

## Lavastone Ltd (“Lavastone”)

October 26, 2022

### Ratings

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

### 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsafrica.com](http://www.careratingsafrica.com).

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## 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 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.

## CREDIT RISK ASSESSMENT

### Satisfactory track record of CIM group and experienced promoters

Incorporated in 2012, Lavastone is now the holding company for the property cluster of Mr. Colin Taylor family, main promoter of CIM Financial Services Ltd. It is owned and managed by the Taylor family of Mauritius, having its presence in Mauritius for more than 100 years. The Taylor family has set up Taylor- Smith Investment Company which has interest in the port, logistics and distribution, distribution of retail products, financial services and manufacturing industries with a team of 700 people across various business units. Taylor family through KAML holds 60.82% of Lavastone Ltd.

### Satisfactory portfolio of rent generating 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 various subsidiaries.

### Activities of major subsidiaries of Lavastone:

1. **Lavastone Properties (Lavastone Properties Ltd)** owns commercial buildings and parking lots with leasable area of over 47,000 m<sup>2</sup> (leased out for office space, retail space and industrial warehouse) generating steady rentals
2. **Edith Cavell (Edith Cavell Properties Ltd)** owns a commercial property at Edith Cavell (6,416 m<sup>2</sup>) in centre of Port Louis operating with 86% occupancy and rentals of MUR 48 million.

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3. **Compagnie Valome Ltée (CVL)** owns Mourouk Ebony Hotel- Rodrigues. Steady rental generating hotel. Under renovation till June 2023.
4. **Victoria Station (Victoria Station Ltd)** is a government backed project that consists of the modern and visually aesthetic Victoria Bus Terminal in Port Louis with increased bus bays, office space, a hawker area, parking facilities and commercial spaces and other amenities.
5. **BH Property Investment Limited (BH Property Investments)** owns an office building in Ebene (8,266 sqm) in the new business district, Ebene, operating with 86% occupancy and rentals of around MUR 40 million.
6. **South West Safari Group Limited (South West Safari)** owns various plot of bare land in Black River.
7. **Others** – Small debt free subsidiaries holding land in prime areas, with negligible operations.

Companies [FY21]	Source of revenue	Stake	Revenue	PAT	Mur million	
					Total debt	
<b>Subsidiaries</b>					From Lavastone	From Banks
Lavastone Properties Ltd	Rentals from various properties (Retail, office, industrial & parking)	100%	174	153	0	0
Edith Cavell Properties Ltd	Rentals from tenants of 246 Edith Cavell Court (Retail & office)	100%	48	21	302	0
Compagnie Valome Ltée	Rentals from Hotel Property (Mourouk Ebony Hotel- Rodrigues)	100%	1	-5	0	0
B59 Ltd	Rentals from Hotel property (Emeraude Beach Attitude extension)	100%	0.1	-9	0	283
BH Property Investment Ltd	Rental from office properties	100%	48	-37	0	319
South West Safari Group Limited	Land development projects	54.82%	0.6	4.4	86.2	
<b>Associate</b>						
Victoria Station Limited	Rentals from retail space, office space and bus terminal	29.01%	0.4	-11	58	415

### Steady cash inflow from various group companies, holding rent yielding properties

Lavastone owns various properties (commercial buildings, parking lots and land bank) through its numerous subsidiaries. Lavastone's major revenue will be in the form of the dividends, interest and capital repayment of loans (given to subsidiaries) to be received from various companies engaged in the real estate & property sector.

<b>MUR Million</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
Dividend from subsidiaries/associates	43	14	71
Interest from subsidiaries/associates	11	14	17
Capital repayment by subsidiaries/associates	77	25	0
<b>Total</b>	<b>131</b>	<b>53</b>	<b>89</b>
Dividend, interest & capital repayment from Lavastone Properties	51	28	71
Dividend, interest and capital repayment from Edith Cavell	1	21	12

### Strong financial risk profile of Lavastone Properties & Edith Cavell and strong financial position of the Lessees

1. **Lavastone Properties Ltd:** - (100% owned by Lavastone) owns commercial buildings and parking lots with a leasable area of over 49,000 m<sup>2</sup> (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 received loan of Mur 45 million from Lavastone for acquisition of land in Plaine Lauzun and development of service road. Lavastone Properties acquired and refurbished the 7th floor of Les Cascades Building in FY21 at a total cost of MUR 50 million. The company had plans to construct a warehouse

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for retail at Riche Terre Hub, but it did not go ahead with the project as Riche Terre Hub was sold in July 2022.

Financials of Lavastone Properties is as below:

Lavastone Properties Ltd (MUR Million)	FY20	FY21
	<b>Audited</b>	
<b>Revenue</b>	<b>164</b>	<b>174</b>
EBITDA	95	<b>97</b>
Depreciation & amortisation	0.5	<b>6</b>
Inter group interest	1	<b>2</b>
Fair value gain on investment properties	7	<b>92</b>
PBT	102	<b>184</b>
PAT	86	<b>153</b>
GCA	79	<b>67</b>
Dividend Paid/Proposed	14	<b>69</b>
Repayment of loan from Lavastone (principal)	37	-
Total Debt	-	-
Cash & cash equivalents	10	<b>21</b>
Tangible Network	1,166	<b>1,246</b>
EBIDTA margin (%)	57.79	<b>55.49</b>
PAT margin (%)	52.17	<b>87.70</b>
Gearing (X)	0.00	<b>0.00</b>
Interest coverage (EBITDA/Interest)	74.17	<b>51.21</b>

Lavastone Properties derives around 80% of revenue from rental generating properties situated in Port Louis and Riche Terre. These 4 main properties are Les Cascades, Riche Terre Industrial Park, Manhattan, and St Georges. In FY21, Lavastone Properties has received rentals of MUR 150 million, increase of 7% from FY20, due to higher occupancy in Les Cascades building & St Georges building and escalation of rentals. Rental income is subject to annual escalation rate of 3-5% for all the properties. Other income consists of operating income, utilities income and asset management income billed to tenants. Lavastone Properties is a debt free company with stable rental.

Details of the properties are stated below:

*MUR million*

Owner	Lavastone Properties Ltd					
	Les Cascades	Riche Terre Industrial Park	Manhattan	St Georges	Others	Total
Property						
Location	Port Louis	Riche Terre	Port Louis	Port Louis	Port Louis, Montebello, Rodrigues & Trianon	
Gross Leasable Area in m <sup>2</sup>	5,653	17,110	2,963	1,443	16,393	<b>43,562</b>
Valuation (Sep 2021)	327	258 (6 buildings)	157	76	390	<b>1,208</b>
Type	Office	Industrial	Office	Office	Industrial & offices (76%)	
Key Lessees & % Area Occupied	IQEQ (98%)	Scott Group (63%), The Brand House Ltd (10%), Sukpak Ltd (10%)	CIM Finance Ltd (100%)	CIM Finance Ltd. (69%)	Small tenants, individuals, parking	
Occupancy (FY22)	100%	100%	100%	89%	81%	<b>94%</b>
Occupancy (FY21)	90%	100%	100%	84%	94%	<b>94%</b>
Total Rentals FY22	55	42	24	15	38	<b>174</b>
Total Rentals FY21*	55	42	24	17	37	<b>175</b>
Weighted Lease Expiry (years)	7	5	4	1	2	

\*Comprises of Rental income & Operating income

**Les Cascades'** principal tenant is IQEQ, occupying over 5,500 m2 of the total leasable area of 5,653 m2 and contributing to 98% of the annual rental income of the building. The residual amount emanates from Dunearn CARE Ratings (Africa) Private Limited

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Investments (2%). 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. IQEQ had posted positive EBITDA in FY19 and FY20, adequate to cover its rental obligations. Its rental expense accounts for around 8-10% of its total revenue.

**Riche Terre Industrial Park**, located next to the motorway, comprises 15,466m<sup>2</sup> gross leasable area which is occupied by offices, warehousing, and light manufacturing units. The main tenants are Scott Group (part of Taylor-Smith group), Sukpak Ltd (part of Rogers group) and The Brand House (part of Taylor-Smith group), accounting for 82% of the annual rental. Scott Group's lease agreements is valid for 9 years, expiring on Sept. 30, 2028. In July 2022, Lavastone Properties disposed of Riche Terre Hub for a considerable amount of MUR 406 million which will be paid as dividend to Lavastone in FY22.

**Manhattan and St Georges** buildings, located in the heart of Port Louis, contribute to 14% and 9% of annual rental revenue respectively. Cim Finance Ltd occupies the whole leasable area in Manhattan building and 69% of leasable area in St Georges building. **Cim Finance Ltd.'s rental agreement is valid until 2028 for both properties.**

**2. Edith Cavell Properties Ltd: -** owns commercial property at 246 Edith Cavell Court (7,549 m<sup>2</sup>) 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 December 2019 and ECP has started housing tenants since. The premises consist of a commercial space (3,500 m<sup>2</sup>), space dedicated to art and culture spanning (1,200 m<sup>2</sup>), and office space (2,800 m<sup>2</sup>). Financials of Edith Cavell Properties Ltd is as below:

Edith Cavell Properties Ltd (MUR Million)	Audited		
	FY19	FY20	FY21
MUR Million			
Revenue	0	29	48
Total income	0	29	48
EBITDA	-3	11	24
Interest	0	10	12
Fair value loss on investment property		-128	14
PBT	-3	-126	27
PAT	-3	-104	21
GCA	-3	2	7
Dividend Paid/Proposed	0	0	0
Total Debt from Lavastone	157	298	302
Cash & cash equivalents	0	10	3
Tangible Networth	250	145	166
EBIDTA margin (%)	NM	39.53	50.68
PAT margin (%)	NM	NM	44.61
Gearing (X)	0.63	2.05	1.81
Total Debt/EBITDA	NM	26.17	12.49
Interest coverage (EBITDA/Interest)	NM	1.15	2.04

As on June 2022, ECP has an overall occupancy rate of 89% and the major tenants are Industrial Finance Corporation of Mauritius, Legis Partners, Lavastone Properties Ltd, The Brand House Ltd, Eversheds Sutherland CARE Ratings (Africa) Private Limited

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Mauritius and Société des nouveaux Tabellions. All these tenants have signed rental agreements for 5-15 years and covers around 53% of the total rentals. Notice period to vacate the property is between three to six months for majority of the tenants. Edith Cavell Properties Ltd achieved a revenue of MUR 48 million in FY21 resulting from the increased occupancy of the building. It achieved PAT of MUR 21 million.

3. **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 (funded by cashflow from CIM group). The hotel is built on an area of 35,326 m<sup>2</sup> and comprises of beach restaurant, conference Centre and a multi-purpose/reception venue hall. In August 2019, CVL has entered into an agreement with Mourouk Ebony Management Ltd. (holding company of Mourouk Ebony Hotel) to lease the hotel property up to June 2031.

The hotel was operational between September 2020- February 2021 at 80-100% occupancy, since it was the only travelling destination for the Mauritians, given the closure of the borders. From March 2021, the hotel has been closed and renovation has commenced from May 2021. Same is expected to be completed by June 2023. 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 190 million (fixed price contract). Post renovation, CVL is entitled to receive rentals amounting to 8% of the renovation cost plus acquisition cost.

Lavastone has taken over Compagnie Valome Ltée (holding the property) in July 2019. The hotel has posted positive PAT in June 2019 and is posted positive PAT in September 2020. In FY21 the hotel has generated sufficient EBITDA to cover its rental obligations. In FY22, the company did not operate due to the renovation work going on. Post renovation in June 2023, the company is expected to achieve occupancy of around 70%. Room nights available per annum will increase in FY23 as number of rooms will increase.

## 2. **Victoria Station Limited ("VSL"):** -

In 2019, Lavastone acquired 26.98% (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 Bloomage and Mauritius Civil Service Mutual Aid Association. The aggregate project cost is MUR 1.8 billion (to be financed by debt and equity) against a total cost of MUR 1.73 billion. 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.

**Retail Space-** VSL has secured tenants for leasable area of 5,961 sqm out of which tenants occupying an area of 5,246 sqm have already moved in. They are currently operating at an occupancy rate of 83% for an annual rental of MUR 84 million. Management indicated that there is a healthy demand for retail space. The main tenant is Winners occupying space of 2,520 sqm.

**Hawker Stalls-** The hawker stalls are rented to the Municipality of Port Louis at a fixed monthly rental of MUR 3.5 million irrespective of % of stalls booked. The company does not rent the stalls to the hawkers directly.

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**3. BH Property Investments Limited: -**

Incorporated on October 16, 2015, BH Property Investments Limited ("BH Property Investments" rated CARE MAU A; Stable) is a 100% subsidiary of Lavastone Ltd. BH Property Investments was fully acquired in July 2022 by Lavastone for a total purchase consideration of MUR 207 million Grit Services Limited.

The core activity of BH Property Investments includes rental of investment property (office building). Its portfolio comprises of one standalone building located in Ebene named as ABSA House which was built in the early 2000s. As on September 2022, ABSA House has a total gross lettable area (GLA) of 8,266 sqm with 86% occupancy generating a rental of around MUR 40 million annually. The sole tenant occupying space in the building is ABSA Bank (Mauritius) Limited. ABSA Bank has been occupying space in the building for around 12 years.

Since inception, there has been limited movement of tenants in the property. The main tenant, ABSA Bank (Mauritius) Limited has been in the property for more than 12 years. In July 2021, ABSA Bank has extended the lease period for a further period of four years now expiring in May 2032. However, the same has been renewed only for four floors out of five floors which is currently occupied by ABSA Bank. Lease expiry date for the 5th floor is on May 31, 2023, and ABSA Bank has the right to end its agreement with serving any notice and without undergoing any judicial or extra-judicial formality for the 5th floor. Additionally, ABSA Bank has the right to vacate one additional floor, thirty months as from 31st May 2023 by way of a written notice of at least 6 months.

BH Property Investments achieved a similar level of revenue (MUR 48 million) and EBIDTA (MUR 42 million) in FY21 as compared to FY20. Profitability was impacted due to fair value losses on investment property and foreign exchange losses arising on the EURO long-term facility. The company posted a cash loss of MUR 36 million. Debt to rental for the year was 6.64x times and cash coverage was 2.71x times. T

**2. South West Safari Group Ltd ("SWSG"): -**

Lavastone holds 54.82% stake in SWSG which was incorporated on March 5, 2012. The company is engaged in renting of hunting grounds and land development. It holds various plots of bare land in Black River (La Goulette, Case Noyale and Chamarel) and hunting grounds at Bertrand and L'Abondance).

The current project under SWSG entails sale of 84 plots of land in Black River (La Goulette). Infrastructure works have already been done and only the morcellement permit is pending for delivery of these land parcels. They are awaiting the PMO's approval for same. Out of 84 plots of land, they have already sold 80 plots for which a deposit payment of 30% has been received of the sale amount. The management stated that that the sale will be realized by end of year. They also mentioned that they have received interests from more than 100 buyers for these plots of land and there is great demand for such land in that region. They are also developing some lands in Chamarel and another morcellement projects (12.4 arpents) which will generate additional cashflow.

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### 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 between 5 to 15 years vis-à-vis bond tenure of 7 years.

Name	Building	Tenure	Valid till date
IQEQ	Le Cascades building	10 years	Jun 2029
CFSL			
Scott & Co.	Riche Terre Industrial Park	9 years	Jun 2028
CIM Finance	Manhattan	9 years	Sep 2028
	St Georges	9 years	Sep 2028

In September 2020, The Brand House Ltd, Eversheds Sutherland Mauritius (legal firm) and Scott Ltd (occupying around 50% of the rentals of Edith Cavell have signed rental agreements for 10 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.

### Refinancing Risk at time of redemption

The company, Lavastone (Standalone) had more than MUR 500 million as on Sept 30, 2027, and the company in general maintains the similar amount of free cash balance against bond repayment of MUR 350 million in February 2028 thereby having largely covering the risk of refinancing. However, there is a risk of utilization of such excess cashflow by way of dividend payment, acquisitions, etc. anytime during FY22-28. The risk gets mitigated to some extent, since the company has to build up cash for 50% of the debt repayment in redemption account, as per terms of the sanction. During discussion MCB officials stated that they will monitor the cash build up on annual basis. This apart, MCB Bank officials has informed that MCB can provide new debt (term loan/Bond) to repay part of the Bond (balance Bond repayment to happen from cash build up), given that the subsidiaries have yield generating properties at prime location of Port Louis, land bank at prime locations of Mauritius and the payback period for the properties and construction/renovation of the hotels are generally more than 10 years. Refinancing risk is also low, considering the company being part of Taylor group and most of the tenants (occupying the respective property for last 7-10 years) having demonstrated preference to continue in the same premise due to stability in operations and high cost of relocation. The company's 9 years lease agreements vis-a-vis repayment period of 7 years also provide support. Finally, the sale of real estate is the last resort. The ability of Taylor group to raise funds through any of the sources mentioned in a timely manner would be a key rating sensitivity.

### Industry Risk - Real Estate

The majority of offices is currently based in Ebene occupying some 312,000 sqm GLA out of which 80% are Grade A properties. Port-Louis ranks second with a total GLA of 174,000 sqm out of which only 31% are Grade A properties. In the recent past the Mauritian real estate scenery has been experiencing a decentralization of office spaces from Port Louis to areas like Ebene and Vivea Business Park in Moka Smart city. Vivea business Park has existing Grade A office property of 25,000 sqm, which generates steady rentals.

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The main drivers of this trend have been the lack of parking spaces, increasing traffic congestion to move in and out of Port Louis & Ebene and increasing prices. The current total operational office stock situated in the main business nodes (Ebene, Port-Louis, Phoenix and Quatre Bornes) is 535,000 sqm of GLA – 75% are Grade A properties.

With the introduction of smart cities, many companies have started to relocate across the various smart cities being built. The most advanced projects as on date is Vivea Business Park (Moka) and Unicity each with operational GLA of 25,000 sqm and 15,000 sqm respectively. Expansion plans are ongoing. The current operational office space within the smart cities is 58,400 sqm of GLA, with all Grade A properties. This brings the total existing office stock in Mauritius at 600,000 sqm GLA.

However, with recent developments such as 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.

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.

**Rentals:** The current rental for office buildings in Port Louis ranges around MUR 480 per sqm for a basic office to MUR 1,100 for grade A modern office buildings. The rental for office properties in Ebene ranges from MUR 330 per sqm for basic office to MUR 900 per sqm for the grade A modern office properties. We have seen that tenants are willing to pay higher rentals for Grade A modern office buildings. The main requirements of these tenants are offices being strategically situated mainly in the centre of the island, flexible layout within the building to cater for future expansion, sufficient parking spaces and attractive work environment (business parks with green spaces, daily conveniences within reach and modern spaces).

### **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 350 million in FY28, 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 is a negative rating sensitivity.

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**Financial Performance**  
**Standalone Financial performance of Lavastone**

MUR Million

For the year ended as on	FY19	FY20	FY21
	<b>Audited (12M)</b>		
Total Income	60	36	89
EBITDA	56	28	81
Interest	-	10	11
PBT	56	-3	72
PAT	55	-4	71
Gross Cash Accruals (GCA)	55	17	71
Dividend paid/proposed	14	14	27
Equity share capital	1,721	1,721	1,721
Tangible networkth	1,762	1,745	1,775
Total debt	-	348	381
Cash & Bank balances	14	-	18
<b>Key Ratios</b>			
EBITDA / Total income	92.13	77.27	91.72
PAT / Total income	90.32	-9.94	80.55
ROCE- operating (%)	2.75	0.33	3.11
RONW (%)	3.92	-0.20	4.05
Long-term debt to equity ratio	0.00	0.00	0.21
Overall gearing ratio	0.00	0.20	0.21
Interest coverage (times)	557.10	2.79	7.36
Long-term Debt/EBITDA	0.00	0.10	4.68
Total debt/EBITDA	0.00	12.45	4.69

**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.

**Adjustments**

1. Tangible networkth 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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(Subsidiary of CARE Ratings Ltd.)

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

Phone: +230 59553060/58626551 • www.careratingsafrica.com

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For the year ended as on	FY19	FY20	FY21
<b>September</b>	<b>Audited (12M)</b>		
Total Income	162	197	217
EBITDA	60	99	112
Depreciation	0	1	3
Interest	2	18	28
Profit on land sales	1	-	124
PBT	186	-106	198
PAT	156	-104	162
Gross Cash Accruals (GCA)	176	67	188
Dividend paid/proposed	14	14	29
Equity share capital	1,721	1,721	1,721
Tangible networth	2,854	2,744	2,876
Total debt	113	437	665
Cash/Bank	38	29	63
<b>Key Ratios</b>			
EBITDA margin	37.02	50.13	51.54
PAT / Total income	96.28	-52.94	74.77
ROCE- operating (%)	2.61	3.10	3.13
RONW (%)	7.12	-3.72	5.77
Long-term debt to equity	0.01	0.03	0.21
Overall gearing	0.04	0.16	0.23
Interest coverage (times)	NM	5.57	4.00
Long-term Debt/EBITDA	0.30	0.64	3.11
Total debt/EBITDA	0.94	2.79	4.93
Current ratio	1.17	0.28	0.84

### Consolidated Financial performance of Lavastone

**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. Going forward, EBITDA is expected to increase in line with higher rentals from these properties (higher occupancy) and rentals to be received by Compagnie Valome from Mourouk Ebony Hotel, post renovation in June 2023. Lavastone has generated some cash in FY21 with the sale of Riche Terre Hub and acquisition of ABSA House. Lavastone will be also generating cash by selling land in Case Noyale through morcellement route (sell land and develop infrastructure based on confirmed sales). The company is expected to generate stable profit throughout the projected years.

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### Details of Instrument

#### Bond

Particulars	Amount (MUR Million)	Repayment (MUR Million)	Interest Rate
Bond	350	Bullet repayment in Year 7 (FY28)	3.50% p.a (Repo + 1.25%)
Proposed bond	650	Bullet repayment in Year 7 from issue date	3.50% p.a (Repo + 1.25%)
<b>Covenant by MCB:</b> <ol style="list-style-type: none"> <li>1. Issuers Interest coverage to be more than 2x</li> <li>2. Loan to Value Ratio &lt;0.6x</li> <li>3. Cash build-up of 50% over next 7 years for principal repayment for entire Mur 1,000 million</li> </ol> <b>Security for the Bond:</b> Secured by a first rank floating charge over all its assets and each of the guarantors to give corporate guarantee			

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.

#### Disclaimer

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**Contact us****Chief Executive Officer**

Name : Mr. Saurav Chatterjee  
Phone : + 230 5862 6551  
E-mail : [saurav.chatterjee@careratingsafrica.com](mailto:saurav.chatterjee@careratingsafrica.com)

**Analytical Contact:****Chief Rating Officer**

Name : Mr. Vidhyasagar Lingesan  
Phone : +230 5273 1406  
E-mail : [Vidhya.sagar@careratingsafrica.com](mailto:Vidhya.sagar@careratingsafrica.com)

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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.

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