Loinette Capital Limited
07 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.

Rating Sensitivities:

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.

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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 types of equipment financed by the Company include articulated dump trucks, excavators, drill rigs, tractor loader, 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.

CREDIT RISK ASSESSMENT

MANAGEMENT - Strong parentage with successful track record

LCL is a 75% subsidiary of CFSL, a Mauritian Non-Deposit Taking Institution, licensed by the FSC to provide Credit Facility Arrangements (commonly termed as Hire Purchase), finance & operating leases, unsecured loans, credit card facilities and factoring services. The Company is listed on the Official Market of the Stock Exchange of Mauritius (SEM) and had a market capitalisation of MUR 6,805 million at 30 June 2023. Elgin Ltd holds a controlling interest of 53% in CFSL, while the remaining 47% is distributed among other financial institutions, corporates and the general public.

A summary of the financial performance of CFSL is provided below:

Year ended/as on 30 September	**FY19**	**FY20**	**FY21**	**FY22**
	MUR million			
Interest income	1,443	1,715	2,172	2,502
Fees, Commission and other income	541	645	480	498
Total Income	2,198	2,513	2,652	3,000
Profit before Tax	453	268	509	735
Profit after Tax	383	191	415	601
Net Stock-on-hire	12,568	13,477	14,351	15,990
Gross Loan AUM	13,148	14,606	15,586	17,805
Total capital employed	13,278	14,311	14,687	17,046
Total debt	9,095	9,837	9,832	11,808
Tangible networth	4,087	4,090	4,483	4,843

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Year ended/as on 30 September	FY19	FY20	FY21	FY22
	MUR million			
Cash & Bank Balances and deposits	952	971	768	1,165
Ratios				
PAT margin (after provisioning) (%)	17.41	7.59	15.65	20.05
NIM (%)	13.17	13.35	14.93	15.41
Interest spread (%)	8.32	8.66	11.11	12.05
RONW (%)	7.32	4.67	9.67	12.89
ROCE (%)	5.99	4.96	6.21	7.22
Cost of Capital (%)	3.76	3.92	3.20	4.02
Net Spread (%)	2.24	1.05	3.01	3.20
Return on total assets (ROTA) (%)	3.03	1.37	2.75	3.60
Overall gearing (times)	2.23	2.41	2.19	2.38
Interest Coverage (after prov.)	2.62	2.03	2.81	3.14
Gross NPA (%)	8.39	15.40	15.75	14.93
Net NPA (%)	4.56	8.32	7.21	5.28
Net NPA / Net worth (%)	14.03	27.41	23.09	17.42
Reported CAR (%)	25.00	28.45	30.35	26.73

For the detailed rating rationale of CIM Financial Services Ltd, please visit CRAF's website:
CIM Financial Services Ltd - Rating Rationale

Highly qualified senior management
LCL is governed by a board of directors comprising of six members and is chaired by Mr. Timothy Taylor who is currently a Non-Executive Director of CFSL. LCL has a stable and well experienced Senior Team. The CEO, the Head of Business Development and the Head of Risk have over 60 years of combined experience in asset-based finance and have been part of the LCL team for over 10 years. The finance and administrative team have all been with the business for many years and are well versed in their roles and leverage the company's ERP and asset management systems to support the business growth. The top team are all formally qualified and well trained in their roles. Further, the team's dealer and customer relationships which have been formed over many years and have allowed the business to develop into a customer and dealer focused finance unit. Their operational footprint is being enhanced with the addition of two senior team members who are respectively based in East and West Africa, where they are leveraging the existing relationships dealer network to provide continued support in region.

OPERATIONAL AND BUSINESS RISK
Simple and high yielding Business model
LCL operates a simple business model which can be categorized into two segments.

Asset-Backed Financing - The first segment is the asset-backed financing where LCL provides financing to clients (mainly SMEs) on the African continent for the purchase of yellow metal equipment to be used in extractive industries, infrastructure, agricultural and materials handling projects. For FY22, the ticket size of asset -backed loans disbursed by LCL averaged MUR 8.26 million (USD 188,000), with tenures ranging between 16 to 24 months. The Company generally finances up to 85% of the equipment value.

LCL finances clients operating in the in extractive industries, infrastructure, agricultural and materials handling sectors, which are high risk sectors given the volatility of commodity prices and political instability amongst others. To mitigate the risks associated with this industry, LCL finances exclusively operators who have already obtained contracts, for periods ranging from 1 to 5 years and beyond, for companies in extractive industries, infrastructure, agricultural and material handling works. Hence, in addition to holding the finance assets as collateral, the loans provided by LCL are also backed by the extractive industries, infrastructure, agricultural and materials handling contracts obtained by the clients, ensuring that those clients will have adequate cash flow to make the loan repayments which are generally scheduled on regular instalments over 16 to 24 months.

Dealership Financing - LCL's second segment is where they also provide loans to dealers which supply the yellow-metal equipment to operators. In this case, the operators would make a deposit equivalent to 15% of the equipment value to the dealers which pass on same to LCL following which, LCL provides the additional financing to the dealers who sources the equipment and distribute to the final clients. The average ticket size of dealership financing ranges from USD 1 million to USD 3.5 million, for a period of up to 180 days, at an average rate of 12-14% per annum.

The loan assets under management for LCL over the past four years was as follows:

As on 31 December	FY19	FY20	FY21	FY22
	MUR million			
Asset-backed loan	567	576	493	320
Other Loans	543	533	186	222
Total loan assets under management	**1,110**	**1,109**	**679**	**542**

Diversified geographic presence exposing to liquidity risk

LCL provides financing to clients which are spread across several African countries including Tanzania, Democratic Republic of Congo, Zambia and Botswana.

The geographical and sector-wise distribution of the asset back loans of LCL as on 31 December 2022 is as follows:

Geographical distribution	% of total asset back loans
Zambia	24.41%
Botswana	11.20%
DRC	14.61%
Tanzania	43.19%
Zimbabwe	6.60%
	100.00%

Sector-wise distribution	% of total asset back loans
Extractive industries related services	43.94%
Mining	31.45%
Agriculture	6.82%
Civils- Infrastructure	6.60%
Others	11.19%
	100.00%

While the loans provided are backed by the cash flows from the extractive industries, infrastructure, agricultural and materials handling contracts obtained by the clients, LCL also holds the financed assets as collateral so that in case of non-repayment of the loans, LCL can repossess the assets and dispose of same to recover its funds. At 31 December 2022, the collateral held by LCL by far exceeded the loan assets, hence providing additional assurance of recovery of funds in case of non-repayment from clients.

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At 31 December 2022, LCL had a MUR 222 million dealership loans portfolio relating to loans provided to large dealership groups. These groups supply world-class heavy equipment to the earthmoving, quarrying, mining and construction industries.

Asset Quality – Low NPA and satisfactory recovery

LCL closely monitors its loan assets to ensure that payments and recoveries are made within the contractual period. The Company has a policy of recognizing all payments which are 90 days past due as non-performing. The history of non-performing assets of the Company is provided below:

As on 31 December	FY20	FY21	FY22
	MUR million		
Gross NPA	62	48	4
Gross Loan assets	1,214	694	554
GNPA (%)	5.07%	6.86%	0.75%
Net NPA	38	44	4
Net Loan assets	1,156	679	544
NNPA (%)	3.27%	6.43%	0.69%
Networth	1,224	1,362	1,380
Net NPA/Net worth (%)	3.09%	3.20%	0.27%

The Gross and Net NPA of the Company was brought drastically down from 6.86% and 6.43% respectively in FY21 to 0.75% and 0.69% in FY22. This was due to the write-off of previous NPAs which had already been fully provided for.

The asset-wise classification of NPAs over the past three years is as follows:

As at 31 December	FY20		FY21		FY22	
Asset class	GNPA %	NNPA %	GNPA %	NNPA %	GNPA %	NNPA %
Asset backed loan receivables	5.13%	2.61%	4.81%	4.81%	-	-
Loans receivables	5.01%	3.92%	12.25%	10.72%	1.82%	1.67%

A summary of the collection efficiency ratio of LCL over the past two years is given below:

For the year ended 31 December	FY21	FY22
	MUR million	
DEMAND:		
1. Overdues at the beginning of the period	220	317
2. Demands raised during the period	751	603
TOTAL DEMAND	**971**	**920**
Total Recoveries during the period	**654**	**686**
OVERDUES/Arrears:		
At the end of the period	317	432
COLLECTION EFFICIENCY	**67.4%**	**74.5%**

Comfortable gearing and Asset-Liability Maturity Profile

At the closing of the two latest year ends, LCL had no gearing and only insignificant short-term liabilities relating to recurrent business operations.

The main assets of the Company are its loan assets which are expected to mature over the next 12 to 16 months.

At 31 December 2022, the Company also had MUR 199 million invested in money market funds. The investment fund is short-term in nature, so the funds are available at any time to meet liquidity requirements.

Significant Mining sector in Africa

With a total area of 30.37 sqm of land, the African continent is richly endowed with mineral reserves and ranks first in quantity of world reserves for various minerals. Two of the most profitable mineral exports are gold and diamonds. Gold is the main mining resource in Africa (500 tons per year) and has, in the past, supplied 75% of the world's diamond production. Africa also ranks among the top two in the quantity of the world's reserves of bauxite, cobalt, phosphate rock, platinum group metals (PGM), vermiculite, and zirconium.

For many African countries, mineral exploration and production constitute significant parts of their economies and remain keys to economic growth.

As at 2021, there were around 2,056 ongoing mining projects across Africa among which, 776 gold mining and 151 diamond mining projects.

Some of the largest minerals producers/exporters in Africa are listed below:

Country	Export (USD million)	share of total exports
Mozambique	1,104	25.40%
Zambia	704	20.33%
South Africa	657	6.12%
Democratic Rep. of Congo	400	15.94%
Mali	142	11.66%

Africa is well placed to leverage medium- to long-term trends given the abundance of untapped deposits of high-value metals and minerals that are essential to the energy transition and the manufacture of high-tech products.

Infrastructure developments

Africa's demographic growth and economic transformation have created an essential task in the continent's public agenda: accelerating and scaling up infrastructure development. With 28 African countries doubling their population in the past 30 years, and predictions of 26 more African countries doubling their population in the next 30 years, investment in the region's infrastructure has become obligatory. Demand for electricity will increase by 93% by 2035, around 47% of roads will need to be paved, ports must increase their average container handling performance from 20 to 25-30 moves per hour, and an additional 300 million people must have access to the Internet to keep up with the continent's economic growth. It is estimated that around USD 93,000 million will be needed annually over the next decade to overhaul the sub-Saharan African infrastructure.

Financial performance for LCL

The high cost of financing from traditional lenders in Africa has created challenging conditions for LCL to maintain healthy margins on its loan book. Consequently, the Company halted its loan book by a cumulative 52% over the past two years, while operating with no gearing. 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.

Summary of financial performance for LCL

MUR million

Year ended/as on 31 December	FY20	FY21	FY22
	Audited		
Interest income	183	157	112
Other Operating Income	30	88	63
Total Income	213	245	175
Operating expenses (excl. provisions)	93	100	98
Provision for NPA	(23)	(63)	16
Interest	16	12	4
PBT	81	68	37
PAT	76	70	311
Gross cash accruals	78	72	32
Net Asset Backed loan receivables	576	493	320
Net Loan receivables	533	186	222
Total Assets under Management (AUM)	1,109	679	542
Total capital employed	1,624	1,362	1,380
Total debt	400	-	-
Tangible NetWorth	1,224	1,362	1,380
Other financial assets (Money Market funds)	-	-	199
Cash & Bank Balances	-	34	28
Ratios			
PAT margin (%)	35.51	28.34	17.48
NIM (%)	15.01	16.28	17.79
Operating profit/ Total Income (%)	47.97	53.48	41.46
Operating Expenses / Average total assets (%)	5.70	6.34	6.80
RONW (%)	6.58	5.38	2.24
ROCE (%)	7.51	9.58	5.58
Net Spread (%)	4.86	4.40	3.39
Return on total assets (ROTA) (%)	4.85	4.51	2.18
Overall gearing (times)	0.33	-	-
Interest Coverage (times)	7.44	12.33	21.04
Gross NPA (%)	5.07%	6.86%	0.75%
Net NPA (%)	3.27%	6.43%	0.69%
Net NPA / Net worth (%)	3.09%	3.20%	0.27%

Applicable Exchange rates: FY22: USD 1: MUR 43.9500
FY21: USD 1: MUR 43.5972
FY20: USD 1: MUR 38.5300

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.

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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.

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