

Rating Rationale
MaxCity Property Fund Limited (MPFL)

Ratings

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

**Bonds (Senior Tranche) are backed by the first charge on the properties to be owned by MPFL valued at MUR 835.30 mn and pari-passu first charge on property owned by MaxCity Ebene Limited @50% i.e. MUR 405.5 mn. Interest payment on the Senior Tranche of Bonds would have first priority on lease rentals received by MPFL.*

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

1. Transfer of properties to MPFL as per the details submitted in pitchbook
2. Programme Documentation including Private Placement Memorandum should contain following conditions,
 - a. Bond conditions as per pitchbook
 - b. MPFL would have pari-passu first charge on the property of MaxCity Ebene Limited (MEL) alongwith other lenders of MEL
 - c. The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders from lease rentals.
 - d. The interest payment would be done before payment of management fees
 - e. Covenant of value of property should not fall below 1.5 times of bond value of senior tranche during the bond tenure.
 - f. 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 debt servicing of the rated Bonds, as per the terms of the transaction and is not a standalone rating of MaxCity Property Fund Limited.

The rating derives strength from lease rentals being generated from properties having prime location, 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, project execution risk at MEL which is currently at nascent stage, refinancing risk at time of redemption of bonds and foreign exchange fluctuation risk.

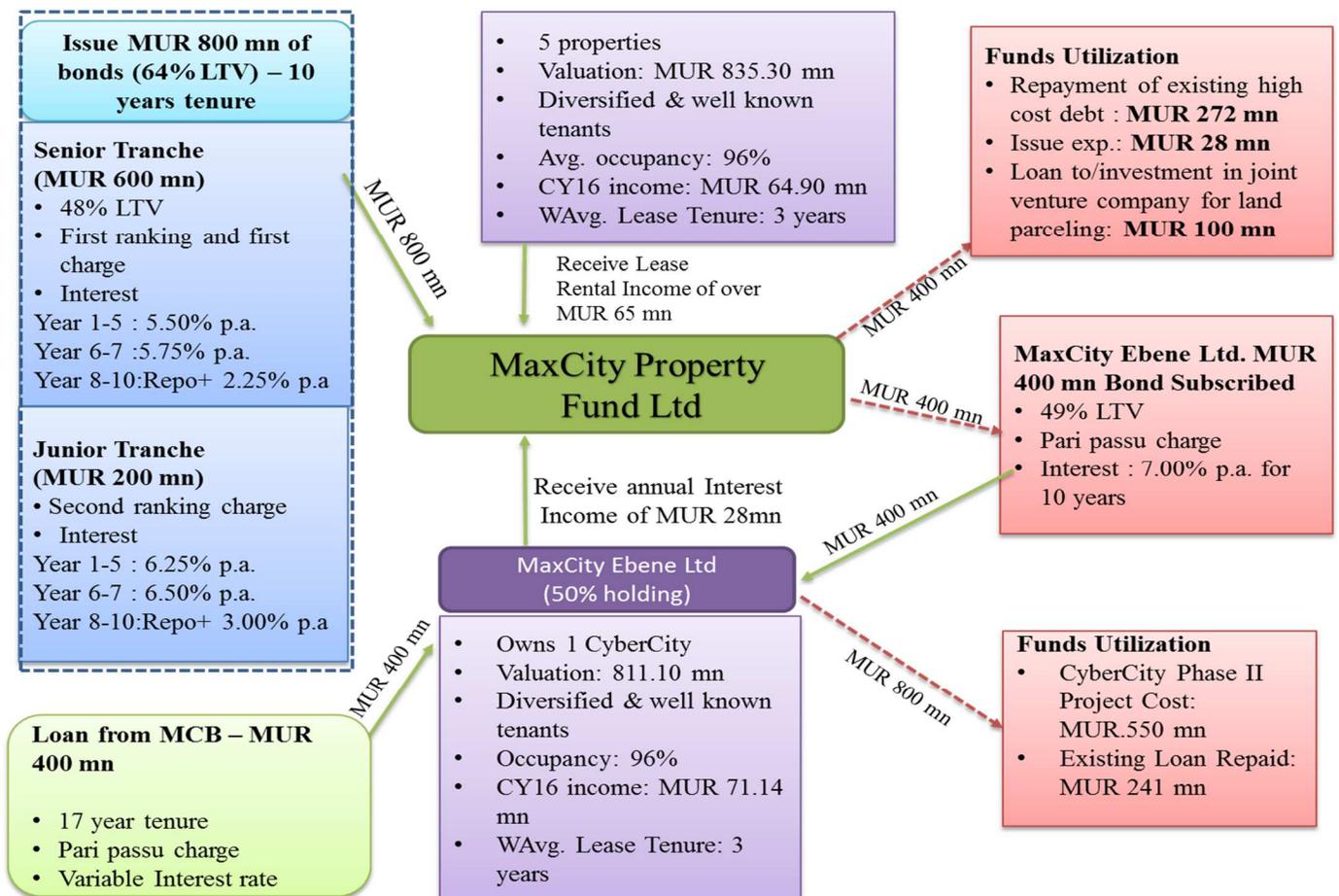
Timely renewal of lease agreements with existing tenants to maintain high occupancy in the existing properties, timely receipt of lease rentals, successful completion of the ongoing construction of 1CyberCity Phase II and leasing of new property as envisaged are the key rating sensitivities. Also, finalization of mode of arrangement of funds for redemption of bonds within stipulated time will be crucial.

Background

Incorporated on April 5, 2017, MaxCity Property Fund Limited (MPFL) is a wholly owned subsidiary of MaxCity Properties Limited (MPL). It would own five properties with two being Grade-A prime properties and 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 which are currently owned by various companies under MPL and would be transferred to MPFL as per the terms of the proposed bond issue. Apart from this MPFL would also hold 50% stake in MaxCity Ebene Limited (MEL) which owns 1 CyberCity office building in Ebene which is also Grade –A prime property. Overall, the five properties and 1 CyberCity Building have a gross leasable area of 277,075 square feet.

Transaction Structure

MPFL would issue 10 years bond of MUR 600 mn [Senior Tranche rated **Provisional CARE MAU A (SO) Stable**] and MUR 200 million (Junior Tranche: **unrated**). The bondholders would have first charge on the properties owned by MPFL and pari-passu first charge on properties held by MEL (50%). The lease rentals (net of operating expenses) received from properties would be utilized for interest payment & bond repayments. The interest payment to Senior Tranche bondholders would get priority over interest payment to Junior Tranche bondholders.



$Loan\ to\ Value\ (LTV) = \frac{Bond\ value}{Property\ Value}$

CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Utilisation of Bond proceeds: Out of total bond proceeds of MUR 800 mn, MUR 272 mn would be used to repay existing high cost debt (rate of interest: above 6.5% p.a.) availed in existing properties, MPFL will lend to and/or invest MUR 100 million in a joint venture company for land parcelling, MUR 28 mn towards bond issue expense & other contingencies and balance proceeds of MUR 400 mn would be utilized to subscribe the bond issue of MEL (tenure of 10 years).

MEL would receive MUR 400 mn from MPFL and MUR 400 mn loan from MCB bank to repay its existing debt (rate of interest: 6.5% to 7.0% p.a.) and fund the phase II construction of 1CyberCity (project cost of MUR 550 mn).

Credit Risk Assessment

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

MaxCity Property Ltd (MPL) is the property development arm of MaxCity group ultimately owned by Hanwell Limited 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.

Prime location of lease-rental generating properties

All the six properties (including 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 the major banks, Corporates and Ministries are located. The details of the properties are as under:

Property	1 CyberCity Ebene	1 CyberCity Ebene Phase II	Centre Commercial Emerald Park	One Cathedrale Square	Max Plaza	PHennessy-Court View Building	Max Tower
Location	Ebene	Ebene	Trianon	Port Louis	Pereybere	Port Louis	Port Louis
Owner	MaxCity Ebene Ltd			MaxCity Property Fund Limited			
Leasable Area (sq. ft)	108,466	172,170 (Est.)	99,318	42,191	3,447	17,122	6,531
Valuation (MUR million) (Report Date)	811.10\$ (May 16)	550 Estimated cost	357.10 (April 2015)	359.40# (Feb. 2017)	15.70* (NA)	74.30 (April 2016)	28.80 (Feb 2017)
Type	Commercial (Office)		Commercial (mall)	Commercial (Office)	Commercial (retail)	Commercial (Office)	Commercial (Office)
Occupancy (in %)	95%		97%	100%	100%	96%	88%
Annual Lease rental (MUR million)	71.1		33.95	23.25	1.13	5.75	1.86
Weighted Lease Expiry (years)	3.09		2.82	1.87	2.16	3.28	1.05

*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

CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

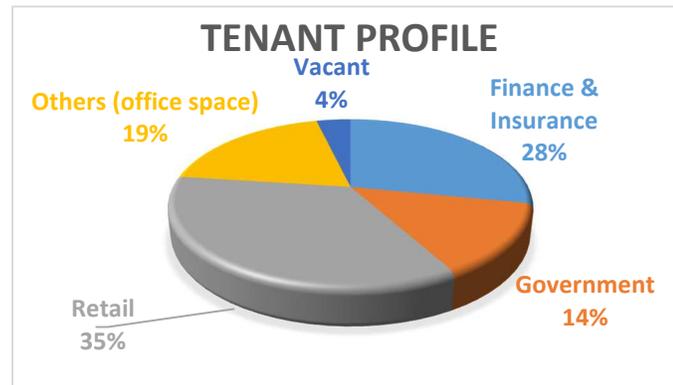
Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Reputed and diversified tenants

All properties have diversified tenants with mix of Government, Finance & Insurance, Retail and others (having office space) which occupies 14%, 28%, 35% and 19% of total leasable area. In all, there are more than 50 tenants in these six properties. The tenants include reputed companies and government departments. For the majority of the tenants, the lease term is between 3 to 5 years, with the option to renew for another consecutive term. The weighted average lease expiry is 3 years. Most of the lease agreements also have an escalation clause. The major tenants are Abax Corporate Services Limited, Standard Bank (Mauritius) Limited, Citco (Mauritius) Ltd, MR. BRICOLAGE, Parabole Maurice, Moving Fitness Club Ltd, Registrar of Companies, Board of Investment, National Insurance Company, Mauritius Bar Association, National Solidarity Fund and KFC Mauritius. Together these tenants occupy 68% of the total area and pays 67% of the annual rental. Majority of these tenants are occupying the property since 2009-10. The profile of majors tenants are as follows:

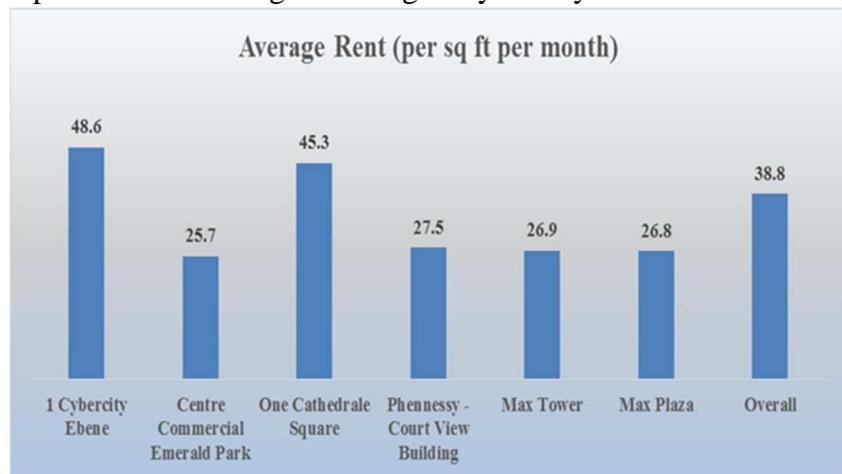


Tenant & Property leased	Profile
Abax Corporate Services Limited (1 CyberCity Ebene)	ABAX is an international provider of integrated advisory, corporate and business services, with a special focus on Africa. The company currently administers USD 24 billion of client assets.
Standard Bank (Mauritius) 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. 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.
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.
Moving Fitness Club Ltd (Centre Commercial Emerald Park)	A well known fitness club in the city.
Registrar of Companies (One Cathedrale Square)	Corporate and Business Registration Department falls under the aegis of the Ministry Of Finance and Economic Development.
Board of Investment (One Cathedrale Square)	The Board of Investment (BOI) is the national investment promotion agency of 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.

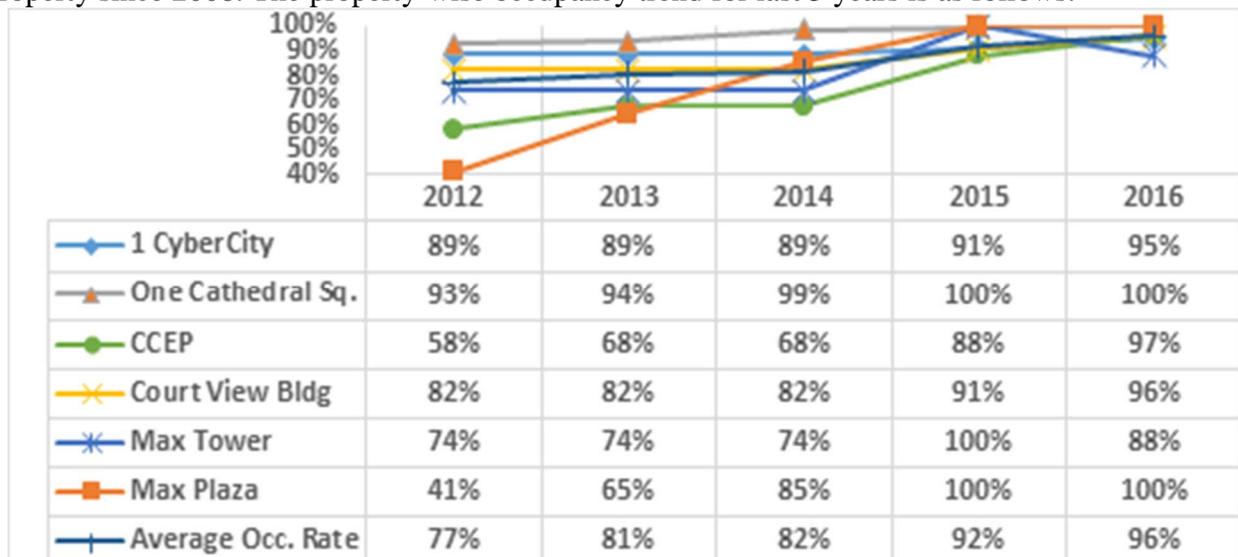
Tenant & Property leased	Profile
National Insurance Company (Pope Hennessy - Court View Building)	National Insurance Co. Ltd (“NICL”) is a state-owned company and licensed by the Financial Services Commission to undertake long-term insurance business, including a broad range of health, motor and travel 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 Phennessy - Court View Building)
Mauritius Bar Association (Pope Hennessy - Court View Building)	Set up since 1995, the Mauritius Bar association has been the professional body of barristers in Mauritius.

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

All six properties have high occupancy levels 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 38.8 per sq. ft. per month with highest being 1 CyberCity Ebene which is the prime property in Ebene and it is followed by One Cathedrale Square. All properties except Centre Commercial Emerald Park (CCEP) are primarily office space. As of December 2016, overall occupancy was high at 96% which has increased from 77% in 2012. Further, retention rate is also high viz. Out of 11 leases which expired in 2016, 10 have renewed, representing a retention rate of 98% in terms of space that came up for renewal. Tenant’s relocation within the Group’s portfolio can also be seen, e.g. Abax moved from One Cathedral Square to 1 CyberCity. CCEP was completed in 2008 and being a mall, it had low occupancy in initial years of operations. CCEP is a built-to-suit property, to accommodate its anchor tenant which occupies 42% of the property since 2008. The property-wise occupancy trend for last 5 years is as follows:



The property-wise occupancy trend for last 5 years is as follows:



CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Comfortable coverage indicators

As per the proposed terms of the issue, the senior bonds would carry annual interest obligations of MUR 33 mn against which MPFL is expected to have annual lease income of over MUR 65 mn at current occupancy level (CY16 provisional lease income from the properties were MUR 64.9 mn) and annual interest income of MUR 28 mn from MEL reflecting healthy coverage for interest payment obligations. Also, at MEL level, it had lease income of MUR 71.1 mn in CY16 as per provisional results.

There is no provision for creation of Debt Service Reserve Account (DSRA), however, as per terms, from monthly income (rental income + interest income) at MPFL level amount equivalent to one coupon payment is to be accumulated in escrow account before payment of management fees or any dividend. For every six months, same mechanism would be followed till full repayment of the bond which would act as an added protection to bondholders for interest payment.

Refinancing risk at time of redemption on maturity

Considering cumulative cash surplus, overall coverage for senior bond is envisaged at 1.29 times. However, there is risk associated with diversion/withdrawal of funds as MEL can pay dividend from its annual surplus funds leading to refinancing risk at the time of maturity of the bond. Considering envisaged surplus cash flow only for the year CY26 of around MUR 332 mn in MPFL, the shortfall would be around MUR 268 mn thereby requiring refinancing of the same. However, the refinancing risk is expected to be mitigated to an extent considering likely increase in overall value of properties with completion of Phase II of 1 CyberCity which would lead to 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 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 across all properties is around 3 years compared to bond tenure of 10 years. Normally, government tenants enter into lease tenure of upto 3 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, the properties have exhibited high retention rate viz. out of 11 leases which expired in 2016, 10 tenants have renewed.

Project implementation risk at MEL considering its nascent stage of implementation

Majority of the fund proceeds i.e. MUR 400 mn i.e.50% of the bond issue is being utilized to subscribe to the bond issue of MEL which in turn would also avail loan of MUR 400 mn which together would be utilized to fund the phase II construction of 1 CyberCity with project cost of MUR 550 mn and balance would be utilized to retire existing debt of MUR 308 mn (including phase II loan of MUR 67 mn). MPFL would receive fixed interest income of MUR 28 mn from MEL which forms around 27% of its CY17 projected income.

The project includes construction of Tower B and Tower C of 1 CyberCity and is entirely debt funded and is expected to be completed in Q1CY18. The construction was started in September 2016 and is expected to be completed by February 2018. The company has incurred MUR 78.42 mn till March 6, 2017 (including advances of MUR 12.8 mn to contractors) which was funded from MUR 67 mn of bank debt and balance from internal accruals. Thereby, the project is in nascent stage;

CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

however, there is moderate project implementation risk associated with the project considering the reputed contractor. The major contractor is China Jiangsu International which is given the main fixed price contract of MUR 461 mn (excluding VAT), with a penalty clause for time overrun. The contractor has also submitted a performance guarantee towards the same. It is one of the major contractors having presence in 100 countries and had also constructed the Phase I of 1 CyberCity (i.e. present building of the company). Fixed price contract reduces the cost overrun risk to certain extent.

Completion of phase II of 1 CyberCity within time and cost parameters is crucial as it has direct bearing on the interest paying ability of MEL while achievement of envisaged occupancy is crucial for timely repayments to bank and bondholders i.e. MPFL. However, existing lease rentals are sufficient for interest payment to bank and bondholders. This apart few existing tenants of 1 CyberCity have expressed interest for taking on lease space in Phase II of 1 CyberCity. But any diversion of funds or cost overrun would impact MEL’s ability of timely debt servicing.

Foreign Exchange fluctuating risk at MEL

50% of lease rentals of 1 CyberCity Ebene – phase 1 are in USD and in absence of active hedging policy its profitability is exposed to foreign exchange fluctuations. As on Feb. 2017, part of MEL’s debt obligations were towards USD denominated loans providing natural hedge, however, going forward, its debt would be in MUR thereby resulting in foreign exchange fluctuation risk.

Prospects

The prospects of the company depends on timely renewal of lease agreements with existing tenants, maintain high occupancy in the existing properties, timely receipt of lease rentals, successful completion of the ongoing construction of 1 CyberCity Phase II and leasing of new property.

Proposed Bond Details:

Terms	Senior Tranche	Junior Tranche
Amount	600 Million	200 Million
Currency	MUR	MUR
Purpose	The proceeds from the issue of Notes will be used to refinance banking facilities taken by various subsidiaries of MPL, land acquisition and part project financing in MEL	
Tenure	10 years	10 years
Target Investors	Institutional Investors	Institutional Investors
Principal Amount per note	MUR 250,000	MUR 250,000
Minimum subscription amount	MUR 250,000	MUR 250,000
Issue Price	100% of principal amount per note	
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.
Issue date	Yet to be issued	Yet to be issued
Maturity date	10 years from issue date	10 years from issue date
Interest payment date	Semi Annually in arrears; Senior tranche interest payment would have first right on income.	Semi Annually in arrears
Call option/ Early redemption	Annually from the fourth anniversary of the date of issue at par, Solely at the option of the Issuer (in whole or in part)	
Redemption	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	

CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

FSC License No.: CR14000001

Telephone: +230 59553060/58626551

www.careratingsafrica.com

Terms	Senior Tranche	Junior Tranche
	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. Also, the Issuer may, at its sole discretion, alter the Preferred Repayment Method, provided: <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 to be owned by MPFL valued at MUR 835.30 mn and pari-passu first charge on properties owned by MaxCity Ebene Limited @50% i.e. MUR 405.5 mn (2.07 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
Rating	Provisional CARE MAU A (SO); Stable	Unrated
Listing status	Not to be listed	
Other covenants	1. The value of property should not fall below 1.5 times of bond value.	

Disclaimer

CRAF's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security or to invest in or withdraw funds from deposits. CRAF has based its ratings/outlook 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/deposit programme.

In case of partnership/proprietary concerns, the rating/outlook assigned by CRAF is 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.

CARE Ratings (Africa) Private Limited

Registered Office: 1st Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com