

Rating Rationale
MaxCity Property Fund Ltd (“MPFL”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond	USD 11.1 million (MUR 383 million)	CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]*	Assigned
Bond - Senior Tranche	600	CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable] *	Reaffirmed

**Bond issues are backed by the first charge on the leased properties of MaxCity Property Fund Ltd (“MPFL”). Interest payment on both the Bond Issues has first priority on lease rentals received by MPFL.*

Rating Rationale

The rating assigned to the new bond issue of USD 11.1 million of Maxcity Property Fund Limited (“MPFL”) 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 MPFL.

The structure involves pooling of various commercial properties under MPFL which has issued Mur 1,200 million of multicurrency bond (USD 16.1 million and Mur 300 million for 5 & 7 years) in April-July 2019, whereby the proceeds were utilized for buying out 50% stake of HVM Office Management Ltd (HVOM) in Maxcity Ebene Limited (MEL) and repayment of existing loan of Mur 400 million in MEL.

The rating reaffirmed for the existing Bond issue of Mur 600 million 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 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 and investment in development of properties in a separate joint venture SPV.

MPFL is servicing the bondholders through the receipt of interest income from the lease rentals from its six properties (including 1 Cybercity) having proven track record of lease rentals. 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 ratings derive 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 of Mur 600 million bond derives comfort from the fact that MPFL must build up Mur 300 million of cash from its surplus cashflow for repayment of 50% of the Senior Tranche Bond issue (Mur 600 million).

The ratings are 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.

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Current Transaction

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 held 50% stake in Maxcity Ebene Limited (MEL). The balance 50% stake of MEL was held by their partners H.V. group through HVM Office Management Ltd (HVOM).

In May 2019, MPFL acquired 100% shares of HVOM (which held 50% stake of MEL) and amalgamated HVOM with MPFL, whereby the surviving company is MPFL. Post amalgamation, MEL got merged with MPFL, thus enabling MPFL to benefit from 100% of the cash flows of MEL (which owns the 1 Cyber City Ebene property).

MPFL has raised a new Bond of MUR 1,200 million for buying out the entire stake of HVOM in MEL (MUR 800 million) and repayment of existing loan from MCB (MUR 400 million) in MEL. This transaction has boosted the overall cash flows of MPFL. Earlier, MPFL was only getting MUR 22.5 million annually from MEL (interest income @ 5.62% p.a. on bond issue of MUR 400 million of MEL) on the loan extended to the latter, apart from any dividend declared by MEL. Now, MPFL has access to MEL's entire cash flows net of expenses.

Impact of transaction

New bond issue (Mur 1,200 million) was raised through a mix of USD and MUR borrowings at an average rate of 4.00-4.20% p.a. It will 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) have pari-passu charge with the new bond holders (Mur 1,200 million). Post-acquisition of 50% stake of MEL and transfer of 1 Cyber city to MPFL, the aggregate valuation of property stands 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 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.

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Background

Incorporated on April 5, 2017, MPFL is a wholly owned subsidiary of Maxcity Poperties 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 six properties having leasable area of 440,000 square feet (sq. ft.), three 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 1-CyberCity office building in Ebene, Centre Commercial Emerald Park, One Cathedral Square, Court View Building, Max Tower Building and Max Plaza. In July 2018, Phase 2 of 1-Cybercity was completed.

Transaction Structure of existing & new bond issue

In May 2017, 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**).

In April-July 2019, MPFL has issued multicurrency bonds of Mur 1,200 million (USD 16.1 million and Mur 300 million for 5 & 7 years) which has two tranches: USD 11.1 million [**CARE MAU A- (SO); Stable**] & USD 15.0 million [**unrated**] and Mur 300 million [**unrated**].

The bondholders have first charge on the six properties (including 1 Cybercity) owned by MPFL alongwith the Senior tranche of Mur 600 million. MPFL has income in the form of lease rentals from six owned properties (including 1 Cybercity) properties which is being utilized for interest payment to MPFL’s bondholders and debt repayment.

Utilisation of existing & new Bond proceeds:

MPFL has utilized the proceeds to repay the existing debt on properties, towards issue expenses and towards loan/investment in SPV for land parcelling.

MPFL has raised a new Bond of MUR 1,200 million for buying out the entire stake of HVOM in MEL (MUR 800 million) and repayment of existing loan from MCB (MUR 400 million) in MEL.

Credit Risk Assessment

Experienced promoters with MaxCity group having established track record in real estate development in Mauritius

MPFL is a part of Maxcity group which has long track record of development of properties in Mauritius market. MPL (holding company of MPFL) is the property development arm of MaxCity group ultimately owned by Hanwell Ltd and specializes in large scale and upmarket property development. It has over 25 years of experience in property development in Mauritius and over the years, has gained a profound knowledge of the Mauritius property market. Past projects include the innovative mixed-use development of Grand Baie La Croisette mall, the prestigious 1 CyberCity office building in Ebene, One Cathedral Square office building in Port Louis, Centre Commercial Emerald Park, etc.

Mr. Maxime Fon Sing is the founder of MaxCity Properties. He is assisted by his sons Mr. Danny Fon Sing (Director) and Mr. Max Tony Fon Sing (Director) who joined the group in 1994 and 1992 respectively.

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Prime location of lease-rental generating properties

All the six properties (including one property owned by MEL) are located at prime locations in Mauritius, like Ebene - new business district and Port Louis - capital of Mauritius, where offices of all major banks, Corporates and Ministries are located. The details of the properties are as under:

Property	1 Cybercity Ebene	MEL - 1 Cybercity Ebene (Phase 2)	Centre Commercial Emerald Park	One Cathedrale Square	P. Hennessy - Court View Bldg.	Max Plaza	Max Tower
Location	Ebene	Ebene	Trianon	Port Louis	Port Louis	Pereybere	Port Louis
Owner	MaxCity Ebene Ltd		MaxCity Property Fund Ltd				
Leasable Area (100,000 sq. ft)	1.08	1.60	1.00	0.49	0.17	0.03	0.07
Valuation (MUR million) (Report Date)	1,950\$ (May 2019)		423.0 (Jan 2019)	359.40# (Feb 2017)	74.30 (April 2016)	15.70* (NA)	28.80 (Feb 2017)
Type	Commercial (Office)		Commercial (mall)	Commercial (Office + retail)	Commercial (Office)	Com. (Office + retail)	Com. (Office)
Occupancy (in %)	93%	68%	87%	90%	100%	90%	100%
Annual Lease rental (MUR million)	72.0	64.5	33.5	28.1	6.2	1.1	2.1
Weighted Lease Expiry (years)	2.4	3.9	3.2	1.4	1.2	1.7	1.8

[^] -excludes under construction property *Max Plaza valuation is as per internal records of the company using income capitalization method.

-Valuation refers to value of the property owned by Societe One Cathedrale Square. Floors 4,5,6,7,8 and 11 of One Cathedral Square have been sold.

\$ -Valuation refers to value of all the properties owned by MaxCity Ebene Ltd. Floors 1,7 and 8 of 1 CyberCity have been sold

Reputed and diversified tenants

All the six properties (including property owned by MEL) are located at prime location in Mauritius. All properties have diversified tenants with mix of Government, Finance & Insurance, Retail and others. Area-wise, properties owned by MPFL have a tenancy nearly equally shared between Retail spaces and Office spaces. MEL, on the other hand, leases mainly Office spaces. In all, there are over 50 tenants in these six properties. For the majority of the tenants, the lease term is for between 3 to 5 years, with the option to renew for another consecutive term. The weighted average lease expiry is 2.56 years.

Further, the tenants in the properties under MPFL includes reputed companies and government department. The lease profile of key tenants is as follows:

Tenant & Property leased	Profile
Ocorian Corporate Services Limited (erstwhile ABAX Corporate Services Limited) (1 Cybercity Ebene)	In 2018, Ocorian has completed its acquisition of ABAX Corporate Services, extending its service range and capability across Africa, Asia and the Middle East. Ocorian is an international provider of integrated advisory, corporate and business services, with a special focus on Africa and Asia. The Mauritius office provides structuring, establishment and ongoing administration of Mauritian global businesses, trusts, limited partnership structures and foundations

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Tenant & Property leased	Profile
Accenture Services (Mauritius) (1 Cybercity Ebene)	Accenture is a Fortune Global 500 global management consulting and professional services firm. The Mauritius branches provides services in strategy, consulting, digital, technology and operations services.
Standard Bank (Mauritius) Limited (1 Cybercity Ebene)	Standard Bank (Mauritius) Limited is a wholly owned subsidiary of the Standard Bank Group, the largest bank in Africa in terms of assets. The Bank is present in Mauritius since 2001, and their two main pillars of business are Corporate and Investment Banking and Wealth and Investment.
Citco (Mauritius) Ltd (1 Cybercity Ebene)	Citco Group of Companies is known as both a high-quality service provider in financial services space. The founding family still runs Citco and continues to provide a broad range of financial services to its clients. Group has over 70 years of track record with USD 995 bn of assets under management with 60 offices all over the world.
MR. BRICOLAGE (Centre Commercial Emerald Park)	Mr Bricolage has two stores in Mauritius and an area of 6,000 m ² dedicated to House and Home. The stores have a full range of ironmongery such as tools, electrical items, bathroom and kitchen fittings and fixtures, wood and other materials. There are also decorative items, including paint, lamps and lighting, cushions, curtains artworks etc.
Parabole Maurice (Centre Commercial Emerald Park)	Created in November 1998, the PARABOLE Group is into satellite television and a regional group present in the Indian Ocean: Réunion, Mauritius, Madagascar, Mayotte, Comoros. Group PARABOLE has over 90,000 homes as its customers in all five territories, representing more than 250,000 viewers every day.
Moving Fitness Club Ltd	A well known fitness club in the city.
Registrar of Companies (One Cathedrale Square)	The Corporate and Business Registration Department is a government office, which falls under the aegis of the Ministry Of Finance and Economic Development.
Board of Investment (One Cathedrale Square)	Board of Investment (BOI) is the national investment promotion agency of the GOM with the mandate to promote and facilitate investment in the country.
KFC Mauritius (One Cathedrale Square)	KFC is a global food chain with more than 18,000 KFC outlets in 115 countries and territories around the world. It has 21 restaurants in Mauritius.
National Insurance Company (P.Hennessy - Court View Building)	National Insurance Co. Ltd (“NICL”) is a state-owned company and licensed by the Financial Services Commission to undertake long-term insurance business, including a broad range of health, motor and travel insurance plans for individuals and corporates. NICL has over a portfolio of 130,000 clients under Life Insurance, with its Head Office situated at the NIC Centre and operates through a network of 13 branches. (One of its branch is at P.Hennessy - Court View Building)
Mauritius Bar Association (P.Hennessy - Court View Building)	Set up since 1995, the Mauritius Bar association has been the professional body of barristers in Mauritius. The Mauritius Bar Association counts presently about 570 members, who exercise their profession in a variety of fields, and include private practitioners, members of State Law Office, and in-house counsel.
National Solidarity Fund (P.Hennessy - Court View Building)	The National Solidarity Fund (NSF) was set up as a body corporate under the National Solidarity Fund Act 1991(amended 2005 and 2011) under the aegis of the Ministry of Social Security, National Solidarity and Reform Institutions. It falls under Ministry of Social Security, National Solidarity and Environment and Sustainable Development.
The Business Exchange (1 Cybercity Ebene P2)	The Business Exchange is a South African company that provides professional private work spaces, coworking spaces, virtual offices and Meeting Rooms Rental. 1 Cybercity Mauritius is it’s first Office Space location outside South Africa. The office will be set up in April 2019.
Saudi Consulate (1 Cybercity Ebene P2)	A diplomatic office of Saudi Arabia to be set up in May 2019 at 1 Cybercity Ebene.

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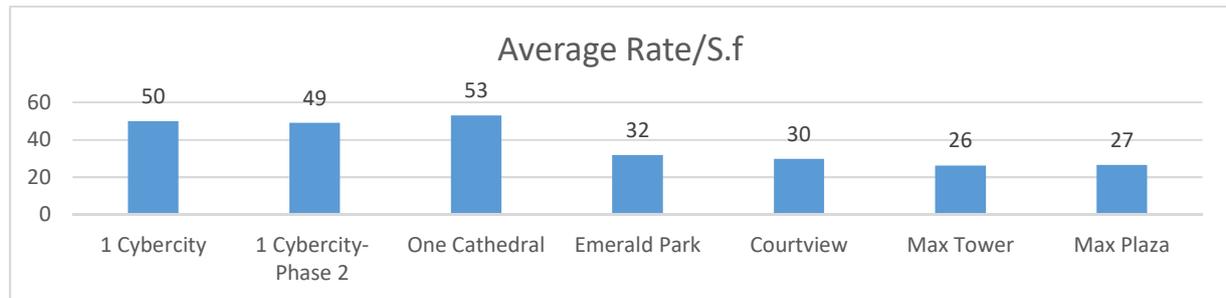
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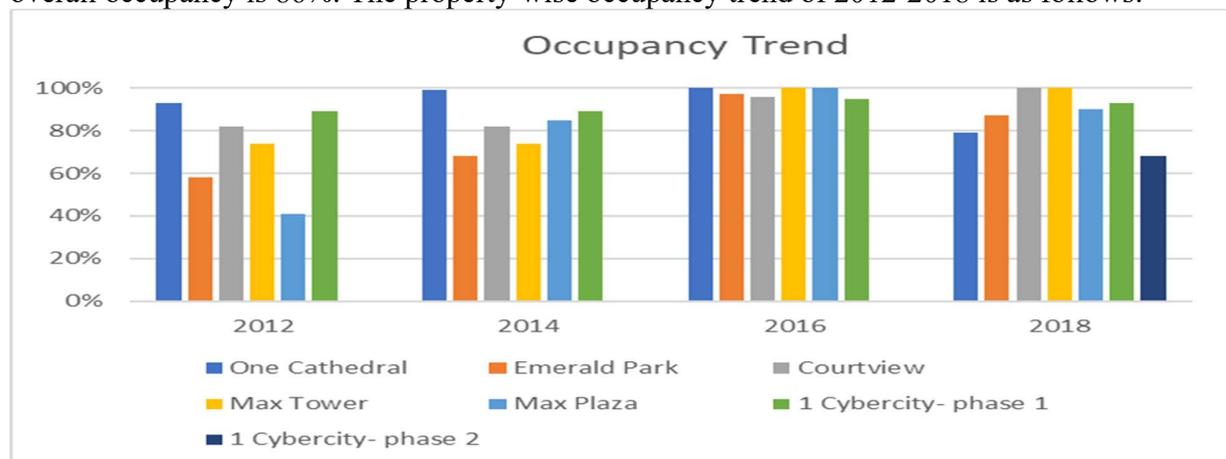
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High occupancy with established track record and good retention rate of tenants

All six properties have high occupancy levels [Phase 2 of 1 Cybercity, being in its first year of operation has lowest occupancy (68%) among the properties] with limited movement of tenants as majority of customers are well known companies and government department. The overall average rent is also moderate at MUR 38 per sq. ft. per month with the highest being One Cathedrale Square which is favourably located in Port Louis, closely followed by 1 Cybercity Ebene which is the prime property in Ebene.



As on December 2018, Overall Average Occupancy of six properties (excluding Phase 2 Cybercity is 87% (94% in Dec 2017). Considering Phase 2 of 1-Cybercity (operational in July 2018), the overall occupancy is 86%. The property-wise occupancy trend of 2012-2018 is as follows:



Refinancing Risk at time of redemption; albeit some comfort on considering cumulative cash balance

In terms of cumulative cash surplus, overall coverage for senior bond tranche is expected to be 0.50 times, given that MPFL has to build up Mur 300 million of cash from its surplus cashflow for repayment of 50% of the Senior Tranche (Mur 600 million) and the company can utilise excess cash of Mur 470 million for part repayment of proposed Bond in April 2024 and April 2026. However, overall refinancing risk is expected to be moderate considering likely increase in overall value of properties with completion of Phase II of 1 Cybercity resulting in low Loan to value ratio (LTV) at end of bond tenure. Also, redemption mode would be decided one and half years before the bond maturity date providing buffer time for arranging finance. The non-exhaustive list for redemption includes (a) a term loan – the amount equivalent to outstanding amount; (ii) A new

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bond issuance; (iii) An equity solution through an IPO, trade sale or raising private capital in MPFL. Finally, the sale of real estate is the last resort.

Shorter tenure of lease agreement compared to bond tenure

The weighted average tenure of lease in all properties is around 2.56 years compared to bond tenure of 8 years. Further, the notice period for most of the tenants ranges from 3 to 6 months. Thereby, there is potentially a high renewal risk associated with the properties which can adversely affect overall cash flows and consequently debt servicing. However, it may be noted that government tenants enter into lease tenure of up to 3 years and most of the tenants has been using the property for more than 8 years and the leases are renewed well before expiry.

Post implementation risk at MEL

Majority of the funds proceeds has been utilized to fund the phase II construction of Cybercity. The project included construction of Tower B and Tower C of Cybercity and was entirely debt funded. Same was completed, adding 160,931 sq. ft. of leasable area. Total cost incurred for the project was MUR 516.5 mn (as against MUR 550 million budgeted). As of August 2019, 68% of total leasable area of Phase 2 of 1-Cybercity was already secured by tenants. MEL is in discussion with different organisations for leasing of the vacant areas and the company expects to sign 85% of the leasable area by December 2019. Hence, there exists the risk related achieving full occupancy in the property in a timely manner and at envisaged rates.

Foreign Exchange fluctuating risk at MEL

Approximately 67% of lease rentals of 1 Cybercity Ebene (under MEL) are in USD and in absence of active hedging policy its profitability is exposed to foreign exchange fluctuations. However, given major part of the new bond issue is in USD, this will reduce the forex risk.

Prospects

The prospects of the company depend on timely renewal of lease agreements with existing tenants, maintain high occupancy in the existing properties and timely receipt of lease rentals.

Bond Details:

Terms	Senior Tranche	Junior Tranche
Amount	Mur 600 Million	Mur 200 Million
Issuer	MPFL	
Purpose	The proceeds from the issue of Notes have been used to <ol style="list-style-type: none"> i. Finance the acquisition of various properties from associate companies and the proceeds were utilised by those companies to repay their existing bank debts ii. Subscribe to the Notes issued by MaxCity Ebene Ltd (Mur 400 million) and proceeds to be utilised by MEL to refinance existing bank debt and part fund the project ii. Invest in planned developments 	
Tenure	10 years	10 years
Trustee	MUA Life Ltd, 2 nd Floor, Barkly Wharf, Caudan, Port Louis	
Redemption Price	100% of principal amount per note	
Interest rate	Year 1-5: Fixed coupon of 5.50% p.a. Year 6-7: Fixed coupon of 5.75% p.a. Year 8-10: Repo +2.25% p.a.	Year 1-5: Fixed coupon of 6.25% p.a. Year 6-7: Fixed coupon of 6.50% p.a. Year 8-10: Repo + 3.00% p.a.
Maturity date	10 years from issue date	

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Terms	Senior Tranche	Junior Tranche
Interest payment date	Semi Annually in arrears; Senior tranche interest payment has first right on income.	Semi Annually in arrears
Call option/ Early redemption	Annually from the fifth anniversary of the date of issue at par, Solely at the option of the Issuer (in whole or in part)	
Redemption	<p>18 months before the Maturity Date, the Issuer shall appraise the Noteholders' or Trustee of the repayment method (the "Preferred Repayment Method") which the Issuer has elected for in respect of the repayment of the total outstanding Aggregate Nominal Amount. The Preferred Repayment Method may include, inter alia, a term loan, a new bond issuance, an equity injection through an initial public offering, a trade sale, raising private capital in the Issuer or any other financial instrument available to the Issuer.</p> <p>Also, the Issuer may, at its sole discretion, alter the Preferred Repayment Method, provided that:</p> <ul style="list-style-type: none"> • Such alteration is notified to the Noteholders at least 3 months before the Maturity Date; and • The Issuer will be able to, by applying the new repayment method, pay the total outstanding Aggregate Nominal Amount. 	
Security	First charge on the properties owned by MPFL valued at MUR 901.2 mn and pari-passu charge on properties owned by Maxcity Ebene Ltd (1.58 times of the bond amount)	Second charge on the properties
Provision for Coupon Payment	From monthly income (rental income + interest income) an amount equivalent to one coupon payment to be accumulated in escrow account before payment of management fees or any dividend. For every six months, same mechanism would repeat.	Nil
Other covenants	<ol style="list-style-type: none"> 1. The value of property should not fall below 1.5 times of bond value (Senior Tranche). 2. Repayment at maturity date will be effected partly (not more than 50%) through refinancing and balance 50% from the cash build up. 	

Bond Details:

Notes	Amount (USD)	Amount (MUR Million)	Interest	Repayment	Bank
USD Floating Rate Note	11.1	383*	3.80% [USD 3 M Libor (2.65) +1.15%]	July 2024 (USD 11.1 million) Bullet at the end of 5 years from the date of issue (April/July 2019)	MCB – USD 11.1 million
Security	1 Cyber city Building (Phase I and Phase II)				
Usage of Proceeds	The proceeds from the issue of the Notes has been used to prepay a part of the shareholders loan (MUR 400 million to MEL) which was availed as a construction financing facility for extension of 1Cybercity property.				
Covenant	<ol style="list-style-type: none"> 1. Issuer shall not exceed maximum LTV of 60% 2. Minimum interest coverage of 1.5 times 3. Management fees subordination 4. Non payment of dividend 				

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%.

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