

MCB Structured Solutions Ltd

20 March 2023

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Secured Credit-Linked Notes ("CLNs")	160	CARE MAU AA (SO) Stable [Double A (Structured Obligation); Outlook: Stable]	Final Rating
Total	160		

Rating Rationale

The final rating assigned to the Secured Credit-Linked Notes of MCB Structured Solutions Ltd ("MSSL") derives strength from the execution of noteholder's agreement being in line with the draft term sheet, creation of escrow mechanism, undertaking from MCB Stockbrokers Limited, the integrity of the proposed legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Secured Credit-linked Notes, as per the terms of the transaction and is not a standalone rating of MCB Structured Solutions Ltd ("MSSL"). The rating is also supported by the strength of MCB Group Limited ("MCBG" rated CARE MAU AAA Stable), the reference entity to the secured CLNs. The rating is however constrained by the ability of the underwriter, MCB Stockbrokers (MCBSB) to arrange for funds on the maturity date and operational risks associated with the complex nature of Credit linked Notes. The ability of MCBSB to arrange for funds on the maturity date and the timely coupon payments to the noteholders from MCBG are the key rating sensitivities.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade: **Not applicable**

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

- Downgrade in the rating of the reference entity, MCB Group Limited
- Inability of the underwriter, MCB Stockbrokers Ltd, to have access to financial sources for the buy back the notes of MCBG

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

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BACKGROUND

MCB Structured Solutions Ltd. (MSSL), a public limited company, was incorporated as a Special Purpose Vehicle (SPV) in January 2013. It is wholly owned by MCBCM, a 100% subsidiary of MCB Group Limited (CARE MAU AAA; Stable). As on June 30, 2021, MSSL reported a PAT of MUR 10 million on a revenue of MUR 47 million.

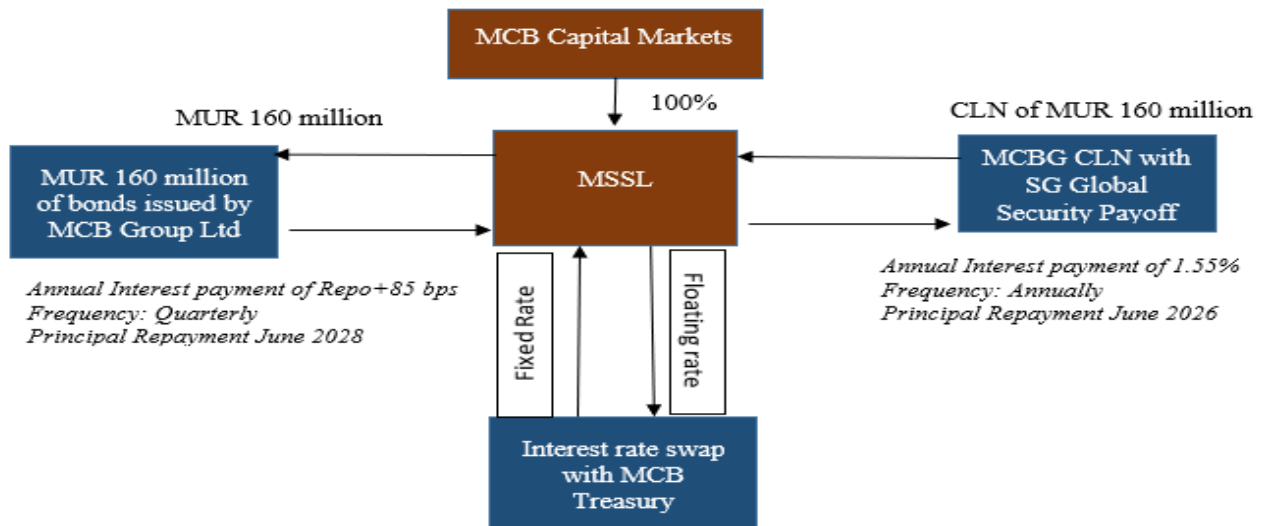
Credit linked Notes to be issued by MSSL

As part of MCBCM's Credit Linked Notes (CLNs) business, MSSL proposes to raise funds by issuing CLNs and invest only in bonds issued by entities, where MCB Group Limited holds directly or indirectly at least 75% of its share capital and voting rights.

As a part of its plan in May 2022, MSSL has issued Credit linked Notes (unrated) of EUR 1.3 million (MUR 60 million) and has invested the proceeds in Bonds issued by COVIFRA (CARE MAU A Stable) a 93% subsidiary of MCB Real Assets (wholly owned subsidiary of MCB Group).

In June 2022, the company proposed to issue CLNs and utilize the proceeds for investment in MCBG Notes.

- *Raised through a private placement*
- *Investors benefit from an interest income of 1.55% on par with 4-year FD rates at that period and also participate in reference index returns.*



The proceeds raised from the issue of CLNs have been utilised to acquire notes issued by MCB Group on 29 June 2021 and maturing on 29 June 2028, which carry coupon payment of Repo + 0.85% (current repo rate at 4.50% p.a), payable on a quarterly basis. To hedge the interest rate risk, MSSL entered into an interest rate swap with MCB Treasury.

At a minimum, the Noteholders receive annual coupon of 1.55% p.a., a return which is almost equivalent to a 4-year fixed deposit at the Mauritius Commercial Bank Ltd prevailing during the offer period. MSSL also invested in call options linked to the participation index, the SG Global Security USD VT 9 Index which longs the base index, SG Global Security USD Index, with an embedded volatility control of 9%. The Noteholders may benefit from an additional return based on the performance of the participation index, the SG Global Security USD VT 9 Index.

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The base index comprises 30 equally weighted stocks having the lowest volatility selected from the SG Global Security USD Index calculated and published by Solactive AG and which represents the Global Security investment theme. As at 01 June 2022, some of its constituents included Cisco Systems Inc, Gilead Sciences Inc, Zurich Insurance Group AG and Amgen Inc.

In case there is a negative return from the Index, the Noteholders will still get minimum 1.55% p.a. In case of positive return, the same will be fully passed on to the Investors (over and above 1.55% p.a.).

A maturity mismatch exists between the MCBG Notes (maturity date of 29 June 2028) and the CLNs (maturity in June 2026). The Issuer proposes to mitigate this risk with the following measures:

- At least 90 days prior to maturity, it shall offer the Noteholders the possibility of having their notes either (i) redeemed in cash at the relevant maturity date, or (ii) redeemed in specie by a transfer of MCBG Notes
- The Issuer has entered into an Underwriting Agreement with MCB Stockbrokers which undertakes to buy back the MCBG Notes on the relevant maturity date at par.

MCB Stockbrokers Ltd (Underwriter to buy back MCBG notes)

MCB Stockbrokers Ltd (MCBSB) was established in 1989 and is a founding member of the Stock Exchange of Mauritius (SEM). Licensed and regulated by the Financial Services Commission (FSC) of Mauritius, MCB Stockbrokers Ltd is one of the leading stockbroking companies in Mauritius, offering a range of services to local, foreign, retail as well as institutional clients. MCB Stockbrokers Ltd holds an Investment Dealer (Full Service Dealer including Underwriting) license from the FSC and has been underwriting corporate transactions for amounts ranging from MUR 100 million to MUR 3,600 million since 2014, with aggregate exposures not exceeding MUR 4,000 million in any single financial year.

MCBSB has provided an undertaking that it will make use of its access to readily available sources of finance within MCB Capital Markets Ltd and MCB Group Ltd should a significant portion of the underwriting risks materialize.

MCB Group (Reference Entity)

MCB Group Limited [holding company of The Mauritius Commercial Bank Limited – rated CARE MAU AAA (IS); Stable], has a diversified ownership base of around 21,000 shareholders, with foreign shareholding accounting for around 13% of the total. Listed on the official market of the Stock Exchange of Mauritius (SEM) since 1989, MCBG is one of the most traded stocks representing 45% of market turnover for 2022. The Group had a market capitalization of MUR 75,838 million at 16 February 2023.

Given the strength of the MCB group and demand for Bonds issued by MCB Group, MCB Stockbrokers can comfortably raise MUR 160 million through the sale of the MCBG notes or by raising external financing to repay the holders of the CLNs should all the noteholders exercise their call options of their notes.

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Details of Rated Instrument

Instruments	Amount	Repayment
Secured Credit-Linked Notes ("CLNs")	MUR 160 million	June 2026

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating. CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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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 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.

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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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