

MUA Ltd.
Brief Rationale
CRAF has assigned CARE MAU AA- (Stable) ratings to the proposed
bond issue of MUA Ltd.

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	500	CARE MAU AA- Stable [Double A Minus; Outlook: Stable]	Assigned

Rating Rationale

The rating assigned to the proposed bond issue of MUR 500 million of MUA Ltd (“MUA” or “the Group”) derives strength from a successful track record of insurance activities which extend over the past 70 years, highly qualified, professional and experienced management team, established Group with a diversified revenue and product profile across different geographies, one of the leading player in General Insurance (25% market share) & Life Insurance business (11% market share) in Mauritius, a sound investment portfolio, robust systems and processes, a strong solvency position vis-à-vis regulatory requirements and a satisfactory track record of meeting claims over the decades.

The rating is however constrained by a high level of competition and growth stagnation in the Mauritian insurance market, investment in group companies being over the concentration limit, and lower profitability in East African operations (particularly Kenya).

The rating is sensitive to maintaining a capitalisation and solvency ratio well above the Regulatory norms, a sound investment portfolio, consistent operational & financial performance of dividend paying subsidiaries - Mauritius Union Assurance CY Ltd (“MUACL” or “the Company”; which is engaged in providing general insurance) and MUA Life Ltd (“MUA Life”; a wholly owned subsidiary of MUACL which provides life insurance), turnaround in general insurance business in Kenya and the ability to maintain performance in its other East African operations as well as the success and financial impact on the Group that the proposed acquisition in East Africa may have, the intention of which was recently announced by the Group.

BACKGROUND

MUACL was founded on 26 July 1948 with the objective of providing affordable insurance to the Mauritian population by introducing both general and life insurance. Since inception, the Company has offered life insurance and pension products as well as general insurance such as motor, household and fire policies amongst others to Mauritians. It was the first company to provide loans to middle class Mauritians at affordable rates. Over the last 70 years, the Group has grown both organically and through acquisitions, expanding into other regions beyond Mauritius. In 2014 the Group expanded into East Africa (Kenya, Tanzania, Rwanda and Uganda) through the acquisition of a 100% stake in Phoenix Transafrica Holdings Limited (“PTHL”), a group of companies engaged in providing general insurance in the four aforementioned East African countries.

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

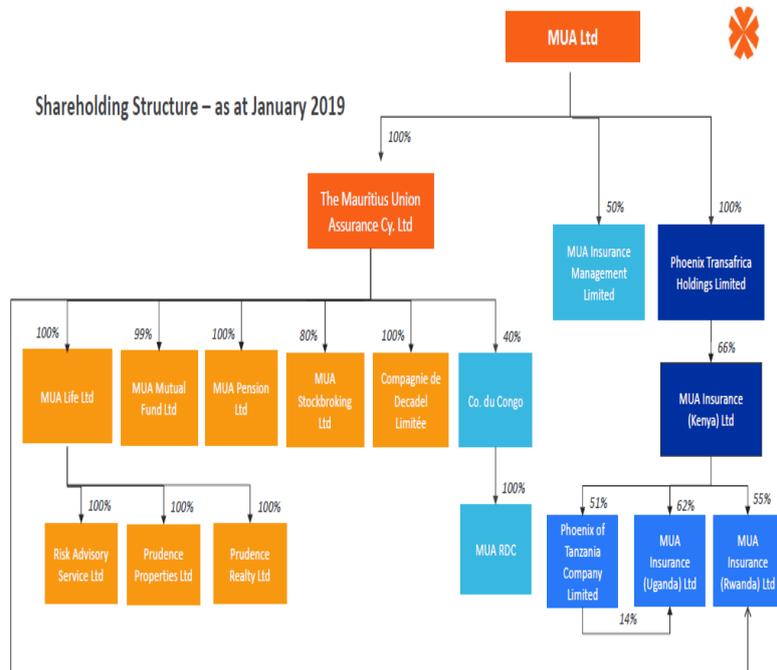
FSC License No.: CR14000001

Telephone: +230 59553060/58626551

www.careratingsafrica.com

Until December 2018, MUACL was the holding company of the Group, with the major income generating subsidiaries being MUA Life and PTHL.

In January 2019, MUA Ltd was incorporated as a new legal entity to act as the ultimate holding company of the Group and was listed on the Official Market of the Stock Exchange of Mauritius (“SEM”). The Group also underwent a restructuring of the subsidiaries and associates of MUACL, relating to East Africa, with these subsidiaries now held under MUA Ltd instead of MUACL. The new Group structure is as depicted:



MUA has major presence in 6 countries namely Mauritius, Seychelles, Kenya, Uganda, Tanzania and Rwanda. As at 31 December 2018, financial and operational highlights are as follows:

Particulars	Brand	Market Share in terms of GPE*	Position in the Industry*	Amount (MUR Million)	% of GPE
Gross Premium Earned (GPE)				4,256	
<i>General Insurance Mauritius (Mauritius Union Assurance CY Ltd)</i>	MUA GI	<i>Overall - 25% Motor – 23% Accident & Health -23% Property - 23%</i>	<i>No. 2 No.1 No. 2 No.2</i>	2,228	53%
<i>Life Insurance Mauritius (MUA Life)</i>	MUA Life	11%	No. 4	1,034	24%
<i>General Insurance East Africa (MUA Kenya)</i>	MUA			1,044	23%
PAT				354	
Gross Sum Insured (Life Insurance)				57,000	
Solvency ratio (MUACL) (as on 01.01.2019)				209%	
Total Assets				14,425	
Life Insurance Fund				7,229	
Return on Equity				12.6%	

*Latest available FSC Statistics

MUACL has a satisfactory solvency position. As at January 1, 2019, at the MUACL group level the ratio of Excess Capital Available over Capital required margin stood at 209% [223% in FY17] against the statutory limit of 150% as per Insurance (General Insurance Business Solvency) Rules 2007. Mauritius is the primary market for MUA (25% market share for general insurance and 11% market share for life insurance). **MUA has a market capitalisation of MUR 3.5 billion as at 31 July 2019.**

MUACL is a professionally managed insurance company. It is governed by a 10-member Board of Directors comprising of 2 Executive Directors, 4 Non-Executive Directors and 4 Independent

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Directors from a diverse set of industries, under the chairmanship of Mr. Dominique Galea. Since January 2019, the Board of MUA Ltd is comprised of the same Directors.

MUA Ltd will issue a Bond of MUR 500 million in September 2019. The Group intends to use MUR 200 million of the Proposed Bond Issue proceeds to fund the redemption of the existing bonds issued in 2015 by MUACL (“Existing Bonds”) through an internal notes subscription between MUACL and MUA Ltd. This back to back agreement will be done on the same terms as the aforementioned Bond Issue. Accordingly, MUACL will pay semi-annual interest with the principal amount payable in September 2029 to MUA.

The remaining proceeds (MUR 300 million) will be temporarily invested in Government Securities, before funds are used to fund acquisition and expansion projects of the insurance business in East Africa, via PTHL, which as previously mentioned, currently provides general insurance in East Africa through its 66% holding in MUA Insurance (Kenya) Limited.

The remaining interest and principal of the Proposed Bond Issue (MUR 300 million) will be repaid out of cash flow to be received as dividend from MUACL and MUA Life. Despite MUA Insurance (Kenya) Limited being a profitable, no dividend has been considered from this subsidiary during the projected tenure of the Proposed Bond Issue.

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.

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com