24.8
GCA	-0.1	12.7	16.0	17.1	19.0	25.8	21.6	23.3	24.8
Dividend Paid/Proposed	0.0	0.0	2.4	6.9	8.2	8.3	11.0	11.0	11.0
Repayment of loan principal	0.0	10.9	11.6	12.3	13.0	13.8	13.8	13.8	13.8
Total Debt from Lavastone	1.4	231.0	219.4	207.1	194.1	180.4	166.6	152.8	139.1
Cash & cash equivalents	11.9	13.6	15.6	13.6	11.4	15.1	12.0	10.5	10.5
Tangible Networth	12.9	25.6	39.2	49.5	60.3	77.7	88.4	100.6	114.5
EBIDTA margin (%)	NM	98.48	98.54	98.53	98.54	98.54	98.54	98.54	98.54
PAT margin (%)	NM	46.79	51.74	54.06	57.15	75.47	61.77	64.10	66.24
Interest coverage (EBITDA/Interest)	NM	2.34	2.72	2.95	3.32	4.38	4.09	4.62	5.26

In FY20, CVL has been receiving monthly rental income of MUR 465,000, barring for the months of April and May 2020 where company is negotiating on the rent to be paid for that period as the hotel was temporarily being used as quarantine centre. The projections of CVL assume that the hotel will undergo renovation as from March 2021 and the rental income will be lower to the extent of the closure in FY21. Mourouk Ebony Hotel is expected to generate sufficient EBITDAR to cover its rental obligations. As per the lease agreement, CVL will get a corporate guarantee from the parent company of Mourouk Ebony Management Ltd, Trimetys Ltd.

4. Victoria Station Limited ("VSL"): -

In 2019, Lavastone acquired 40.64% (to be reduced to around 29% post equity injection by all shareholders) by injecting MUR 150 million in Victoria Station Limited, which is a Govt. of Mauritius backed project that consists of revamping the Victoria Bus Terminal in Port Louis to include a modern and visually aesthetic bus terminal with increased bus bays, office space, a hawker area, parking facilities and commercial spaces and other amenities. Lavastone, in addition to being investor in Victoria Station Limited, also has development management input regarding the project. The other investors are Innodis, RHT Bus Services, Promotion & Development and Bloomage. The aggregate project cost is MUR 1.8 billion (to be financed by debt and equity). The project is expected to be completed in two phases - retail space, hawker stalls and bus stations are expected to be operative by August 2022 and the office space is expected to be available by March 2023.

Once operational, VSL's main revenue will be from rentals to be received from renting of retail space (MUR 108 million), renting of Hawker stalls to the city council (MUR 42 million), renting of office space to National Transport Authority (MUR 12 million) and rentals from bus operators for using the bus bay (MUR 5 million).

Retail Space- VSL has already signed a letter of intent (LOA) with Winners, to be the anchor tenant, for an annual rental of MUR 18 million. VSL has also signed LOA with various retailers (over MUR 60 million of annual rental income). Management indicated that there is high demand for retail space.

Hawker Stalls- The City Council of Port Louis is committed to rent 100% of unsold stalls.

Office Space and Bus bay **-** NTA (or another GoM organisation) has already signed an option for the office space, guaranteeing MUR 12 million per annum. However VSL has the right to rent to another party if the rent proposed to the NTA/Other Government institution is not accepted (currently 2800m2 @ Rs450 per metre per month = Mur15 million annually). For bus bays, a payment of MUR 5 million to VSL is guaranteed by GOM. Given the prime location of the development and significant interest among the retailers for the same, the area is expected to be fully occupied by August 2022.

As confirmed by management of VSL, it will have a dividend policy of at least 90% (i.e. 90-100%) of cash generated. Accordingly, Lavastone is expected to receive MUR 82 million cumulative dividends from VSL over the term of the 7-Year Bond.

Long tenure of lease agreement vis-à-vis bond tenor with low exit risk and demonstrated track record of lease renewal

All the lease rentals in Lavastone Properties, Edith Cavell Properties and Compagnie Valome have escalation clause. Majority of the rental agreements are for more than 8 years vis-à-vis bond tenure of 7 years. In FY19, IQEQ and CFSL (occupying 98% of Le Cascades building for more than 7 years) have signed lease agreement for 10 years (valid till June 2029). In FY18, Scott & Co. (occupying 53% of Riche Terre Industrial park) has signed lease agreement for 9 years (Sept 2028). In FY19, Brand House (occupying 55% of Riche Terre Hub) has signed lease agreement for 15 years (May 2035). In FY19, CIM Finance (occupying 100% of Manhattan for more than 10 years and 60% of St Georges) has signed lease agreement for 9 years (Sept 2028). In September 2019, The Brand House Ltd, Eversheds Sutherland Mauritius (legal firm), Luxemerken and Scott Ltd (occupying around 60% of the rentals of Edith Cavell have signed rental agreements for 10 years (Luxemerken for 5 years). CVL has also entered into an agreement with Mourouk Ebony Management Ltd to lease the hotel property up to June 2031. Given that the tenants of Lavastone Properties (IQEQ, CFSL, Brand House and Scott & Co.) and Edith Cavell (Brand House only) has been occupying the property for last 7-10 years and has renewed lease Agreement in FY18 and FY19 for 10-15 years and high cost of relocation, there is high probability of them renewing the Agreement again in FY28-29.

Industry Risk

Rental Market:

Over the recent past the Mauritian real estate scenery has been experiencing a decentralization of office spaces from Port Louis to areas like Ebene and Moka. The main drivers of this trend have been the lack of parking spaces, increasing traffic congestion to move in and out of the city and increasing prices. Such migration has given rise to excess supply in terms of office spaces in Port Louis, leading to stagnant rental price. However, with recent developments such as the Supreme Court (near Les Cascades, Manhattan and St Georges building), Metro Express project and Project Victoria, amongst others, Port Louis is regaining its attractiveness to house office spaces as congestion is expected to decrease and parking facilities are likely to be more accessible. A revamp of the capital is also attracting more retailers to set up outlets in the city, increasing demand for rental space in Port Louis. This apart, given that Lavastone has lot of parking spaces, it is easier for the group to attract people for office spaces including people in the legal profession, preferring office space near the Supreme Court.

The monthly rent for furnished office space in Port Louis costs on average MUR 800 per sqm, varying significantly across different property types (MUR 470- MUR 1,500 per sqm) mainly based on the location, amenities and condition of the building. In comparison, the average monthly rent for furnished office space in Ebene revolves around MUR 1,300 per sqm due to Ebene Cybercity being a more recent development.

Rent for commercial spaces tend to be lower than for office spaces in the same region because most commercial spaces for rent are unfurnished properties. Accordingly, the average monthly rent for commercial space in Port Louis is around MUR 560 per sqm. In contrast, the average for commercial space in Ebene edges higher, closer to MUR 700 per sqm, as new buildings are getting erected at a higher rate than Port Louis.

There has been a growing demand for both commercial and office space over the last decade in Mauritius. However, the future trend remains uncertain due to the COVID-19 pandemic; while growth in the demand for office space is likely to resume in the long run in spite of an expected stagnation in the short term, uncertainty looms around the demand for commercial properties as it remains one of the segments of real estate that is most vulnerable to economic downturns.

Prospects

The prospects of Lavastone depends on timely receipt of lease rentals, improvement in performance of dividend paying subsidiaries/associates and successful execution of construction/renovation projects within the envisaged cost and timelines. The rating is sensitive to Lavastone's ability to build up cash from operations over the term of the Bond to repay MUR 500 million in FY 2027 (September 2027), and investment in any new debt funded acquisition and renovations. The company's proposed foray into debt funded expansion or renovation of its existing hotel in Rodrigues without any improvement in the outlook of the hotel sector will have a negative impact on the rating.

FINANCIAL PERFORMANCE

Standalone Financial performance of Lavastone *MUR Million*

For the year ended as on	Sep-18	Sep-19
	Audited	
	12M	12M
Dividend income	-	43.1
Interest on loan given to subsidiaries		17.4
Other income	15.0	-
Total Income	15.0	60.5
EBITDA	14.6	55.7
Depreciation	-	-
Interest	-	-
PBT	5.7	55.7
PAT	3.2	54.6
Gross Cash Accruals (GCA)	3.2	54.6
Dividend paid/proposed	-	13.6
Financial Position		
Equity share capital	450.0	1,721.1
Tangible networth	1,025.4	1,762.5
Total debt	-	-
- Long term debt	-	-
- Short term debt	-	-
Cash & Bank balances	47.6	14.4
Key Ratios		
Profitability (%)		
EBITDA / Total operating income	97.79	92.13
PAT / Total income	21.26	90.32
ROCE- operating (%)	1.84	2.75
RONW (%)	0.41	3.92
Solvency		
Long Term		
Long-term debt to equity ratio	0.00	0.00
Overall gearing ratio	0.00	0.00
Interest coverage (times)	146.30	557.10
Long-term Debt/EBITDA	0.00	0.00
Total debt/EBITDA	0.00	0.00

In FY19, (Oct 1-Sep 30), Lavastone has achieved a revenue of MUR 60 million mainly from dividend income MUR 43 million, and posted a PAT of MUR 54 million.

Adjustments

1. Tangible networth 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 Networth.

Details of Instrument

Proposed Bond

Instrument	Amount (MUR Million)	Repayment (MUR Million)
Bond	Tranche 1: 500 (Oct/Nov 2020) Tranche 2: 500 (Oct/Nov 2021)	Repayment on 7th Anniversary of Issue: Oct/Nov 2027: 500 Oct/Nov 2028: 500