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Rating Rationale

Commercial Investment Property Fund Limited (CIPF)

Ratings

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

**Bond Issue (Senior Tranche) is backed by the first charge on the leased properties of CIPF. Interest payment on the Senior Tranche of Bonds has 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 has been created and will be maintained during the tenure of the Bond.*

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 this is not a standalone rating of Commercial Investment Property Fund Limited (CIPF).

The structure involved pooling of the various properties previously under ENL Commercial Limited (ENLC) and its subsidiaries into an SPV - Commercial Investment Property Fund Ltd. (CIPF; a wholly owned subsidiary of ENLC) which has issued 10 year bonds of MUR 560 mn (including MUR 400 million of senior tranche and MUR 160 million of junior tranche) the proceeds of which were utilized for buying the properties from ENLC and its subsidiaries which in turn used the sale proceeds to repay their existing debt (i.e. debt in ENLC and its subsidiaries). CIPF has entered into lease agreements with the subsidiaries/associate concerns of ENLC and lease rentals are utilized towards maintenance of properties and debt servicing of the bond issue. Further, ENLC has provided shortfall undertaking to CIPF for replenishment of DSRA within a month of its utilization in case of any shortfall in lease rental for interest payments on the bond issue.

The rating is based on the strong parentage of the ENL group, more than 70% of the lease rentals being received from profitable subsidiaries (Axcess, Grewals, Plastinax and Nabridas) of ENLC, long lease tenure compared to bond tenure with low exit risk, moderate financial risk profile of the lessee's-belonging to diverse industries, financial support from ENLC in the form of funded DSRA for one semi-annual interest payment & shortfall undertaking to maintain the same over the tenure of the bond.

The rating is, however, constrained by the subdued financial performance of some of the lessees [Box Manufacturing, Indoor & Outdoor living (erstwhile Pack Plastic) and JMD (erstwhile Lepongerie] & of ENLC in FY17, interest rate risk and refinancing risk at the time of bond redemption.

Improvement in the performance of the loss-making subsidiaries during the tenure of the instrument, timely receipt of lease rentals, continued 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 the key rating sensitivities.

CRAF has received a letter from the Trustee to the rated bond issue confirming Transfer of Properties to CIPF, signed copy of the lease agreement between CIPF and the rent paying subsidiaries of ENLC, letter from MCB confirming creation of requisite DSRA, shortfall undertaking for replenishment of

DSRA by ENLC and fulfilment of other terms and conditions which were part of the Private Placement Memorandum to the satisfaction of CRAF, on the basis of which, the final rating has been assigned.

Current Transaction

In May 2018, CIPF has informed CRAF about an ongoing merger between Cogir (one of the tenants of CIPF) and Building and Civil Engineering Ltd. This merger, once completed, will result in Cogir moving out of its existing premises in Moka to Building and Civil Engineering Ltd's offices.
Cogir is a building and civil engineering contractor with track record of over three decades and is a wholly owned subsidiary of ENL Property Ltd. It contributes MUR 6.5 million to CIPF's yearly rental income (Mur 44 million) and has been a loss-making entity. The property (leased to Cogir) was purchased by CIPF at a cost of MUR 75 million. The management has informed that once the property is vacated by Cogir, ENL Property Ltd. will acquire Cogir's premises for a consideration of MUR 88 million by June 30 2018, subject to the approval of its Noteholders.
CIPF shall then lend the proceeds (MUR 88million) to ENL Commercial Limited ("ENLC") for a period of two years, at MCB PLR (currently at 5.75% p.a.). ENLC shall channel the proceeds towards construction of a new showroom for Jaguar/Land Rover at Bagatelle. The latter shall be tenanted to Axess Ltd (authorised distributor of Jaguar/Land Rover; and already its tenant) and transferred to CIPF upon completion and is expected to command a rental in the range of MUR 10-12 million. Due to fall in asset value of CIPF, ENLC will provide a corporate guarantee of MUR 75 million over the duration of the Bonds, to maintain value of property at Mur 635 million and meet the covenant that value of the property should not fall below 1.1 times of senior tranche bond.

Impact of transaction

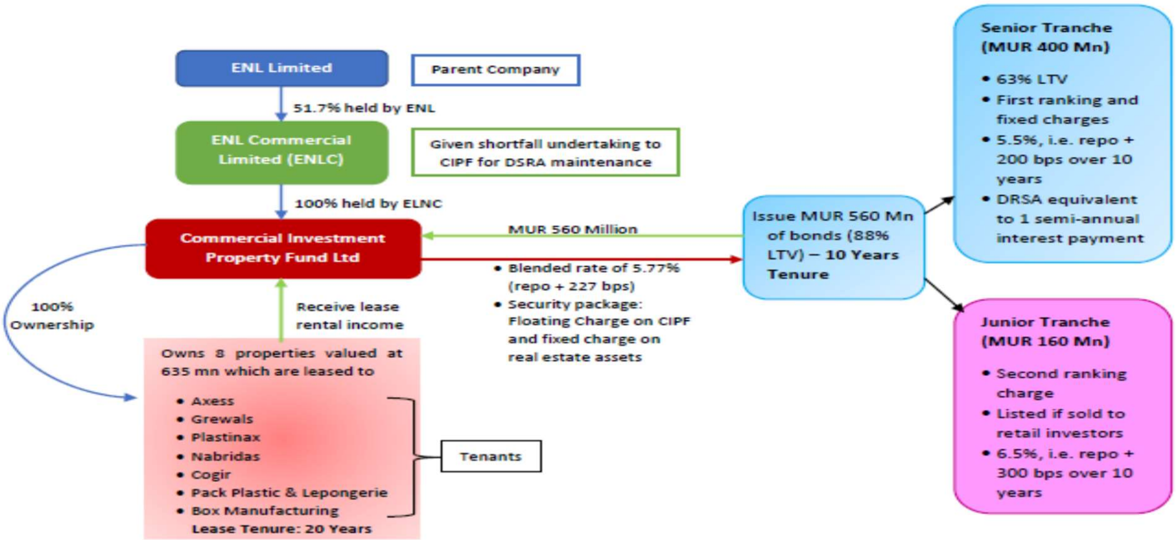
Disposal of the property leased to Cogir will result in a direct reduction in rental income of CIPF by MUR 6.5 million p.a. The loan extended to ENLC will earn interest of MCB PLR in FY19 and FY20 – expected to be around MUR 5.1 million given current rate of 5.75% p.a. After that, upon transfer of the new showroom to Axess, a rent of MUR 10-12 million is expected to be earned by CIPF from FY21.

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 owns eight offices/industrial assets located predominantly in the Moka/St. Pierre region of Mauritius. These properties were previously owned & used by ENLC and its subsidiaries. The properties have now been transferred to CIPF and the earlier users have entered enter into a new 20 years lease agreement with CIPF.

CIPF has issued bond of MUR 400 mn [Senior Tranche rated **CARE MAU A- (SO); Stable**] and MUR 160 million (Junior Tranche: **unrated**) backed by the lease rentals to be received from its let-out properties which are being utilized for interest payment and bond repayments.

Transaction Structure



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 a subsidiary of ENL Limited (having 51.7% equity stake). ENL is one of the large conglomerates in Mauritius having diverse business interest in agriculture, logistics, trading of vehicles, construction, manufacturing of eyewear, IT & ITeS, property, land, lifestyle, hospitality & leisure, logistic and financial services. These segments are under two main direct subsidiaries of ENL viz. ENL Land and ENLC. The group is currently led by the fifth generation of Noëls. ENL Limited posted a turnover of MUR 13.8 billion and PAT of MUR 1.3 billion in FY17 (July 1 – June 30). It had an asset base, valued at MUR 60 billion as on June 30, 2017.

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 tenure of the following properties leased out by CIPF is 19 years while the tenure of the outstanding bonds is 9 years providing visibility of cash flows in the form of lease rentals.

(MUR Million)

No.		Property Type	Annual rental	Property Valuation
1	Axess Limited (Axess)	Showroom	16.20	231
2	Grewals (Mauritius) Ltd (Grewals)	Industrial	7.08	164
3	Plastinax Austral Ltd (Plastinax)	Industrial	4.80	80
4	Nabridas Limited (Nabridas)	Industrial / Warehouse	3.78	60
5	Box Manufacturing	Industrial	1.62	23
6	Indoor and Outdoor Living (erstwhile Pack Plastic)	Industrial	2.64	
7	JMD (erstwhile Lepongerie)	Industrial	1.28	39
8	Interest from ENLC for next 2 years		5.10	38
	Total		**42.5**	**635**

Note: Overall valuation of property to bond issue is 1.13 times

Key features of the Lease Agreement

<table>
<tr><th>Feature</th><th>Details</th></tr>
<tr><td>Tenure of the lease</td><td>For a period of 20 years from commencement date
<table>
<tr><th>Tenant</th><th>Lease Start Date</th><th>Duration</th></tr>
<tr><td>Axess</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Grewals</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Cogir (Presently with ENLC)</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Plastinax</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Nabridas</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Indoor and Outdoor Living & JMD</td><td>January 2017</td><td>20 years</td></tr>
<tr><td>Box Manufacturing</td><td>January 2017</td><td>20 years</td></tr>
</table></td></tr>
<tr><td>Lease rental Escalation Clause</td><td>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.</td></tr>
<tr><td>Lease Rentals</td><td>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%).</td></tr>
<tr><td>Rental payment terms</td><td>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.</td></tr>
<tr><td>Delay in Rent payment</td><td>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.</td></tr>
<tr><td>Maintenance and other charges</td><td>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 lessee.
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.</td></tr>
<tr><td>Risk of Early Termination by the lessee</td><td>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.</td></tr>
</table>

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

All the tenants are part of ENL group and are direct subsidiaries of ENLC except Cogir which is owned by ENL Property Limited (100%; 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 Eyewears, 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.

Total rental from Axess, Grewals, Plastinax and Nabridas is Mur 32 million, which is more than 70% of the total rentals and comfortably covers annual interest payment of Senior Tranche (Mur 22 million).

In FY17, the performance of Axess, Grewals, Plastinax and Nabridas has improved significantly over FY16 with higher EBIDTA level & margins, comfortable cash flows, lower debt and higher lease rental coverage.

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

ENLC has created funded DSRA equivalent to 1 semi-annual interest payment of senior tranche 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 provides support to cash flows.

ENLC is a holding company for commerce and manufacturing business vertical of ENL group. All tenants are the subsidiaries of ENLC except Cogir. On consolidated basis, it had reported TOI of MUR 2,869 mn in FY17 which y-o-y grew by 5% with growth in automobile (Axess) and IT services segment. On overall basis, it had reported GCA of MUR 81 million in FY17.

Interest rate risk

Bonds are issued wherein rate of interest is 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 while its cash accruals (in the form of lease rentals) are fixed in the initial 3 years and would subsequently grow at 3-3.5% p.a. going forward which mitigates the risk to an extent. However, it has adequate coverage for interest servicing for the MUR 400 million senior tranche bond issue to absorb any adverse movements.

In September 2017, Repo Rate has been reduced from 4.00% to 3.50% and CIPF is benefited in view of lower interest rate in both Senior Tranche and Junior Tranche of the bond issue.

Refinancing risk

In terms of cumulative cash balance in CIPF, the same is estimated to be around MUR 90 mn at the end of the bond tenure, thereby requiring minimum refinancing of MUR 470 mn i.e. 85% of the bond issue. This introduces significant refinancing risk which could increase in case of downturn in real estate pricing wherein the security coverage could also decline. However, the same is partly mitigated considering the company being part of ENL group and the redemption mode to be decided one and half years before the bond maturity date providing buffer time for arranging finance. The non-exhaustive list for refinancing 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 sell the real estate, which will be the last resort.

The ability of ENL group to raise funds through 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,	2015 12m, A	2016 12m, A	2017 12m, A	9MFY17 9m, P	9MFY18 9m, P
Total Op. Income (TOI)	2624.4	2730.6	2868.7	2049.6	2440.5
EBIDTA	139.4	113.7	102.8	89.9	144.8
Interest	57.6	72.8	13.9	53.1	59.9
Depreciation	86.2	82.4	77.6		
PBT	-1.3	-41.5	11.3		
PAT	-14.2	-44.0	3.7	-4.3	26.3
Gross Cash Accruals (GCA)	81.8	38.4	81.3	45.7	92.3
T. Net Worth (TNW)	506.5	445.1	436.6		
Total Debt	881.6	1126.0	1077.0		
Term Loan	*264*	*355*	*721*		
Working Capital Debt	*617*	*771*	*356*		
Key Ratios					
EBIDTA / TOI	5.31	4.16	3.58	4.39	5.93
APAT / TOI	-0.54	-0.02	-0.01	(0.21)	1.08
Debt Equity (x)	0.52	0.80	1.65		
Overall Gearing (x)	1.74	2.53	2.47		
EBIDTA / Interest (x)	2.42	1.56	7.40	1.69	2.42
Total Debt / GCA	10.78	29.32	13.25		
Current Ratio	1.07	1.12	1.70		

A: Audited; P: Provisional

Financials of Commercial Investment Property Fund Limited (MUR Mn)

	FY17	9MFY18
	5m, A	9M, P
Total Op. Income (TOI)	19.0	33.0
EBIDTA	11.5	29.8
Interest	16.3	24.8
PAT	-36.9	-3.1
GCA	-31.7	5.6
Tangible Networth	75.4	72.3
Total Debt:	560.0	560.0
EBIDTA Margin (%)	60.5	90.3
Interest coverage	0.7	1.2

A: Audited; P: Provisional; N.M. –Not Meaningful

Note: Ms. Aruna Radhakeesoon, employed as Attorney-at-Law/Executive Director/Chief Legal Executive by Rogers and Company (an ENL Group company), is one of CRAF's Rating Committee Members. To comply with the regulations, the member has not participated in the rating process and in the Rating Committee Meeting.