Lavastone Ltd
Brief Rating Rationale
CRAF reaffirms CARE MAU A- (Stable) rating assigned to the Bond Issue of MUR 350 million and CARE MAU A- (Stable) rating assigned to the proposed Bond issue MUR 650 million of Lavastone Ltd

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Proposed Bond Issue	650	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Bond - Issued in February 2021	350	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**

Rating Rationale

The rating assigned to the Bond issue of MUR 350 million and proposed Bond Issue of MUR 650 million by 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, high occupancy level (more than 90%) in majority of the properties, stable financial risk profile of 2 major subsidiaries (Lavastone Properties & Edith Cavell contributing around 80% of cashflow to Lavastone), satisfactory financial position of their respective tenants, majority of subsidiaries are profitable with nil debt from banks, 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 satisfactory debt 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.

Rating sensitivities

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

- Timely receipt of lease rentals
- 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

- Non-Cash build-up of 50% from February 2024 over next 4 years for the principal repayment in Feb 2028 (i.e., Mur 45 million annually 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 September 2022

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; Negative). Following restructuring exercise in November 2020, KAML and Scott acquired the entire 53% stake of CIM Holdings in Lavastone. Subsequently in August 2021, KAML has acquired entire stake of Scotts in Lavastone and additional stake from the market.

As per Lavastone communique dated 6 September 2021, KAM 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 almost 60% of stake of Lavastone and the balance 40% is held by public**.**

Lavastone, professionally managed company, is governed by 8-member Board of 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 14 years of experience of working in the Mauritian real estate industry, and his team.

Standalone: In FY20, (Oct1-Sep30), Lavastone has achieved a revenue of MUR 36 million, mainly from dividend income and PAT of MUR (4) million. PAT was negative due to non-cash fair value loss. GCA was positive at Mur 17 million.

Consolidated: In FY 20, total rentals of MUR 197 million has increased by 22% over the previous year, mainly due to increase occupancy in the Lavastone properties and Edith Cavell Properties. Interest coverage was 5.60x. Overall gearing was 0.16x as on September 30, 2020.

Bond Issue: Lavastone has issued MUR 350 million for the financing the ongoing Edith Cavell project and acquisition of land in Plaine Lauzun.

For the proposed bond of MUR 650 million will be used for the financing of the ongoing capex of renovation of Mourouk hotel in Rodrigues and construction of warehouse at Riche Terre Hub, once a lease agreement has been signed with tenant.

As per SEM communique dated 18th February 2021, Lavastone has raised Mur 1,500 million under secured Notes programme. However, as confirmed by the management and The Mauritius Commercial Bank (MCB; sole subscriber of the Bond issue), Lavastone has tied up with MCB for a multi tranche Bond issue of Mur 1,500 million in February 2021, valid till February 2022. Lavastone has raised only Mur 350 million by issuing Bonds to The Mauritius Commercial Bank and has utilized the proceeds to repay Mur 350 million overdraft facility availed from MCB.

MCB has informed that while Lavastone has identified projects for Mur 1,000 million, MUR 500 million is for proposed acquisition. In case it plans to avail the additional Mur 500 million, the same will be disbursed only after proper evaluation & due diligence of the project to be acquired.

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.