Lavastone Ltd ("Lavastone")

October 26, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Proposed Bond Issue	650	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Bond	350	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Total	**1,000**		

Rating Rationale

The rating assigned to the Bond issues of Lavastone Ltd (Lavastone) derives strength from the experienced promoters, steady cash inflow from its subsidiaries/associate which own portfolio of rental yielding properties located in prime location of Port Louis, stable and higher occupancy level (more than 85%) in majority of the properties, stable financial risk profile of the major subsidiaries (Lavastone Properties & Edith Cavell), satisfactory risk profile of the tenants, majority of subsidiaries are profitable with nil outside debt, longer tenure of lease agreements vis-à-vis tenor of the issued & proposed bond coupled with demonstrated track record of timely renewal of lease agreements and comfortable cash 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 Compagnie Valome Ltée and Victoria Station Limited (Phase 2 – offices).

Rating sensitivities

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

- Improvement in occupancy level and financial performance of dividend paying subsidiaries/ associates
- Successful execution of renovation/expansion projects in different properties within envisaged cost and timeline

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

- Significantly large debt-funded new acquisitions and renovations not envisaged adversely impacting cash flows/debt coverage indicators
- Reduction in occupancy for more than 10% of existing levels.
- Non-Cash build-up of 50% from February 2024 over next 4 years for the principal repayment in Feb 2028 for the bond issue of MUR 350 million
- Delay in renovation of hotel project and less than expected performance of the hotel post re-opening in June 2023.

BACKGROUND

Lavastone Ltd (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 and interest income from subsidiaries and associate, which in turn derives revenue by way of rentals from different properties. It mainly

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

holds and manages Taylor group's investment in the real estate sector. Lavastone was a wholly owned subsidiary of CIM Holdings Limited – holding company of CIM Financial Services Ltd ("CFSL" rated CARE MAU AA; Stable). Kingston Asset Management Ltd (KAM) is Mauritius based investment holding company of Mr. Colin Taylor & his brothers and sister and Scott Investment Ltd (SIL) is held by his cousin Mr. Tim Taylor. Following a restructuring exercise by Cim Holdings Ltd, as of December 2020, Scott Investments Ltd (SIL) and KAML each had a 26.5% stake in Lavastone. As per Lavastone communique dtd. 6 September 2021, KAML has acquired 203,120,004 ordinary shares of Lavastone at a price of Rs 1.76/-per ordinary share and following the transaction KAML holds a total of 406,997,716 shares **representing 60.82% of stake of Lavastone and the balance 39.18% is held by public** which is listed on DEM (Development and Enterprise Market). Lavastone have inherited the main assets from CIM Group and has been expanding its rent yielding portfolio over the last few years.

Management: Lavastone, professionally managed company is governed by 8-member Board of Directors comprising of 4 eminent professional as non-executive directors, 1 executive director and 3 independent directors. Mr. Colin Taylor is the Chairman of Lavastone, KAML 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 15 years of experience of working in the Mauritian real estate industry, and his team.

Standalone performance in FY21: Lavastone is an investment company, and its only source of revenue is dividend received from its subsidiary/associate companies. Post restructuring and transfer of various subsidiaries under Lavastone, it started receiving income in the form of dividends from its subsidiaries which hold yielding properties. Lavastone also receives interest and capital repayments on the loans extended to its subsidiaries. Majority of the group companies are debt free barring B59 which has availed debt from BCP Bank and BH Property Investment which has a loan from ABSA Bank. In FY21, Lavastone posted revenue of MUR 89 million mainly from dividend income and PAT of MUR 71 million. GCA was positive at Mur 71 million.

Consolidated performance in FY21: In FY21, total income increased by 10% from MUR 197 million to MUR 217 million derived mainly due to increase occupancy in the properties. EBITDA was marginally higher at MUR 112 million and the group achieved PAT of MUR 162 million in FY21. Fair value gains during the year were MUR 124 million.

Lavastone has tied up with MCB for a multi tranche Bond issue of Mur 1,500 million in and it has raised only Mur 350 million as on date. The proceeds were fully utilized to repay existing overdraft facility.

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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.

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