Brief Rationale

CRAF reaffirms 'CARE MAU A (SO); Stable' rating to the Senior Tranche of the bond issue of Mur 600 Million of MaxCity Property Fund Ltd ("MPFL")

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond - Senior Tranche	600	**CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable] ***	**Reaffirmed**

**Bond issue (Senior Tranche) is backed by the first charge on the leased properties of MaxCity Property Fund Ltd ("MPFL") and pari-passu first charge on the 50% share held by MPFL in MaxCity Ebene Ltd ("MEL"). Interest payment on Senior Tranche of Bonds has first priority on lease rentals received by MPFL.*

Rating Rationale

The rating is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Bonds, as per the terms of the transaction and is not a standalone rating of MaxCity Property Fund Ltd ("MPFL").

The structure involves pooling of various commercial properties under MPFL which has issued 10 years bond (May 2017) of Mur 800 million (including Mur 600 million of senior tranche and Mur 200 million of junior tranche) whereby the proceeds were utilized for repayment of its existing high cost debt (Mur 270 million), investment in development of properties in a separate joint venture SPV (Mur 100 million) and subscription to bonds of Mur 400 million issued by Maxcity Ebene Ltd ("MEL"; 50% holding of MPFL). MEL in turn utilised the proceeds for full repayment of its existing loan (Mur 307 million - having higher interest rate) and balance towards part project funding. MPFL is servicing the bondholders through the receipt of interest income from MEL and lease rentals from its five properties having proven track record of lease rentals. MEL has one property (1 Cybercity) which is almost fully occupied whose lease rentals are being utilized for debt servicing. Construction of Phase 2 of 1-Cybercity is completed and the same became operational in the second half of 2018 and has shown good pick-up in occupancy.

The rating derives strength from lease rentals being generated from properties at prime location, with reputed and diversified tenant base, high occupancy ratio & retention rate of tenants in these properties and comfortable coverage ratios. The rating also derives strength from experienced promoters and MPFL being a part of MaxCity group which has an established track record in real estate development in Mauritius.

The rating is constrained by shorter lease tenure compared to bond tenure, pending full leasing of entire Phase 2 of 1-Cybercity, refinancing risk at time of redemption of bonds and foreign exchange fluctuation risk.

Timely renewal of lease agreements with existing tenants to maintain high occupancy in the existing properties, successful leasing of entire Phase 2 of 1-Cybercity and finalization of mode of arrangement of funds for redemption of bonds within stipulated time are the key rating sensitivities.

Current Transaction

Proposed Buyout of entire stake in Maxcity Ebene Limited (MEL) by Fon Sing group

Maxcity Property Fund Limited (MPFL) is entirely held by the Fon sing family. Further, MPFL holds 50% stake in Maxcity Ebene Limited (MEL). The balance 50% stake of MEL is currently held by their partners H.V. group through HVM Office Management Ltd (HVOM).

Fon Sing family now plans to acquire 100% shares of HVOM (which holds 50% stake of MEL). The acquisition of HVOM will be achieved by amalgamating HVOM and MPFL, whereby the surviving company will be MPFL.

Post amalgamation, MEL stands merged in to MPFL, thus enabling MPFL to benefit from 100% of the cash flows of MEL (which owns the 1 Cyber City Ebene property).

MPFL is raising a new Bond issue of Mur 1200 million to conclude this transaction, which will be utilised partly for buying out the entire stake of HVOM in MEL and partly for repayment of existing loan from MCB (Mur 400 million) availed by MEL.

This transaction in turn is expected to boost the overall cash flows of MPFL. Currently MPFL is only getting Mur 22.5 million annually from MEL (interest income @ 5.62% p.a. on its subscription to bond issue of Mur 400 million of MEL). Post this acquisition, MPFL will get access to MEL's entire cash flows net of expenses (which are envisaged to range between Mur 100-130 million per annum).

Impact of transaction

New bond issue (Mur 1,200 million) is expected to be raised through a mix of USD and MUR borrowings at an average rate of 4.00-4.20% p.a. It is proposed to be repaid in 2 tranches (Mur 900 million in FY2024 and Mur 300 million in FY2026).

Post new Bond issue, Senior tranche Bond holders (Mur 600 million) will have pari-passu charge with the new bond holders (Mur 1,200 million). Given that, post-acquisition of 50% stake of MEL, 1 Cyber city will be transferred to MPFL, the aggregate valuation of property will stand at Mur 2,850 million [1 Cyber city - Mur 1,950 million (March 2019 valuation report) and other 5 properties - Mur 900 million]. The coverage ratio for Sr. tranche bond holders will be 1.58x (i.e. above the covenant of 1.5x).

While a moderation in the interest coverage of the Sr tranche bond issue is envisaged post culmination of this transaction, still the interest coverage during the projected period is expected to remain satisfactory over 2.00x times.

The repayment of the new bond will be within the tenure of the Sr tranche. MPFL will have access to excess cashflow generated from the rentals of the 6 properties, which can be utilised for repayment of the 2 tranches. Given the shorter tenure of the bond repayment vis-à-vis cashflow, there will be a refinancing requirement for part of the bond in FY24.

Senior tranche Bond holders (Mur 600 million) are entitled to a cash build-up account which is pledged to the Noteholders Representative. As per the covenant, MPFL must deposit 50% of the repayment amount (Mur 600 million) from its internal cashflows in this account for the repayment of the Mur 600 million at maturity.

Given that MPFL has to build up cash from its surplus cashflow for repayment of 50% of the Senior Tranche (Mur 600 million), the refinance risk for Senior Tranche (Mur 600 million) will be to the extent of Mur 300 million.

The refinancing risk for new bond and the Sr. tranche bond is expected to be low considering the property value of Mur 2,850 million, high occupancy level with well renowned tenants at various properties, having favourable location, established track record and good retention rate of tenants.

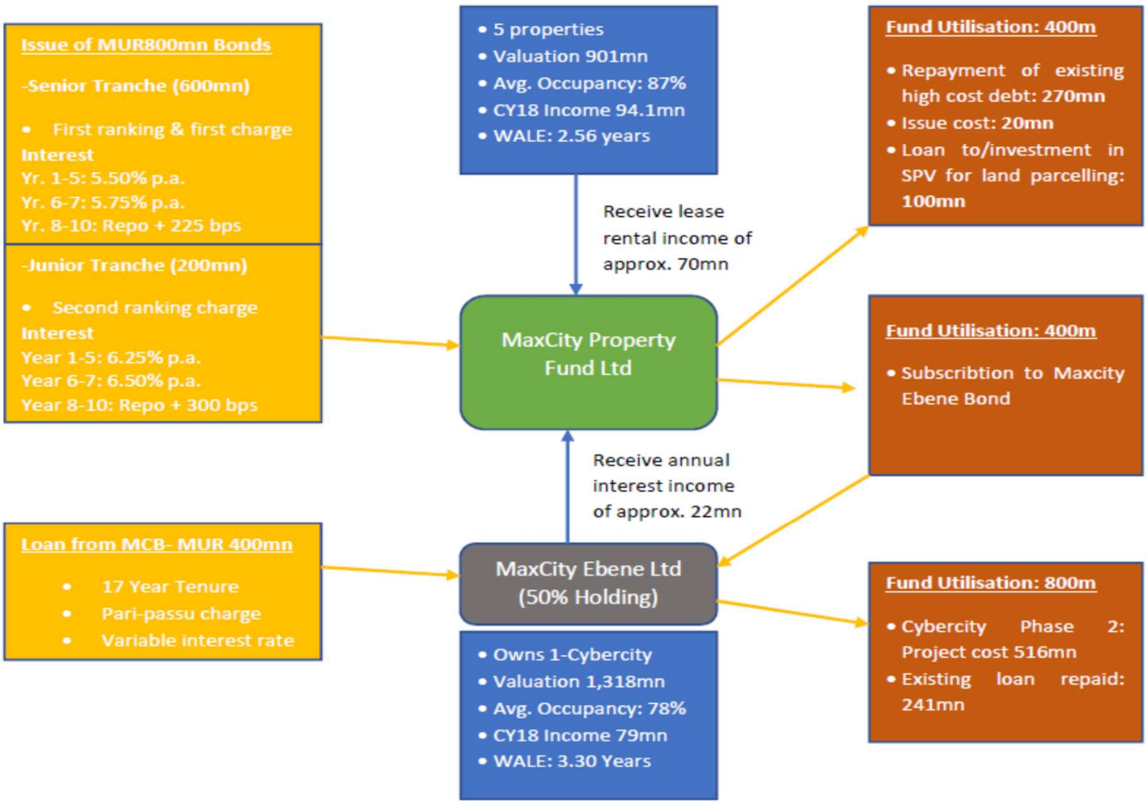
Background

Incorporated on April 5, 2017, MPFL is a wholly owned subsidiary of Maxcity Properties Ltd ("MPL"), the property development arm of MaxCity Group owned by Hanwell Ltd and specialising in large scale and upmarket property development with over 25 years of experience in property development in Mauritius.

MPFL owns five properties having leasable area of 176,000 square feet (sq. ft.), two of which are Grade-A prime properties, including one operating in a niche segment designed and built specifically for retail operators in the Home DIY/Housewares sector. These properties are Centre Commercial Emerald Park, One Cathedral Square, Court View Building, Max Tower Building and Max Plaza, Pereybere. In addition to this, MPFL also holds 50% stake in Maxcity Ebene Ltd which owns 1-CyberCity office building in Ebene, also Grade –A prime property. In 2018, Phase 2 of 1-Cybercity was completed, adding an estimated leasable area of 160,931 sq. ft.

Transaction Structure of existing bond

MPFL has issued Bonds of Mur 800 million with 10-year tenure which have two tranches: Senior tranche of Mur 600 million [Senior Tranche rated **CARE MAU A (SO); Stable**] and Junior Tranche of Mur 200 million (Junior Tranche: **unrated**). The bondholders have first charge on the properties owned by MPFL and pari-passu charge on properties held by MEL (50%). MPFL has income in the form of lease rentals from its owned properties and monthly interest income on the bonds of MEL subscribed by it which is being utilized for interest payment to MPFL's bondholders and debt repayment.



Utilisation of Bond proceeds:

MPFL has utilized the part proceeds of Mur 300 million to repay the existing debt on properties and towards issue expenses; Mur 100 million towards loan/investment in SPV for land parcelling and balance proceeds of Mur 400 million has been utilized to subscribe to the bond issue of MEL having tenure of 10 years. MEL has received Mur 400 million from MPFL and another Mur 400 million loan from MCB to repay its existing debt and fund the phase II of 1Cybercity which had project cost of Mur 516 million.

As per Provisional Accounts of FY18 (January - December 31), Total income of MPFL was Mur 94.0 million with a PBT of Mur 27.6 million. The occupancy ratio was around 87%.

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.