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Rating Rationale

Commercial Investment Property Fund Limited (CIPF)

Ratings

Instrument	Amount (MUR Million)	Rating
Bond - Senior Tranche	400	**Provisional CARE MAU A- (SO); Stable [Provisional Single A Minus (Structured Obligation); Outlook: Stable]***

**Bond (Senior Tranche) are backed by the first charge on the leased properties. Interest payment on the Senior Tranche of Bonds would have first priority on lease rentals received by CIPF in an escrow account as per waterfall mechanism. Further, a funded Debt Service Reserve Account (DSRA) equivalent to one semi-annual interest payment to Senior Tranche bondholders would be maintained during the tenure of the Bond.*

The rating is provisional and will be confirmed once CIPF meets the following conditions to the satisfaction of CRAF:

- Transfer of properties to CIPF which are currently owned by ENL Commercial Limited (ENLC) and its subsidiaries as per the details submitted in Private Placement Memorandum
- Signing of lease agreement (having terms and conditions as provided in draft lease agreement and Model) between CIPF and subsidiaries of ENLC
- Creation of funded DSRA equivalent to one semi-annual interest payment to senior tranche bondholders and submission of shortfall undertaking for replenishment of DSRA by ENLC
- Private Placement memorandum to contain the following conditions,
  a. The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders from lease rentals.
  b. The value of property should not fall below 1.1 times of bond value of senior tranche. In this regard, property should be valued annually by an authorised valuer approved by bondholders' representative. Such report shall be shared with CRAF also.
  c. ENL Limited would hold majority stake in ENLC and ENLC will hold majority stake in CIPF and various subsidiaries (who will be paying the rentals) till the tenure of the bond.
  d. Mode of arrangement of funds for redemption of bonds would be decided in one and half years before the bond maturity date.

Rating Rationale

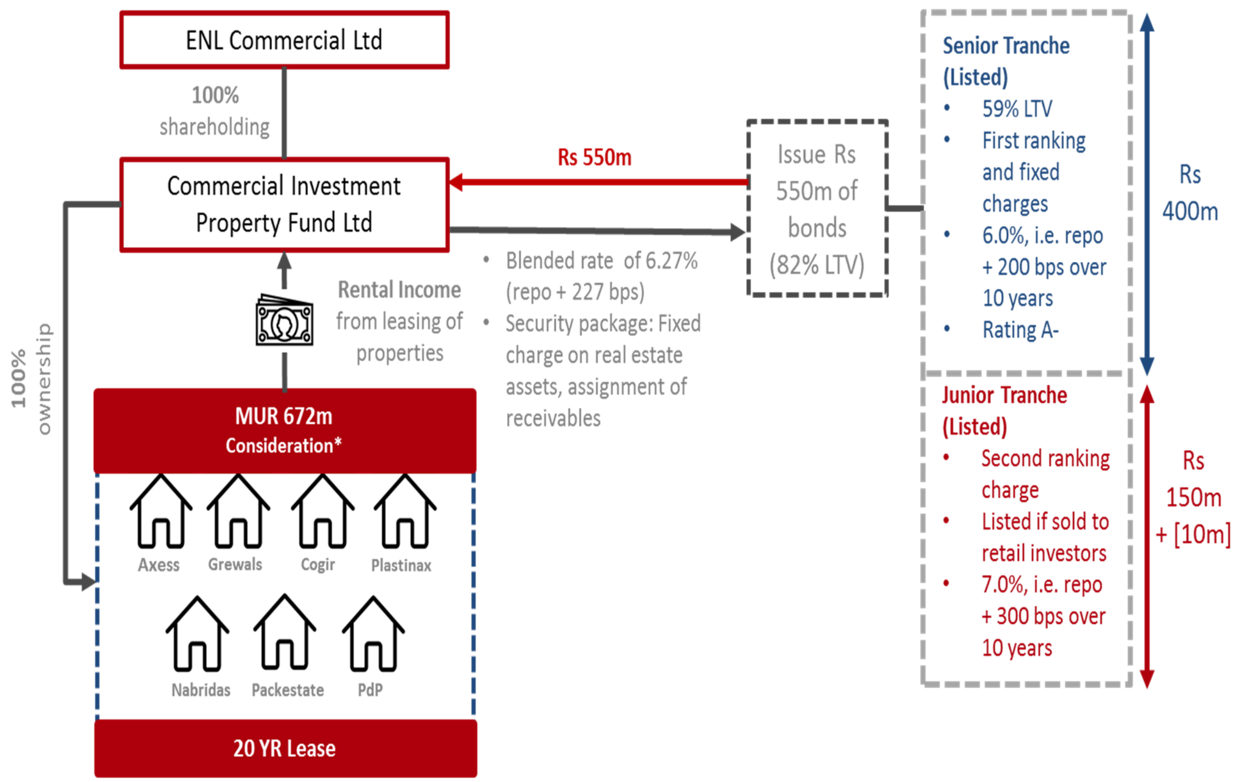
The rating is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest of the rated Bonds, as per the terms of the transaction and is not a standalone rating of Commercial Investment Property Fund Limited.

The rating is based on the strong parentage of the ENL group, strength of the lease rentals to be received from profitable subsidiaries (Axcess, Plastinax and Nabridas) of ENLC, long lease tenure compared to bond tenure with low exit risk, moderate financial risk profile of Lessee's-belonging to diverse industries, financial support from ENLC in form of funded DSRA for one semi-annual payment & shortfall undertaking to maintain the same over the tenure of the bond. The rating is constrained by subdued financial performance of some of the lessees & ENLC in FY16, interest rate risk and refinancing risk at time of redemption. Improvement in the performance of the loss making subsidiaries during the tenure of the instrument, timely receipt of lease rentals, creation & maintenance of funded DSRA equivalent to one semi-annual interest payment by ENLC and mode of arrangement of funds for redemption of bonds within stipulated time are key rating sensitivities.

Background

Incorporated in 2016, Commercial Investment Property Fund Limited (CIPF) is a property fund. It is a wholly owned subsidiary of ENL Commercial Limited (ENLC) and would own nine offices/industrial assets located predominantly in the Moka/St. Pierreregion in Mauritius. These properties are owned & used by ENLC and its subsidiaries. As per arrangement, the properties would be transferred to CIPF and users would enter into 20 years lease agreement with CIPF.
CIPF would issue bond of MUR 400 mn [Senior Tranche rated **Provisional CRAF MAU A- (SO) Stable**] and MUR 150 million (Junior Tranche: **unrated**) which would be backed by the properties and lease rentals thus received would be utilized for interest payment and bond repayments. The bonds proceeds would be paid as purchase consideration to present owners which would be then utilized for debt repayment.

Transaction Structure



Includes projected capex spending of Rs 25m on Nabridas building

The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders from lease rentals.

Strong parentage of ENL Group

CIPF is a wholly owned subsidiary of ENLC which is in turn is subsidiary of ENL Limited (having 61.3% equity stake). ENL is one of the large conglomerates in Mauritius having diverse business interest in agriculture, logistics, trading of vehicles, construction, manufacturing of eyeware, IT & ITeS, property, land, lifestyle, hospitality & leisure, logistic and financial services. These segment are under three main direct subsidiaries of ENL viz. ENL Land, ENLC and ENL Investment. The group is currently led by the fifth generation of Noëls. ENL Limited posted a turnover of MUR 13 billion and PAT of MUR 900 million in FY16 (July –June). It has an asset base, valued at MUR 56.9 billion as on June 30, 2016.
ENLC, a listed company, is engaged in diversified lines of business including automobile dealership, construction and building materials, hotel supplies, ICT services and hardware, and light manufacturing. It was created in 1969 with a view to develop non-sugar activities within ENL.

Long tenure of lease agreement vis-a-vis bond tenure with low exit risk

The leased out properties (As per table below) are being transferred to CIPF with a purpose of issue of bonds whose proceeds are to be utilized for debt repayment in ENLC and its subsidiaries. The tenure of lease is 20 years while the tenure of proposed bonds is 10 years providing stability of cash flows in form of lease rentals.

(MUR Million)

Sr. No.	Address	Property Type	User/Proposed Tenant	Annual rental	Valuation
1	Cnr Grewals Lane and Pailles Cemetery Road, Les Pailles, Moka	Showroom	Axess	16.20	164.87
2	Jaguar and Landrover Showroom) Grewals Lane Les Pailles, Moka	Showroom			66.50
3	Grewals, Moka	Industrial Building	Grewals	6.60	164.27
4	Plastinax Austral, St Pierre, Moka		Plastinax	4.80	79.93
5	Vivea Business Park, Moka	Office	Cogir	6.60	37.98*
6	Nabridas, Riviere Noire	Industrial	Nabridas Limited (Nabridas)	4.56	45.20
7	Nabridas, La Jouliette Road,	Godown			15.00
8	Pack Plastics, Les Pailles, Moka	Industrial	Pack Plastic	2.64	39.08
9	St Andre, Pamplemousses	Industrial	Box Manufacturing	1.62	22.45
	Total			**43.02**	**635.28**

**EY has valued the premises on income capitalisation method at 75 MUR MIllion; however, same is taken as per market valuation on conservative basis by CRAF*

Note: Overall valuation to bond issue is 1.58 times

Key features of the proposed Lease Agreement

<table>
<tr><th>Feature</th><th colspan="3">Details</th></tr>
<tr><td rowspan="9">Tenure of the lease</td><td colspan="3">For a period of 20 years from commencement date</td></tr>
<tr><td>Tenant</td><td>Lease Start Date</td><td>Duration</td></tr>
<tr><td>Axess</td><td>Dec-16</td><td>20 years</td></tr>
<tr><td>Grewals</td><td>Dec-16</td><td>20 years</td></tr>
<tr><td>Cogir (Presently with ENLC)</td><td>Jun-14</td><td>20 years</td></tr>
<tr><td>Plastinax</td><td>Dec-16</td><td>20 years</td></tr>
<tr><td>Nabridas</td><td>Dec-16</td><td>20 years</td></tr>
<tr><td>Pack Plastic & Lepongerie</td><td>Dec-16</td><td>20 years</td></tr>
<tr><td>Box Manufacturing</td><td>Dec-16</td><td>20 years</td></tr>
</table>

Feature	Details
Lease rental Escalation Clause	The increase in lease rent is linked to increase in inflation from FY20 (with cap of 10%) with minimum escalation of 3.5% except for Cogir wherein lease are proposed to be increased at every three years with escalation of cumulative CPI of 3 years with cap of 20%. Thus, it also mitigates the inflation risk to lease rentals to certain extent.
Lease Rentals	The Basic Monthly Net Rental payable excludes 1. Value added tax and the Lessee shall be liable to pay value added tax at the current rate of 15% (fifteen per cent) or such other rate as may be applicable from time to time. 2. Charges payable for services rendered in respect of the Leased Property 3. Payments in respect of the insurance, electricity, water, sanitation fees and other utilities However, Lessee will deduct TDS payable by lessor (currently 5%).
Rental payment terms	Lessee shall pay the Basic Monthly Net Rental in advance on or before the 5th day of each month upon receipt of a monthly invoice to be issued by the Lessor. All payments made by the Lessee to the Lessor in terms of this Agreement shall be effected by cheque or by electronic payment directly into the Lessor's nominated bank account or by such other means as the Lessor may from time to time by notice in writing direct.
Delay in Rent payment	Where a Lessee fails to honour its payment obligations hereunder in a timely manner, it shall be liable to pay interest (without the necessity for the Lessor to serve any notice (mise-en-demeure) on the Lessee) at the prevailing legal rate accruing monthly one week after the date due for payment,
Maintenance and other charges	Lessee would be required to pay the cost of all electricity, water, gas and other amenities consumed by the Lessee in or on, or attributable to, the Leased Property directly to lessor or the utility provider. Also, all refuse removal charges, sewerage, sanitary fees and domestic and industrial effluent fees levied from time to time in respect of the Leased Property are to be paid by lesse. Throughout the duration of this Lease, the Lessee shall maintain and repair the interior and exterior of the Premises and all parts thereof, together with all fixtures, fittings and the Appurtenances, in good order and condition and for such purpose shall attend to such repairs and provide such replacements as may be required.
Risk of Early Termination by the lessee:	The risk of early termination of the lease agreement is low given that the lessee's are the subsidiaries/associates of the ENLC and in case of early termination of lessee for reasons other than damage of property or breach of agreed terms by lessor, lessee shall pay to the Lessor the rental up to the date of termination, the full value of all arrear amounts owing in terms of this Lease together with the Rental for the remaining Lease Period and all damages suffered by the Lessor as a result thereof.

Moderate financial risk profile of Lessee's belonging to diverse industries

All the tenants are the part of ENL group and are direct subsidiaries of ENLC except Cogir which is owned by ENLC (45.8%) and ENL Property Limited (54.1% which is also a part of ENL group). All the tenants have established track record of operations of over 15 years having business interest in diverse industries viz. Automobile dealership, Fashionable Eyewares, Construction, Textile, Plastic products and carton packaging products. This reduces the industry specific risk to overall cash flow in form of lease rentals owing to the inter group financial support as all tenants being part of ENLC and there has been past instances of financial support from ENLC to its subsidiaries.

In terms of individual financial profile Axcess, Plastinax and Nabridas have comfortable cash flows, moderate PBILDT margin and lease rental coverage which contributes 25.56 mn of lease rentals (59% of total lease rental payments). This adequately covers the annual interest payment of the Senior Tranche of the bond.

For Grewals, which is one of the major construction material supplier in Mauritius has reported operating profit but cash losses owing to deterioration in PBILDT margins (2.18% in FY16 from 8.13% in FY14) on back of pruning of its product line from timber based products to fiber based products. For other tenants' viz. Cogir, Box Manufacturing and Pack Plastic, all of them are incurring operating losses and have weak financial profile requiring support from ENLC.

If we look at combined lease rental coverage (average 3 year PBDT to lease rentals) as these are part of same group, it stands moderate at 1.14 times. The same is expected to improve over 4 times during the tenure of the bond due to saving in interest cost (payment of high cost existing debt with cheaper cost bond issue) and expected improvement in construction industry. The annual interest cost saving is estimated to be around MUR 30-35mn against annual lease rental payment of MUR 43 mn.

Financial support from ENLC in form of funded DSRA for 1 semi-annual payment

ENLC would create funded DSRA equivalent to 1 semi-annual interest payment of senior trance i.e. 12 million. Further, it has provided shortfall undertaking to CIPF for replenishment of DSRA within a month's time of its utilization in case of shortfall of lease rental for interest payments. This provide support to cash flows.

ENLC is a holding company for commerce and manufacturing business vertical of ENL group. On consolidated basis, it had reported turnover of MUR 2,736 mn in FY16 which grew at a moderate Compounded Annual Growth Rate (CAGR) of 8% during last three years with growth in automobile and IT services segment. On overall basis, it had reported cash accrual of MUR 62.28 million in FY16.

Interest rate risk

Bonds are to be issued wherein rate of interest shall be Repo rate + 200 bps thereby directly linked to repo rate which is given by Bank of Mauritius and shall be reset on a quarterly basis. Accordingly, interest servicing obligation of CIPF shall be floating with the revision in rate of interest on the back of its fixed cash accruals in initial 3 years which would grow 3-3.5% going forward which mitigates the risk to an extent. However, it has adequate coverage for interest servicing 2.3 times-3.1 times for MUR 400 million bond issue to absorb any adverse movements.

Refinancing risk

In terms of cumulative cash balance in CIPF, the same is estimated to be around MUR 80 mn at end of the bond tenure, thereby requiring minimum refinancing of MUR 320 mn i.e. 80% of bond issue. This introduces significant refinancing risk which could increase in case of downturn in real estate pricing wherein the security coverage would decline. However, the same is partly mitigated considering the company being part of ENL group and the redemption mode would be decided in one and half years before the bond maturity date providing buffer time for arranging finance. The non-exhaustive list includes term loan, new bond issuance, equity infusion, trade sale or raising private capital in CIPF. The trustee will have one and half years' time to sale of the real estate, which will be the last resort.

The ability of ENL group to raise funds though any of the sources in a timely manner would be a key rating sensitivity.

Financials ENLC Limited

(MUR Mn)

For the Year ended / As at June 30,	2013	2014	2015	2016
	12m, A	12m, A	12m, A	12m, Prov.
Working Results				
Total Op. Income (TOI)	2141.78	2308.68	2624.42	2736.36
PBILDT	111.68	147.49	139.44	137.48
Interest	49.80	53.01	57.59	72.81
PBDT	61.88	94.48	81.85	64.67
Depreciation	88.97	87.09	86.20	95.45
PBT	-29.31	13.92	-1.26	-30.78
PAT	-82.87	138.85	-14.20	-41.51
Gross Cash Accruals (GCA)	-36.84	99.09	81.75	62.28
Financial Position				
Equity Share capital	177.96	177.96	177.96	177.96
T. Net Worth (TNW)	522.80	569.92	506.47	454.46
Total Debt	659.44	684.63	881.56	1125.59
Term Loan	286.38	238.26	263.98	381.09
Working Capital Debt	373.05	446.36	617.57	744.50
Key Ratios				
Profitability (%)				
PBILDT / TOI	5.21	6.39	5.31	5.02
APAT / TOI	-3.87	6.01	-0.54	-1.52
ROCE	2.46	6.70	3.87	2.61
RONW	-26.12	22.02	-2.64	-8.64
Solvency(times)				
Debt Equity (x)	0.55	0.42	0.52	0.84
Overall Gearing (including acceptances) (x)	1.26	1.20	1.74	2.48
Overall Gearing (excluding acceptances) (x)	1.26	1.20	1.74	2.48
TOL / TNW (x)	2.32	1.93	2.48	3.35
PBILDT / Interest (x)	2.24	2.78	2.42	1.89
PBIT / Interest (x)	0.46	1.14	0.92	0.58
Term Debt / GCA	-7.77	2.40	3.23	6.12
Total Debt / GCA	-17.90	6.91	10.78	18.07
Liquidity (times)				
Current Ratio	1.23	1.20	1.07	1.12
Quick Ratio	0.79	0.57	0.53	0.57
Avg. Coll. Period (days)	21	45	49	60
Avg. Inv. (days)	39	84	81	82
Avg. Cred. (days)	19	33	21	31
Op. Cycle (days)	41	96	110	112

A: Audited; P: Provisional