

## MCB Structured Solutions Ltd

20 March 2023

### Ratings

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

### 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsafrica.com](http://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.

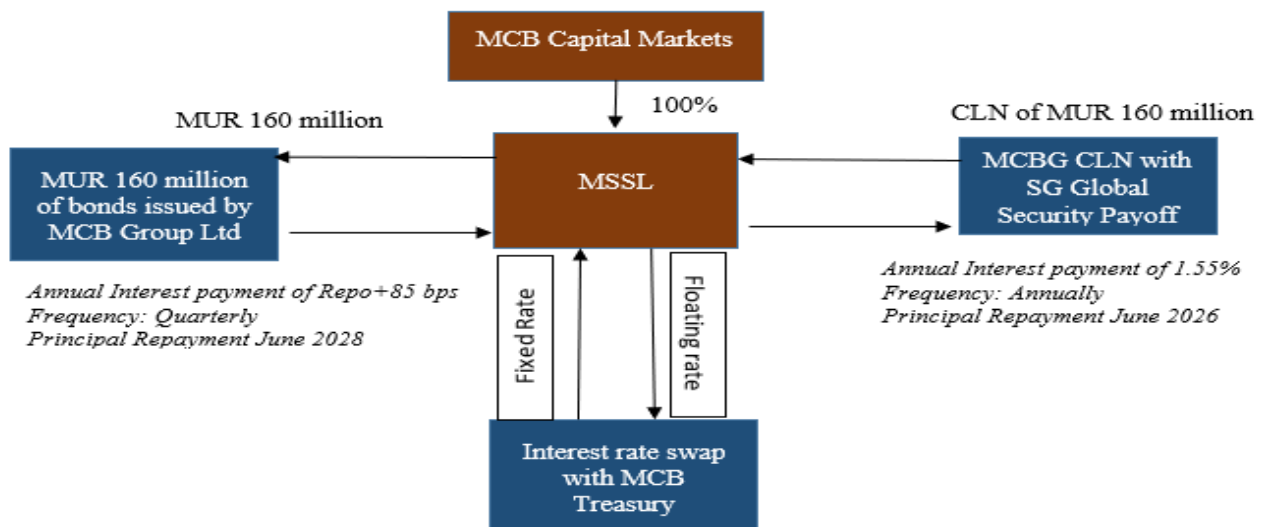
### Credit linked Notes to be issued by MSSL

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 Capital Markets Ltd (Parent company of MCBSB)**

MCB Capital Markets Ltd (MCBCM) is the wholly owned subsidiary of MCBG, providing investment banking and asset management services. Led by a dedicated and experienced team of specialists, the entity provides a broad range of investor services under one roof, notably including corporate finance advice, asset management, stockbroking, private equity, structured products, and registry services. MCBCM works with clients wishing to start or grow their operations in Africa and helps them develop solutions that meet their financing, strategic and investment objectives.

#### **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.

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The financials of MCB Group are as under:

Year ended/ as on 30 June	MUR Million			
	FY19	FY20	FY21	FY22
	MUR million			
Interest Income	18,841	19,995	17,148	18,455
Interest Expenses	5,885	5,586	2,483	3,264
Net interest income	12,957	14,409	14,665	15,191
PAT	9,593	7,994	8,239	9,961
Total Deposits	331,501	390,659	503,972	525,656
Tangible Networkth	58,558	64,860	74,804	79,849
Advances	246,713	259,069	312,978	348,988
Investments in securities	126,204	148,858	198,530	239,684
Total Assets	469,955	530,436	683,133	728,128
Gross NPA ratio (%)	4.1	4.2	3.6	3.7
Tier 1 ratio (%)	15.7	17.2	16.1	16.8
CAR (%)	17.3	18.6	17.4	18.1

***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.***

#### **Financial Indebtedness**

As at the date of the PPM, except for the Permitted Financial Indebtedness, the Issuer covenants that it will not incur any Financial Indebtedness other than in the ordinary course of business to cover its general running costs and working capital. As at June 30, 2021, MSSL had Other Financial Liabilities totaling MUR 326 million which represented the capital guaranteed and minimum guaranteed return element of issued notes.

#### **MCB Structured Solutions Ltd (Issuer)**

The financial performance of MCB Structured Solutions Ltd (MSSL) for the last two years is depicted below:

For the period ended as on June 30,	FY20	FY21
	MUR Million	
Interest Income	96	47
PBT	3	11
PAT	3	10
Equity share capital	10	10
Tangible net worth	24	34
Cash and Cash Equivalents (non-banking segment)	12	29
Total debt	-	-
PAT Margin	3.1%	5.9%

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### Details of Rated Instrument

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

### Principal terms pertaining to the Credit linked Notes

<b>Nature of Instruments</b>	Secured credit-linked notes with MCB Group Limited notes as Reference Underlying and payoff linked to SG Global Security as Participation Index
<b>Issuer</b>	MCB Structured Solutions Ltd
<b>Minimum Aggregate Nominal Amount</b>	MUR 150 million
<b>Oversubscription Amount</b>	Up to MUR 100 million
<b>Aggregate Nominal Amount</b>	MUR 250 million
<b>Nominal Amount per Note / Issue Price per Note</b>	MUR 1,000
<b>Minimum Subscription Amount</b>	MUR 1,000,000
<b>Use of proceeds</b>	The proceeds raised from the issue of the Notes shall be used to finance the acquisition by the Issuer of the Reference Underlying
<b>Coupon Yield</b>	1.55%
<b>Index Return</b>	The Index Return shall be calculated in accordance with Clause 3.5 of the PPM
<b>Interest Rate</b>	If the Notes are held up to Maturity Date and in the absence of a Credit Event, the Interest Rate over the period shall be the Investment Return
<b>Investment Return</b>	The Investment Return shall be calculated as the sum of the Index performance payment and the aggregate Coupon Yield. Accordingly, in the absence of a Credit Event, and should a Noteholder hold the Notes from the Issue Date to the Maturity Date, the minimum Investment Return shall be equal to the aggregate Coupon Yield.
<b>Coupon Payment Dates</b>	Annually in arrears on each anniversary date of the Issue Date until Maturity Date
<b>Redemption at Maturity</b>	In the absence of a Credit Event on the Maturity Date, the Issuer shall give each Noteholder the option of exercising either (i) the Cash Redemption, or (ii) the Redemption in Specie for MCBG Notes. Where the Noteholder does not make a Redemption Selection, the Issuer shall apply Cash Redemption by default. If a Credit Event is declared or is continuing up to and including the Settlement Date, the Issuer may elect to redeem the Notes.
<b>Credit Event Acceleration</b>	Upon being notified, or upon taking cognizance of the occurrence of a Credit Event, the Issuer shall issue the Credit Event Notice to the Noteholders' Representative and to the Noteholders, and the Issuer shall redeem the Notes.
<b>Status of the Notes</b>	The Notes shall be secured by the Security Interests and shall rank: <ul style="list-style-type: none"> <li>(a) pari passu without any preference among themselves;</li> <li>(b) senior to any other unsecured creditors on assets of the Issuer over which a security Interest has been granted pursuant to the Security Documents</li> <li>(c) senior to all holder of share capital of the Issuer.</li> </ul>

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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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