Loinette Capital Limited

7 September 2023

Ratings

Facilities	Amount (MUR Million)	Rating[1]	Rating Action
Proposed Bank Facilities	**MUR 396 million *(USD 9 million)**	**CARE MAU A; Stable [Single A; Outlook: Stable]**	**Assigned**

** Applicable Exchange rate: USD 1: MUR 44*

Rating Rationale

The rating assigned to the proposed bank facilities of Loinette Capital Limited ("LCL") derives strength from strong shareholder in the form of CIM Financial Services Ltd ("CFSL", rated CARE MAU AA; Stable/ CARE MAU A1+), a leading NBFC in Mauritius, which has acquired 75% stake in the company from the erstwhile promoters, significance of the mining sector where traditional bank financing is marginal thus limiting competition, booming mining & infrastructure sectors requiring huge investments and therefore fuelling demand for asset-backed & dealership financing, established underwriting policies and collection mechanism, short tenure of the loan with higher security cover backed by general strong cash flows from mining & infrastructure backing the assets, low levels of non-performing assets, and unlevered capital structure indicating a comfortable financial position for LCL.

The rating is however constrained by the high risk inherent in the mining & infrastructure segments which can significantly impact the operators, decline in total loan book over the last two years, lower profitability impacting returns and spreads earned, exposure to various countries in Africa leading to liquidity risk especially in case of fund controls between jurisdictions and entry into a new market for the parent company CFSL, despite it being among the leading NBFC in Mauritius.

<u>Rating Sensitivities:</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- More than 30% growth in the total loan book
- Maintaining asset quality at close to current levels
- Increase in profitability margins on sustainable basis
- An irrevocable and unconditional Corporate Guarantee provided by CFSL as security

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Increase in GNPA beyond 6%
- Overall gearing breaching 1.5x
- Decline in interest coverage ratio below 2x

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

BACKGROUND

Loinette Capital Limited, a 75% subsidiary of CIM Financial Services Ltd, was incorporated in the British Virgin Islands in October 1997. The Company was re-domiciled in Mauritius in October 2019, and it holds a Global Business License, and it is regulated by the Financial Services Commission ("FSC"). It also holds a Credit Finance License under Section 14 of the Mauritian Financial Services Act 2007. Operating in the East, Central and West Sub-Saharan Africa since 1998, LCL engages with SMEs and equipment dealers to provide asset-backed financing.

LCL provides financing to African SMEs (outside of Mauritius) for the purchase of equipment to be used for undertaking extractive industries, infrastructure, agricultural and materials handling projects. The financed equipment is used by clients who have obtained contracts for 1-to-5-year periods to undertake extractive industries, infrastructure, agricultural and materials handling works, and the equipment is held as collateral by LCL over the duration of the loan. The asset-backed loans are provided for periods ranging between 16 and 24 months and the interest rate charged by LCL for the year ending 31 December 2022 averaged 12% per annum.

Some of the equipment financed by the Company includes articulated dump trucks, excavators, drill rigs, tractor loaders, hoppers, crushers, bulldozers, amongst others. Additionally, Loinette Capital also finances dealers which supply this equipment to operators.

Generally, the Company finances up to 85% of the equipment value. Over the recent years, LCL has supported the development of infrastructure across Africa by providing around USD 300 million in lending to sector operators.

In August 2022, the shareholders of LCL agreed to sell 75% of the Company to CIM Financial Services Ltd and the transaction was completed in July 2023. Post acquisition of the majority shareholding by CFSL, the remaining 25% stake in LCL is held by IA Bell and Company (Pty) Limited.

Financial performance for Loinette Capital Limited

The high cost of financing from traditional lenders in Africa has created challenging conditions for LCL to maintain healthy margins on its loan book. Hence the Company slowed down the business during covid and consequently its loan book declined by 52% over the past two years.

The lower loan book resulted in interest income falling by 14% and 29% in FY21 and FY22 respectively.

During FY22, the Company recorded a reversal of impairment of MUR 16 million, indicating significant improvement in the recoverability of its receivables.

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

Details of Rated Instrument

Facilities	Amount	Tenure
Proposed Overdraft Facility	MUR 132 million *(USD 3 million)	1 Year Renewable Yearly
Proposed Term Loan	MUR 264 million *(USD 6 million)	3 Years – Repayable in 8 consecutive half yearly equal instalments

** Applicable Exchange rate: USD 1: MUR 44*

Annexure I

Rating Symbols

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 the 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.

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.

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

Contact us

Contact
Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact
Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5273 1406
E-mail : vidhya.sagar@careratingsafrica.com

About CARE Ratings (Africa) Private Limited:
CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
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.
CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.
CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.