Rating Rationale
CIM Finance Ltd.

Ratings

Facility/Instrument	Amount (MUR Million)	Rating	Rating Action
Proposed Short-term loan – (earmarked out of working capital facilities) *	1,000	**CARE MAU A1 + (A One Plus)**	Reaffirmed with change in nomenclature from Commercial Paper to short term loan

"The aggregate of outstanding short-term loan and working capital facilities shall be within the sanctioned working capital limits (overdraft limit & money market line) of CIM Finance Ltd. of around MUR 2,500 million with banks".

Rating Rationale

The ratings assigned to the proposed short term loan of CIM Finance Ltd. ("CFL") derive strength from long & satisfactory track record of CFL & CIM group, experienced & resourceful promoters, professional and highly qualified management team, dominant market share (~95%) in Credit Facility Agreement ("CFA"; previously termed as Hire Purchase], well diversified asset portfolio, consistent growth in disbursements, moderate asset quality, satisfactory financial position with moderate gearing and comfortable asset-liability maturity profile, capital adequacy ratio ("CAR") & liquidity profile.

The ratings are however constrained by risk associated with increasing competition in the financial services business, entry of new players in CFA segment, exposure to regulatory risks, risk associated with volatility in interest rates and increase in exposure to relatively riskier segments such as unsecured lending.

Ability of CFL to maintain asset quality and profitability while increasing asset size, improving asset liability maturity profile, maintain CAR in the range of 11.50% to 12.00% - well above Regulatory norm of 10% and continued support from promoters are the key rating sensitivities.

BACKGROUND

CIM Finance Ltd. ("CFL") was incorporated, in 1987, by the Taylor family and Rogers group of Mauritius as CIM Ltd. The main objective was to provide CFA/credit facilities to the customers of the retail outlets (selling electronic goods/furniture) of the group. In April 1996, the company was rechristened as CIM Finance Ltd. CFL is regulated by Bank of Mauritius ("BOM") as well as the Financial Services Commission ("FSC") of Mauritius.

In July 2005, CIM Financial Services Ltd. ("CFSL") was incorporated, to manage the global business, finance business and property business of CIM group. Subsequently, CFL was made a wholly owned subsidiary of the CIM Financial Services Ltd., a company listed in the Stock Exchange of Mauritius. Till 2012, Rogers group and Taylor family (through CIM holding Ltd.) were holding majority stake in CIM Financial Services Ltd. However, post restructuring in 2012, CFSL came under the fold of Taylor family. At present, Taylor Family through various companies owns majority share (53%) of CFSL. The balance 47% is held by corporates, insurance companies, pension funds and individuals.

CFL is currently one of the largest Non-Banking Deposit Taking Institution (NBDIT) in Mauritius in terms of Asset under Management and turnover. It operates around 95 counters and a network of more than 700 merchants in Mauritius and Rodrigues. The main services offered are CFA, leasing, deposit taking, unsecured loans, credit cards, factoring and credit insurance.

CFA: CFL started its CFA (previously termed as Hire purchase) operations in 1987 and today serves most of the independent dealers in Mauritius. It is a household name in the field of consumer finance, with a local customer base exceeding 375,000 individuals and 475,000 agreements. CFL encourages majority of its consumers to take insurance (covering death, loss of job and among others including loss of product) on CFA products from an insurance company through Cim Agencies Ltd. As on date more than 75% of its CFA portfolio is insured. ***In September 30, 2015, there was a modification in the Hire Purchase and Credit Sale (Charges) Regulations 2000 ACT, whereby the annual interest rate of Higher Purchase was reduced from 19% p.a. to 12% p.a.***

Leasing & deposit taking activities: CFL also provides financial solutions to businesses of varying sizes, from small entrepreneurs to large conglomerates. The company holds a deposit taking license under the supervision of the Bank of Mauritius and is an established deposit taking institution, regulated by the Banking Act, which raises funds directly from the corporates & individuals only for investment in leasing business and credit card activities. ***As per the Deposit taking licensing condition, the company has to maintain 10% of its deposits in liquid portfolio (Fixed Deposit with Banks/Treasury Bills issued by Government of Mauritius).***

Credit card: The credit card activities of CFL started in 2001 with the launch of the first local credit card. The latter evolved into an international card in May 2005 when CFL became the first and only non-bank financial institution in the sub Saharan Africa region to issue a credit card with the MasterCard accreditation. CFL now offers Classic, Gold, Titanium and Business MasterCard.

Factoring & Credit Insurance: Since 2004, the company provides factoring solutions. In factoring services - CIM Finance purchases invoices from clients (@ 90% of the Invoice value) and also avails credit insurance for such Invoices from COFACE, global leaders in the field. CFL launched PayMobile in 2011, the first mobile payment system in Mauritius which is offered free of charge to anyone holding a valid MasterCard or Visa credit card.

Loans & advances: In FY13, CFL started offering unsecured loans to meet its existing customers' financing needs beyond their immediate retail financing requirements. All manner of family expenses such as those relating to education, weddings, funerals and property refurbishments are financed. Given the repayment performance of this product in last 4 years, the company is focusing to boost disbursement in this product category. It is mandatory to take insurance (covering death, loss of job and loss of product) on unsecured loans from CIM Insurance. In FY17, the company has also launched new product – Travel loan.

CFL is a professionally managed company. It is governed by 7-member Board of Directors comprising of eminent industrialists and professionals. The strategic affairs of the company are looked after by Mr. Mark van Beuningen (Executive Director & Group CEO). Mr. Mark van Beuningen joined CIM Finance as M.D. and was promoted to the group CEO in October 2017. Prior to joining the Cim Group, Mark worked for the Boston Consulting Group (BCG) in Sydney for two years and most recently in Johannesburg for four years. He is assisted by a team of professionals looking after various functions of the company.

CREDIT RISK ASSESSMENT

Long & satisfactory track record of the group & support from experienced promoters

CFL, over 30 years old NBFC, is currently owned and managed by the Taylor family of Mauritius, having its presence in Mauritius for more than 100 years. The Taylor family has set up Taylor- Smith Investment Company which has interest in the port, logistics and distribution, distribution of retail products, financial services and manufacturing industries with a team of 800 people across various units. Taylor family through CIM Holdings Ltd. holds 53% of Cim Financial Services Ltd., which in turn holds 100% of CFL. Cim Financial Services Ltd. is a listed company with strong financial position. The company primarily operates under 2 clusters – finance and property business. In May 2017, CIM Financial Services completed the sale of its Global Business cluster which produced a net profit of MUR 2,464 million. Accordingly, PBT & PAT witnessed a significant increase in June 2017. As on Sept 20, 2017 CIM financial Services had cash balance of around MUR 3.0 billion. CFSL proposes to concentrate its resources on its fast-growing finance (CFL) and property businesses.

In FY17 (October – September 2017), CFSL reported a PAT of MUR 2,950 million (MUR 663 million in FY16) on a turnover of MUR 1,934 million (MUR 1,713 million in FY16). As on Sept 30, 2017, CFSL has extended loans (short & long term) of MUR 2.1 billion to CFL and have infused MUR 325 million as equity in CFL in FY17.

Professional and highly qualified management team

CFL has a highly qualified and experienced employee pool having large experience in their related field. Each division (CFA, leasing, credit card and Factoring) is managed by a Head, who reports to the M.D., and a team of professionals. The attrition level is quite low with key professionals having long association with the group. CIM group has 700 employees across its Mauritius.

Dominant market share in CFA Portfolio

CFL, over the years, has grown both organically as well as inorganically.

Assets	Range of products	Average Ticket size (MUR)	Market Share (%)	LTV (%)	Tenure (months)
CFA (Hire purchase & other credit agreements)	Electronic goods/Jewellery /Furniture & fittings	13,000-15,000	95	85-95	24-30
Finance Lease	Car (New & Reconditioned)	525,000	20	80-90	60
	Equipment	2,025,235	20	70-75	48
Loan & Advances	Personal loans	50,000-60,000	10-15	100	48
Credit card	Credit card	15,000	25-30	-	2
Factoring	Bill discounting	90 % of the bill	15-20	90	24
Corporate credit facilities	SME lending (loan)	1,300,000	20	100	60-84

CFL has a well-diversified portfolio of receivables spread over different sectors of the economy. 73% of its total exposure was in personal segment (CFA/credit facility and credit cards) followed by trading and manufacturing.

Low average ticket size of loans

The individual asset size is small with the highest average ticket size of CFA loans disbursed being Mur 200,000. Average ticket size of the unsecured loan was MUR 60,000 whereas it was MUR 2,000,000 for equipment in leasing business. Top 10 lending exposure had an aggregate outstanding of MUR 587 million (majorly comprising leasing to corporates) as on Sept 30, 2017, in view of individual ticket size being relatively small, client wise exposure was well within the prudential limit of 25% of owned funds, as prescribed by BOM.

Consistent growth in disbursement & Asset under Management

CFL witnessed a moderate growth in the disbursement in FY17. Disbursement witnessed a y-o-y growth of 44% in FY16 and 11% in FY17 due to higher disbursement in CFA & loans & advances portfolio. The total Assets under Management ("AUM") has shown an increasing trend over the years.

MUR Million

Assets as on	30.9.2015	% of total portfolio	30.9.2016	% of total portfolio	30.9.2017	% of total portfolio
CFA (Hire purchase & other credit agreements)	2,652.2	48%	3,716.9	48%	4,454.9	47%
Finance Lease	1,985.5	36%	2,201.5	29%	2,442.4	26%
Loan & Advances	215.0	4%	1,029.4	13%	1,547.9	16%
Credit card	517.7	9%	481.7	6%	453.8	5%
Factoring debtors	104.1	2%	119.2	2%	222.1	3%
Corporate credit facilities	61.8	1%	173.5	2%	267.5	3%
Total	**5,536.4**		**7,722.2**		**9,388.6**	

CFL holds 95% market share in CFA market (previously termed as Hire purchase). Traditionally, it was a high yielding product for CFL (IRR of 13%). In September 30, 2015, there was a modification in the Hire Purchase and Credit Sale (Charges) Regulations 2000 ACT (introduced in 2015 Budget of GOM), whereby the rate of higher purchase charges was reduced from 19% p.a. to 12% p.a. Accordingly, the IRR has reduced.

But reduction in HP charges from 19% p.a. to 12% p.a. triggered growth in purchase of retail products under H.P. scheme, which in turn led to 48% & 14% growth in disbursement by CFL under CFA segment in FY16 & FY17 respectively. However, this also impacted the profitability margin of the company. In order to boost profitability, the company is focusing on extending loans & advances to meet its existing customers' financing needs beyond their immediate retail financing requirements. This is a high yielding portfolio (8.5%) and are generally extended to existing customers with good past track record. This portfolio has increased by more than 50% in FY17 over FY16. Low yielding finance lease portfolio, where the company faces steep completion from major banks, increased at lower rate.

Consistently high return from the various products portfolio barring CFA

IRR remained almost at the same level during FY15-17, barring for HP portfolio, where it witnessed a sharp decline due to revision in H.P. rates. Majority of CIM's lending are in fixed rates (85%) and around 40% of borrowings are in fixed rate. The product-wise average IRR of assets financed as under:

Asset Type	FY15	FY16	FY17
	%		
Hire purchase & other credit agreements	13	6	6.5
Finance Lease	2.5-2.8	2.0-2.5	2.5-3.0
Loan & Advances	8.5	8.5	8.5
Credit card	19	19	19
Factoring	4	4	4
Corporate credit facilities	1.5	1.5	1.5

Moderate asset quality and high collection efficiency

CFL recognizes NPA as from 90 days and writes off 100% of loan overdue beyond 360 days. This apart the company also makes specific provisioning and portfolio provisioning (1.00% of the portfolio value) in line with the Guideline on Credit Impairment Measurement and Income Recognition of BoM.

MUR Million

Particulars	30/09/2015	30/09/2016	30/09/2017
Gross NPA	336.1	343.0	368.3
Gross Loan assets	5,536.3	7,721.9	9,388.5
GNPA (%)	6.07	4.44	3.92
Net NPA	218.5	194.0	174.0
Net Loan assets	5,404.7	7,542.1	9,165.0
NNPA (%)	4.04	2.57	1.90
Net NPA/Net worth (%)	0.31	0.23	0.14

Asset-wise classification of GNPA (%) (MUR Million)

	FY16			FY17		
Division	**Gross Loan Assets**	**Gross NPA**	**GNPA %**	**Gross Loan Assets**	**Gross NPA**	**GNPA %**
Hire purchase & other credit agreements	3,717	158.2	4.3	4,454.9	202.2	4.5%
Finance Lease	2,201	119.1	5.4	2,442.4	108.6	4.4%
Loan & Advances & others	1,804	65.7	3.6	2,491.3	57.6	2.3%
Total	**7,722**	**343.0**	**4.4**	**9,388.6**	**368.3**	**3.9%**

The collection efficiency has remained stable at 96%. CFL has written of provision for NPAs of MUR 194.3 million in FY17 (MUR 152.4 million in FY16). The recovery performance is as under:

For the Year ended 30	Sep-16	Sep-17
A. DEMAND	**(MUR Million)**	**(MUR Million)**
1. Overdues at the beginning of the period	82.03	101.25
2. Demands raised during the period	4,186.00	4,576.51
TOTAL DEMAND	**4,268.03**	**4,677.76**
B. RECOVERIES:		
Total Recoveries during the period	**4,166.79**	**4,515.63**
C. OVERDUES:		
At the end of the period	101.25	162.13
D. COLLECTION EFFICIENCY	**97.6%**	**96.5%**

Satisfactory Capital Adequacy Ratio ("CAR") and overall gearing ratio

CFL's CAR deteriorated to 10.5% as on Sept 30, 2016 primarily due to higher disbursement in Hire Purchase segment. In order to support CAR and enable CFL to execute higher disbursement in FY18, CIM Financial Services Ltd. (holding company) has made equity infusion of MUR 150 million in December 2016 and MUR 175 million in September 2017. Accordingly, CAR has improved to 13.5% as on Sept 30, 2017 and 13.09% as on March 31, 2018. The same was well above the regulatory requirement of 10%. Overall gearing ratio was comfortable at 3.67 times as on Sept 30, 2017 (4.53 times as on September 30, 2016).

Diversified Income profile MUR Million

Particulars	FY15	FY16	FY17
Interest Income	744.90	831.58	1,031.73
Fees & Commission Income	358.1	417.28	416.90
Operating lease income	56.33	40.77	36.91
Other operating Income	8.98	36.04	15.35
Bad debt recovered	5.08	4.23	8.04
Total Income	**1,173.39**	**1,329.90**	**1,508.93**

Total income increased by about 13% in FY17 mainly on account of higher HP income. In addition to interest, the company charges commission of 3-6% of the total H.P. sales from H.P. dealer (Electronic dealers – 3-4% and furniture/small dealers – 5-7%). It charges around 1.5-2.5% of Invoice amount as Factoring Fees and renewal charges for Credit card.

Comfortable asset-liability maturity profile & liquidity profile

Being a deposit taking NBFC, the company has to maintain 10% of its deposits in liquid portfolio (Fixed Deposit with Banks/Treasury Bills issued by GoM). However, the company's investment in Fixed deposits are more than 15% for last 3 years: MUR Million

As on	30.9.2015	30.9.2016	30.9.2017
Deposits from customers	2,395	2,708	3,020.3
Fixed Deposit	563	476	483
F.D as % of deposit from customers	**24%**	**18%**	**16%**

This apart CFL maintains a cash & bank balance of around than MUR 260 million. Loans from holding company of MUR 1,800 million (total loan borrowings of MUR 4,700 million) are rollover in nature and generally rolled over on maturity. Average utilisation of fund based working capital limits (MUR 2,500 million) in the 12 months ended April 2018 was about 50%. The company's ALM profile for 5 years and within 1 year is also comfortable.

Satisfactory profitability

In FY17 (Oct 1 – Sept 30), CIM's total revenue has increased by 13% due to higher interest income triggered by higher disbursements in FY17. The same is in line with the projected numbers. PAT and GCA are more or less similar to FY16 and lower than projected due to higher provisioning. GNPA (%) at 3.92% in FY17 is in line with FY16. The collection efficiency in FY17 was around 96%. Overall gearing and interest coverage were also satisfactory. CAR at 13.54% is well above the Regulatory requirement of 10%. PAT margin dipped to 16.60% in FY17 due to higher interest cost, owning to higher borrowings to support growth in disbursement in H.P. portfolio and 50% growth in loans and advances portfolio and higher provisioning. Net Interest Margin ("NIM") was hovering in the range of 11.0-11.6% during last 3 years due to higher IRRs. Return on Total Assets ("ROTA"), though declined due to higher provision for NPA/bad debts written off in FY17 (MUR 194 million) and higher interest cost, was comfortable at 2.70% in FY17 (3.18% in FY16). The performance in H1FY18 was more or less in line with H1FY17.

Industry Risk

In Mauritius, Non-Bank Deposit-Taking Institutions' ("NBDTIs") main activity relates to the mobilisation of deposits and the granting of leasing and loan facilities to individuals and corporates. There are 8 NBDTIs in operation as at end-December 2017. Theses NBDTIs mostly provide leasing services. CFL is the largest NBDIT in terms of AUM. The AUM of other NBDTIs are MCB Finlease (MUR 5 billion), Axys leasing (MUR 2 billion), La Prudence Leasing (MUR 1.2 billion), SICOM (MUR 700 million) and Mutual Aid (MUR 500 million). In Hire purchase, CFL has 95% market share followed by Kalachand group-company.

NBDTIs remained relatively liquid with the liquidity ratios being above the statutory minimum of 10% for the year ended Dec. 31, 2016. The liquid assets to total deposits ratio was 20.7% as on Dec 31, 2016.

Credit was mostly extended to the personal sector with a share of 62% of total credit followed by the construction sector with a share of 13.0%. The ratio of Non-performing Loans (NPL) to total credit remained at 6.3% as at 31 December 2016 (6.0% as at December 2015). Among the main sectors, the construction sector faced the highest NPL ratio which stood at 22% as at end-December 2016. While credit extended was mostly concentrated to the personal sector, the NPL ratio at end-December 2016 stood at 2.8% compared to 2.0% as at end-Dec. 2015. CFL's major exposure is in personal sector (73%).

Leasing Companies

Leasing facilities are provided by 15 entities in Mauritius. 12 of them are banks and Non-Bank Deposit-Taking Institutions (NBDTIs), which are licensed by the Bank of Mauritius. The remaining three are Non-Deposit Taking Institutions (NDTIs), licensed by the Financial Services Commission (FSC).

As at September 2017, total leasing facilities granted to the household and business sectors stood at Mur. 19.0 billion compared to Mur 18.1 billion as at September 2016. The automobile segment accounted for 78% of total leasing facilities as at September 2017 compared to 71% a year ago. As at September 2017, an amount of Mur.14.8 billion were extended for the purchase of automobiles, while the number of leases summed to 31,534. Leasing facilities granted to "other" sector represented facilities offered for buildings, office equipment, machinery and other assets and stood at Mur. 4.2 billion as at September 2017.

Banks are important substitutes of NBDTIs as they are leaders in the financial markets. Banks have a quite strong brand presence and a good credit appraisal method also. The main fund suppliers to the NBDTIs Sector are the depositors and the depositors have lots of alternatives to invest apart from NBDTIs. If the depositors will consider the level of risk, they can deposit in banks or invest in bonds as it will require them to have low risks along with low interest otherwise they can invest in stocks which include high risk and high interest. Therefore, the NBDTIs will have to attract the depositors either by providing them with a higher interest or providing them with better additional service.

Prospects

CFL's prospects largely depend on the fortunes of retail industry (electronic goods/ furnitures & fixtures) automotive and construction sectors, the demand drivers of major products financed by the company. The growth of both the aforesaid sectors has close linkages with the economic growth of the country. The ability of the company to improve its ROTA along with maintaining CAR at similar levels are key rating sensitivities.

Financial Performance

MUR Million

For the year ended/As on	30/09/2015	30/09/2016	30/09/2017
	Audited		
Interest income	744.9	831.6	1,031.7
Fees & Commission Income	358.1	417.3	416.9
Operating lease income	56.3	40.8	36.9
Other operating Income	8.98	36.0	15.4
Bad debt recovered	5.1	4.2	8.0
Total Income	**1,173.4**	**1,329.9**	**1,508.9**
Operating expenses (excl. provisions)	432.86	521.9	586.3
Provision for NPA	117.6	149.0	194.3
Depreciation & Amortisation	84.6	72.2	68.7
Interest	238.2	292.7	350.6
PBT	**300.3**	**294.2**	**309.0**

For the year ended/As on	30/09/2015	30/09/2016	30/09/2017
	Audited		
PAT	**249.9**	**242.0**	**250.5**
Gross cash accruals	334.5	314.1	319.3
Stock-on-hire (net of provision)	5,249.2	7,358.5	8,981.5
Loan AUM	5,536.4	7,722.0	9,388.6
Total Assets under Management (AUM)	6,716.2	8,484.5	10,087.2
Total assets on the balance sheet	6,716.2	8,484.5	10,087.2
Total capital employed	4,624.6	6,354.0	7,781.2
Equity share capital	285.0	335.0	660.0
Total debt	2,794.6	3,826.2	4,671.4
Tangible networth	710.1	844.9	1,272.7
Ratios			
PAT margin	21.30	18.20	16.60
NIM (%)	11.88	11.36	10.98
Interest Income/ Int. earning assets (%)	15.03	13.19	12.63
Interest expended/ Average Borrowed Funds	4.84	4.99	4.93
Interest spread (%)	10.19	8.20	7.70
Operating Expenses (before provn & write-offs) / Average total assets (%)	6.87	6.87	6.31
RONW (%)	37.02	31.12	23.66
ROCE (%)	12.19	10.69	9.33
Cost of Capital (%)	10.15	9.07	7.22
Net Spread	2.04	1.62	2.11
Return on total assets (ROTA) (%)	3.97	3.18	2.70
Overall gearing	3.94	4.53	3.67
Interest Coverage (after prov.)	2.62	2.25	2.08
Interest coverage (before prov.)	3.11	2.76	2.63
Gross NPA (%)	6.07	4.44	3.92
Net NPA (%)	4.04	2.57	1.90
Net NPA / Net worth (%)	0.31	0.23	0.14
Reported CAR (%)	12.94%	10.49%	13.54%
Tier I CAR (%)	11.69%	9.24%	12.29%

Adjustments

1. Tangible networth is calculated by netting off intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long and short-term debt)/Tangible Networth.
4. Total Assets and Total AUM is calculated after deducting Deferred Tax and Intangible Assets from Total Assets

Annexure - I

Details of Short term loan

MUR Million

Sr. No.	Name of Bank	Amount
1	AfrAsia Bank Limited	**425**
2	State Bank of Mauritius	**500**
3	Proposed	**75**
	Total	**1,000**

"The aggregate of outstanding Short-term loan and working capital facilities shall always be within the overall sanctioned working capital limits (overdraft limit and money market line) CIM Finance Ltd. of MUR 2,400 million with banks".