CARE Ratings AFRICA

Rating Rationale
Lavastone Ltd ("Lavastone")

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

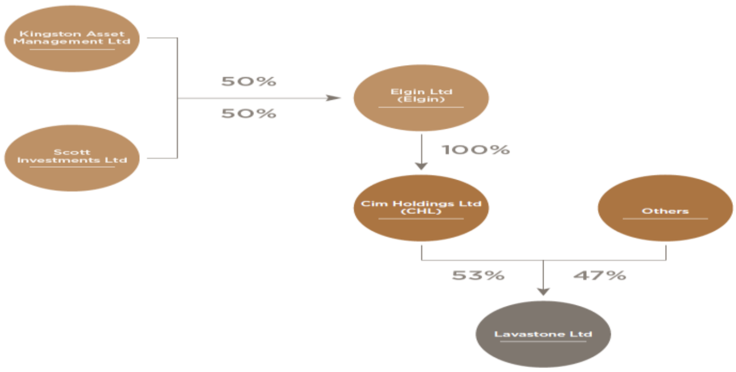
Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- 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). As on September 30, 2020, the holding structure of Lavastone was as under:



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 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, 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 almost 60% of stake of Lavastone and the balance 40% is held by public**.**

Management: Lavastone, professionally managed company, is governed by 8-member Board of Directors comprising of 3 members from Taylor family, 4 eminent professionals as Independent Director and 1 Executive Director. 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.

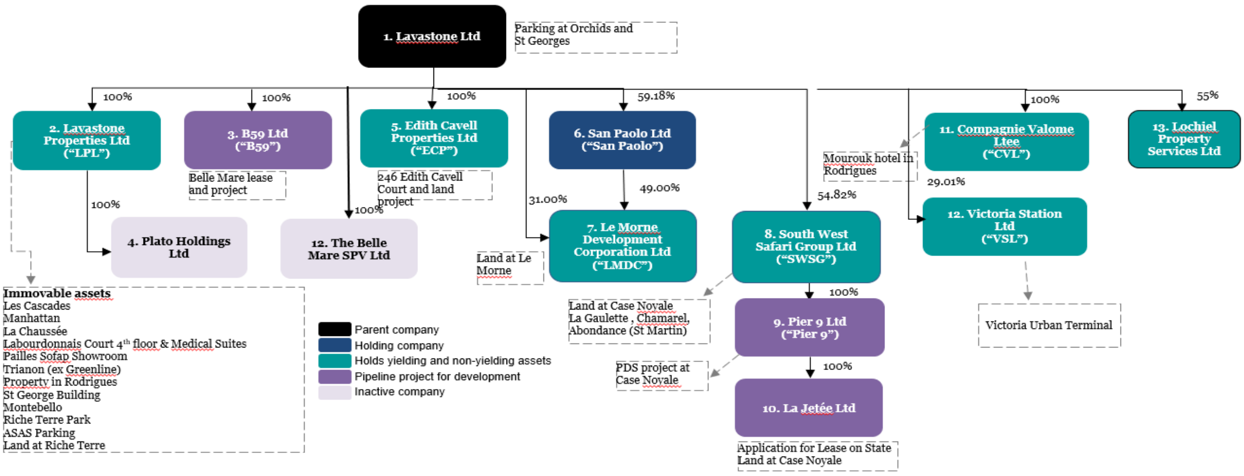
CREDIT RISK ASSESSMENT

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% 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 6 subsidiaries. The group structure and income source of the major group companies:



Mur million

Companies [FY20]	Source of revenue	Stake	Revenue	PAT	Total debt	
Subsidiaries					From Lavastone	From Banks
Lavastone Properties Ltd	Rentals from various properties (retail, office, industrial, parking)	100%	164	86	0	0
Edith Cavell Properties Ltd (Operational from Jan 20)	Rentals from tenants of 246 Edith Cavell Court (Retail & office)	100%	29	2	298	0
Compagnie Valome Ltée (Project Stage from Mar 21)	Rentals from Hotel Property (Mourouk Ebony Hotel- Rodrigues)	100%	6	2	0	0

B59 Ltd (Completed on 1st October 2021)	Rentals from Hotel property (Emeraude Beach Attitude extension)	100%	0	-10*	0	56
Associate						
Victoria Station Limited (Project stage)	Rentals from retail space, office space and bus terminal	29%	0	-9*	0	19

**Loss due to booking finance cost during project stage. Finance cost is part of total project cost*

Steady cash inflow (dividend, interest and capital repayment) from various group companies, holding rent yielding properties

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	FY19	FY20	FY21 Prov.
Dividend from subsidiaries/associates	43	14	69
Interest from subsidiaries/associates	11	14	12
Capital repayment by subsidiaries/associates	77	25	1
Total	131	53	82
Dividend, interest & capital repayment from Lavastone Properties	51	28	70
Dividend, interest and capital repayment from Edith Cavell	1	21	12
Total cashflow from Lavastone Properties and Edith Cavell	51	48	**82**
% Of cashflow from Lavastone Properties	**38%**	**52%**	**85%**
% Of cashflow from Lavastone Properties and Edith Cavell	**39%**	**91%**	**100%**

Stable financial profile of Lavastone Properties & Edith Cavell (contributing 80-100% of the cashflow to Lavastone) and satisfactory financial position of their Lessees

1. Lavastone Properties Ltd: -

Lavastone Properties Ltd. (100% owned by Lavastone) owns 8 commercial buildings and parking lots with a leasable area of over 49,000 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 received loan of Mur 45 million from Lavastone for acquisition of land in Plaine Lauzun and development of service road. Project status as under:

	Purpose	Amount (MUR million)	Status (September 2021)
1.	Acquisition of land at Plaine Lauzun	33	Completed. Loan extended by Lavastone
2.	Development of Service Road	12	Completed. Loan extended by Lavastone
3.	Acquisition & refurbishment of 7th floor of Les Cascades Building	50	Expected to be completed by Dec 2021 Loan will be extended post completion of property
4.	Construction of warehouse for retail at Riche Terre Hub	325	Project currently on hold. Construction of warehouse in Rich Terre hub to start only after signing of intent to Lease Agreement.
	Total	**420**	

During discussion, management intimated that out of MUR 650 million - Bond of MUR 325 million will be issued only if Lavastone goes ahead with warehouse construction in Riche Terre. The principal repayment will be amortized over a period of 14 years. Lavastone Properties will be paying annual interest and dividend to Lavastone. Past & projected financial performance of Lavastone Properties is as under (considering additional debt of Mur 325 million for Rich Terre):

Lavastone Properties Ltd (MUR Million)	FY19	FY20	FY21
	Audited		Prov.
Revenue	**157**	**164**	**175**
EBITDA	89	95	101
Depreciation & amortisation	0.3	0.5	2
Inter group interest	5	1	1
Fair value gain on investment properties	83	7	
PBT	167	102	105
PAT	139	86	87
GCA	56	79	89
Dividend Paid/Proposed	14	14	69
Repayment of loan from Lavastone (principal)	69	37	0
Total Debt	37	-	33
Cash & cash equivalents	14	10	31
Tangible Networth	1,094	1,166	1,178
EBIDTA margin (%)	56.42	57.79	57.84
PAT margin (%)	88.74	52.17	46.52
Gearing (X)	0.03	0.00	0.03
Total Debt/EBITDA	0.42	0.00	0.33
Interest coverage (EBITDA/Interest)	16.62	74.17	116.59

In FY20, Lavastone Properties has received rentals of MUR 164 million, increase of 4% from FY19, due to higher occupancy in St George and escalation of rentals. The rentals are projected to increase in FY21 due to increase in occupancy in St George building & parking and the company’s smaller properties. In FY24, the revenue is expected to increase with progressive income from new tenants in Riche Terre Hub. Post that the revenue is projected to increase by around 3.5% 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	

Owner	Lavastone Properties Ltd						
Property	**Les Cascades**	**Riche Terre Industrial park**	**Riche Terre Hub**	**Manhattan**	**St Georges**	**Others**	**Total**
Leasable Area in m²	6,897	15,466	6,110	5,925	1,322	13,666	**49,386**
Valuation (Report Date)	265 (Nov 2020)	267 (Nov 2020)	62 [Land] (Nov 2020)	125 (Nov 2020)	76 (Nov 2020)	331 (Nov 2020)	**1,126**
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	
Occupancy (FY21)	90%	100%	To be constructed	100%	84%	94%	**94%**
Occupancy (FY20)	92%	100%		100%	90%	94%	**97%**
Total Rentals FY21*	55	42	NM	24	17	37	**175**
Total Rentals FY20*	55	42	NM	23	9	35	**164**
Weighted Lease Expiry (years)	8	6	NA	7	7	3	

**Comprises of Rental income & Operating income*

Lavastone properties will receive an annual rental of MUR 151 million in FY22 (with escalation), of which MUR 124 million (i.e. around 80% of the rentals) are from 4 major tenants – CIM group, Scott Investments Limited (Scott group and The 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	FY20
	Audited		
Revenue	521.5	541.1	525.6
EBITDAR	65.4	118.7	118.7
Rent expense	39.6	50.8	54.8
EBITDA	25.8	67.9	64.0
PAT	7.6	-4.2	3.1
GCA	32.5	54.3	49.9
Total Debt (incl. obligations under finance lease)	11.3	347.1	
Cash & cash equivalents	41.0	7.4	11.4
Tangible Networth	31.1	30.1	14.1
Rent-to-income ratio (%)	7.60	9.38	10.42
Gearing (X)	0.36	11.53	0.62

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 Brand House (part of Scott Investments Limited), accounting for 78% 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	FY20
	Audited		
Total income	1,417.5	1,563.4	1,439.0
EBITDAR	101.1	144.2	78.9
Rent expense	17.2	23.1	4.1
EBITDA	83.9	121.1	74.9
PAT	32.7	64.1	29.5
GCA	57.7	91.7	74.3
Total Debt	315.5	216.8	227.9
Tangible Networth	389.0	428.3	419.6
Rent-to-income ratio (%)	1.21	1.48	0.27
PAT margin (%)	2.40	4.32	2.05
Gearing (X)	0.81	0.51	0.54

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. 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	FY20
	Audited		
Revenue	2,705.8	2,853.4	2,479.1
Operating expenses excluding rent	2,519.6	2,625.0	2,219.71
EBITDAR	186.2	228.3	259.4
Rent expense	58.3	61.2	64.3
EBITDA	127.8	167.1	195.1
PAT	77.2	114.1	73.0
GCA	105.9	138.1	153.2
Total Debt	41.9	126.4	31.2
Tangible Networth	344.4	423.4	439.6
Rent-to-income ratio (%)	2.16	2.15	2.59
PAT margin (%)	2.85	4.00	2.95
Gearing (X)	0.12	0.30	0.07

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. (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 December 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. Initially the project costs were earmarked for Mur 286 million but had an overrun costs of Mur 30 million. The increase in costs was mainly with the high procurement costs of raw materials and tenants fit out costs. The company has utilized the Mur 316 million from the bonds proceeds to finance the projects and interest-bearing loan will be repayable to Lavastone over a period of 15 years.

Edith Cavell Properties Ltd. (MUR Million)	FY19	FY20	FY21
	Audited		Prov.
Revenue	0	29	48
Total income	0	29	48
EBITDA	-3	11	29
Interest	0	10	11
Fair value loss on investment property		-128	0
PBT	-3	-126	14
PAT	-3	-104	12
GCA	-3	2	14
Dividend Paid/Proposed	0	0	0
Repayment of loan from Lavastone Ltd (principal)	0	0	1
Total Debt from Lavastone	157	298	315
Cash & cash equivalents	0	10	23
Tangible Net worth	250	145	157
EBIDTA margin (%)	NM	39.53	60.10
PAT margin (%)	NM	-363.26	24.62
Gearing (X)	0.63	2.05	2.00
Total Debt/EBITDA	NM	26.17	10.84
Interest coverage (EBITDA/Interest)	NM	1.15	2.61

As on September 2021, ECP has signed lease agreement for around 72% 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 48% 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 was 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. During first lockdown (March -June 2020), impact of rental discount on the company's cashflow was around Mur 4 million.

During second lockdown in March -June 2021, the impact of rental discount on the company's cashflow was around 2 million. As articulated by the management, the company already signed Lease Agreement with 2 new tenants and lease tenure to commence from November 2021. Occupancy will be 85% from Nov 21.

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 19 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 agreement with Mourouk Ebony Management Ltd (Holding company of Mourouk Ebony Hotel) to lease the hotel property up to June 2031. CVL has been receiving MUR 465,000 per month from September 2019 to February 2021.

The expansion of the hotel has been postponed due to the COVID-19 pandemic. 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. The contractor has already commenced refurbishment of the hotel. However, there has been some logistical delays wrt to transport of construction materials from Mauritius to Rodrigues. The management has articulated the same has been resolved and the project is expected to be operational by September 2022.

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. The rent will subsequently be subject to an annual escalation equal to the percentage increase in the simple average of monthly CPI, with an annual ceiling of 2.5% and a floor of 1.5%.

Lavastone will extend a 15-Year MUR 264 million loan to CVL for the renovation and for acquisition of a leasehold land near the hotel. The loan will bear an interest rate 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.

In FY21, CVL has received monthly rental income of MUR 465,000 from September 2020-February 2021. 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 & FY22.

4. <u>Victoria Station Limited ("VSL"): -</u>

In 2019, Lavastone acquired 29% (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). 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, renting of Hawker stalls to the city council, renting of office space to Ministry of National Infrastructure and rentals from Municipal Council of Port-Louis for using the bus bay.

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 FY20, IQEQ and CFSL (occupying 97% of Le Cascades building for more than 7 years) have signed lease agreement for 10 years (valid till June 2029). In FY20, Scott & Co. (occupying 60% of Riche Terre Industrial park) has signed lease agreement for 9 years (Sept 2028). In FY20, The Brand House (occupying 55% of Riche Terre Hub) has signed lease agreement for 10 years (May 2035). In FY20, CIM Finance (occupying 100% of Manhattan for more than 10 years and 71% of St Georges) has signed lease agreement for 9 years (Sept 2028). In September 2020, 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, The Brand House and Scott & Co.) and Edith Cavell (The 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.

Satisfactory Financials

Lavastone is an investment company, and its only source of revenue are management fees dividend and interest income 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 has issued a Bond of Mur 350 million (@3.10% for 7 years) in February 2021 and utilized the proceeds to invest in renovation of Edith Cavel and buying land in Plaine Lauzun. In February 2022, Lavastone proposes to issue Bond of MUR 325 million ((@3.10% for 7 years) and utilize the proceeds for renovation of hotel in Rodrigues in CVL and development of road infrastructure and acquisition of 7th floor in Les Cascades.

The management has stated the balance Bond of Mur 325 million will be availed only when the company plans to go ahead with the construction of warehouse in Rich Terre Industrial hub, which is subject to signing of long-term lease Agreement with The Brand House. It is in discussion with The Brand House and The Brand house is waiting for pickup in demand for electronic and furniture’s in Mauritius. Accordingly, the project is expected to be executed in later part of FY22. CRAF has also considered the same in projections.

Lavastone will be receiving interest and capital repayment on the loans extended to its subsidiaries over a period of 15 years. All the group companies including Lavastone are debt free (barring B59 which has availed debt from BCP Bank).

In FY20, (Oct1-Sep30), Lavastone (Standalone) 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.

In FY20, Lavastone received dividends of MUR 13.6 million from Lavastone Properties and interest income of MUR 21 million. Total revenue in FY20 is lower than FY19 because of a one-off dividend from The Belle Mare SPV of MUR 30 million in FY19 arising from sale of land.

In FY 20, Lavastone (Consolidated) has received total rentals of MUR 197 million (increased by 22% over the previous year), mainly due to increase in occupancy in the Lavastone properties and Edith Cavell Properties. In 9MFY21, revenue and EBIDTA is higher due to higher occupancy in Lavastone properties and Edith Cavell Properties.

Lavastone (Consolidated) will be also generating cash by selling land in Casa Noyale though morcellement route (sell land and develop infrastructure based on confirmed sales). The company is expected to generate stable profit between FY22-27.

Overall gearing ratio will deteriorate to 0.44x compared as on September 2023, with Mur 1,000 million Bond issue in Lavastone Properties and Mur 320 million loan in B59 and Southwest. Both are cash generating companies and don't need group support. Post that, with steady debt repayment, gearing will improve. Going forward, Debt/EBIDTA and other liquidity ratios are expected to remain comfortable over the projected period.

The Company proposes to repay the Bond out of dividend and interest to be received from subsidiary and associate companies and proceeds from repayment of loan by the subsidiaries.

Refinancing Risk at time of redemption

Cash balance in Lavastone (Standalone) will be more than MUR 700 million as on Sept 30, 2027 (Bond repayment of MUR 350 million in February 2028) and more than Mur 500 million as on Sept 30, 2028, thereby having no refinancing issue.

However, there is a risk of utilization of such excess cashflow by way of dividend payment, acquisitions, etc. during FY22-28 (before repayment in FY28, FY29 and Fy30). The risk gets mitigated to some extent, since the company has to build up cash for 50% of the debt repayment, as per terms of the sanction.

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 though any of the sources mentioned in a timely manner would be a key rating sensitivity.

Industry Risk

Rental Market:

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.

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, a number of 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 Uniciti 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 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.

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 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 (which is catered by 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 (February 2028), 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.

FINANCIAL PERFORMANCE

Standalone Financial performance of Lavastone *MUR Million*

For the year ended as on	Sep-19	Sep-20
	Audited	
Total Income	60	36
EBITDA	56	28
Interest	-	10
PBT	56	- 3
PAT	55	- 4
Gross Cash Accruals (GCA)	55	17
Dividend paid/proposed	14	14
Financial Position		
Equity share capital	1,721	1,721

For the year ended as on	Sep-19	Sep-20
	Audited	
Tangible networth	1,762	1,745
Total debt	-	348
- Long term debt	-	3
- Short term debt	-	345
Cash & Bank balances	14	-
Key Ratios		
Profitability (%)		
EBITDA / Total operating income	92.13	77.27
PAT / Total income	90.32	-9.94
ROCE- operating (%)	2.75	0.33
RONW (%)	3.92	-0.20
Solvency		
Long Term		
Long-term debt to equity ratio	0.00	0.00
Overall gearing ratio	0.00	0.20
Interest coverage (times)	557.10	2.79
Long-term Debt/EBITDA	0.00	0.10
Total debt/EBITDA	0.00	12.45

Consolidated Financial performance of Lavastone

For the year ended as on	Sep-19	Sep-20
	Audited	
Total Income	162	197
EBITDA	60	99
Depreciation	0	1
Interest	2	18
Profit on land sales	1	0
PBT	186	(106)
PAT	156	(103)
Gross Cash Accruals (GCA)	176	68
Dividend paid/proposed	14	14
Equity share capital	1,721	1,721
Tangible net worth	2,854	2,744
Total debt	113	437
- Long term debt	36	92
- Short term debt	77	345
Cash/Bank	38	29
Key Ratios		
EBITDA margin	37.02	50.29
PAT / Total income	96.28	(52.45)
ROCE- operating (%)	2.61	3.12
RONW (%)	7.12	-3.70
Long-term debt/equity	0.01	0.03
Overall gearing ratio	0.04	0.16
Interest coverage (times)	NM	5.60
Long-term Debt/EBITDA	0.30	0.64
Total debt/EBITDA	0.94	2.77
Current ratio	1.17	0.28

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

Bond

Particulars	Amount (MUR Million)	Repayment (MUR Million)	Interest Rate
Bond	350	Bullet repayment in Year 7 (February 2028)	3.10% p.a.
Proposed bond	650	Bullet repayment in Year 7 (February 2029 if issued in February 2022)	3.10% p.a. (indicative)

Particulars	Instrument
Type of Instrument	Bond
Investor	The Mauritius Commercial Bank
Bond Issued (Feb 2021)	**Mur 350 million**
Repayment terms & Maturity	February 2028. Bullet repayment at the end of 7th year from issue date (February 2021). Cash buildup 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). To be reflected in cash balance at the end of each financial year end.
Interest Rate	3.10% p.a. (Repo Rate + 1.25%). Repo Rate is 1.85% as on August 31, 2021.
Purpose	Financing the already completed Edith Cavell project and acquisition of land in Plaine Lauzun
Financial and non-financial covenants for total Bond Issue (Annually)	• Issuers Interest coverage to be more than 2x • Loan to Value Ratio <0.6x • Cash buildup of 50% over next 7 years for principal repayment for entire Mur 1,500 million • **Security** - Secured by a first rank floating charge over all its assets and each of the guarantors to give corporate guarantee
Proposed Bond	**Mur 650 million**
Repayment	Bullet repayment at the end of 7th year from date of issue.
Interest Rate	3.10% p.a. floating rate (same as existing Bond)
Purpose	Finance 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 Ltd. (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.