# Rating Rationale
## SBM Factors Ltd

**Ratings**

| Facility/ Instrument | Amount (MUR Million) | Rating | Rating Action |
|---|---|---|---|
| Bank Facility | 1,500<br>(One Thousand Five Hundred Million) | **CARE MAU A2+<br>[A Two Plus]** | **Assigned** |

## Rating Rationale

The ratings that has been assigned to the bank facility of Mur 1,500 Million of SBM Factors Ltd ("SBMF"), derive its strength from the long & satisfactory track record of its resourceful promoters – the SBM group, support from the banking team of SBM to structure deals, steady growth in the disbursement and the asset under management (receivables from the factoring of invoices) during the last 2 financial years, satisfactory financial position with a high collection efficiency, maintaining the capital requirement well above the Regulatory norm, comfortable asset-liability maturity profile & liquidity profile, satisfactory client portfolio and more than 60% of the factoring of invoices being backed by Insurance from Credit Guarantee Insurance Co. Ltd ("CGI") as on July 1, 2020.

The ratings are, however, constrained by the risks that are associated with the increasing competition in the factoring business, high overall gearing, moderate Return on Total Assets (ROTA), exposure to the regulatory risk, risk associated with volatility in the interest rates, uncertainty related to the collection efficiency of the company on the invoices factored in view of the negative impact of the lockdown on the international economy and risk that is associated with respect to the delay/non-payment of insurance claims by CGI.

The ability of SBMF to shore up its capital in view of expected increase in its factoring portfolio, maintain the asset quality and the profitability while expanding the client portfolio, reduction in the expected support from the group, the asset liability maturity profile, increase in the non-recourse factoring and increase in the overall gearing are the key rating sensitivities.

CRAF will continuously monitor the collection efficiency and the new client portfolio of SBMF on a quarterly basis and any significant deviation may trigger a rating downgrade.

## BACKGROUND

SBM Factors Ltd. ("SBMF") was incorporated in August 2016 as a wholly owned subsidiary of SBM (NBFC) Holdings Ltd, which in turn is the 100% subsidiary of SBM Holdings Ltd (a public limited company that is listed on the Stock Exchange of Mauritius). SBM Holdings Ltd is the holding company of SBM Bank (Mauritius) Ltd.

SBMF has started its operations in November 2017 as the third Factoring service provider in the local market offering mainly non-recourse factoring solutions to its clients. SBMF is licensed and regulated by the Financial

Services Commission of Mauritius as a factoring service provider. SBMF operates a factoring business to provide factoring services to SBM's current and future customers, contributing to the development of the Holding Company as a Financial Institution in providing comprehensive financial services. Since 2019, SBMF is a member of the Factors Chain International (FCI), a global network of factoring firms.

**Activities of SBMF**

Since 2017, SBMF provides factoring solutions to its customers. It purchases invoices from clients (@ 90% of the Invoice value) and also avails credit insurance for such Invoices from Credit Guarantee Insurance Co. Ltd ("CGI"), which is the only credit insurance provider in Mauritius. There are two main types of factoring – recourse factoring and non-recourse factoring.

**Recourse factoring** is the most common and means that the client must buy back any invoice that the factoring company is unable to collect payment on. Clients are ultimately responsible for any non-payment.

**Non-recourse factoring** means the factoring company bears the entire risk of non-payment by the customers. SBMF offers mainly non-recourse factoring solutions to its clients.

The procedures that are adopted by SBMF for providing factoring services are as follows:

**Step 1:** The client sends its invoice(s) raised to its debtor(s) and other relevant documents to SBMF;

**Step 2:** SBMF, after proper scrutiny of the documents provided, buys the invoices and pays the client up to 90% of its value within 24 hours and keep the balance (10%) in reserve account;

**Step 3**: SBMF takes the insurance against the invoices paid;

**Step 4:** SBMF collects payments from the customers on due dates;

**Step 5:** SBMF releases the reserve amount less factoring charges.

SBMF is a professionally managed company. It is governed by 4-member Board of Directors composed of skilled, knowledgeable and experienced professionals. The board is composed of 2 executive directors and 2 non-executive directors. The strategic affairs of the company are looked after by professional Mr. Shailendrasingh Sreekeessoon (Executive Director). He is the Chief Executive Officer of the Non-Banking Financial Cluster ('NBFC'). He has been the Head of Strategy and Research of the SBM Group. He was appointed to the Board on 20 March 2019.

The day to day operations of the company are looked after by Mr. Niraj Rambaccussing, and the latter is assisted by a team of experienced professionals. He joined SBM Factors Ltd in 2018 as the Head of Factoring.

## CREDIT RISK ASSESSMENT

***Long & satisfactory track record of the company & experienced promoters***

SBM Factors Ltd, incorporated in August 2016, is engaged in the factoring facility arrangements. It is currently owned and managed by the SBM Group of Mauritius. SBM Holdings Ltd ("SBMH") holds 100% of SBM (NBFC) Holdings Ltd which in turn holds 100% of SBM Factors Ltd. SBM Holdings Limited is a listed company with satisfactory financial position. The current shareholding structure as at June 30, 2020 is as depicted:


The SBM Non-Banking Financial Cluster (NBFC) has been operating for more than 15 years and provides services in Asset Management, Securities Brokerage, Private Equity, Factoring, Investment Advisory, Registry, Fund Management and Insurance Agency. NBFC also holds an Investment Banking License, which allows it to offer solutions like Transaction Advisory, Mergers and Acquisition and Capital Raising to clients. NBFC's services complement the range of financial products available within other clusters of SBM Group.

SBM Group has a well-established presence in and outside Mauritius. In addition to Mauritius, the Group is also present in India, Madagascar, Kenya and the Seychelles.

SBMH's total assets have increased by 15.1% from MUR 226 billion as at 31 December 2018 to MUR 260 billion as at 31 December 2019. Total customer deposits (excluding banks) increased from MUR 169 billion as at 31 December 2018 to MUR 199 billion as at 31 December 2019. As at 31 December 2019, the group has a Capital Adequacy Ratio of 22.1% [well above the minimum regulatory level of 13.375%] and thus satisfactory liquidity.

SBM group, which has a diversified ownership base of more than 18,000 shareholders, with foreign shareholding accounting for around 2.78% of the total. The top largest shareholders holding more than 1% stake in SBMH as at August 2020 are - National Pensions Fund (18.84%), SBM Holdings Ltd-Treasury Shares (15%), SICOM (15.13%), Government of Mauritius (4.92%), National Saving Fund (2.64%), Development Bank of Mauritius Ltd (1.90%) and State Investment Corporation Ltd. (1.44%).

The Consolidated financials of SBM Holdings Limited is as under:

| For the year ended as on (MUR Million) | 30-Dec-18 | 30-Dec-19 |
|---|---|---|
| Total Income | 10,124 | 12,261 |
| EBIDTA | 5,321 | 5,675 |
| Depreciation & Amortization | 827 | 1,095 |
| Interest | 2,972 | 4,157 |
| PBT | 1,622 | 563 |
| PAT | 1,246 | 15 |

| For the year ended as on (MUR Million) | 30-Dec-18 | 30-Dec-19 |
|---|---|---|
| Gross Cash Accruals (GCA) | 2,073 | 1,110 |
| Equity share capital | 32,500 | 32,500 |
| Tangible net worth | 20,951 | 21,789 |
| Cash and Cash Equivalents (including deposits in Banks) | 25,630 | 28,861 |
| Deposits | 170,101 | 200,305 |
| Total debt | 14,522 | 15,671 |
| **Key Ratios** | | |
| EBIDTA / Total income | 52.56% | 46.28% |
| PAT / Total income | 12.31% | 0.12% |
| Overall gearing ratio | 8.76 | 9.81 |
| Interest coverage (times) | 1.79 | 1.37 |

### *Continuous support from the banking team of SBM to structure deals*

The various officials of the SBM has played a pivotal role in securing new contracts for SBMF with the customers of the SBM Bank, which in turn has contributed to the growth of the business in SBMF.

### *Consistent growth in the disbursements and the Asset under Management*

In FY19, SBMF's total revenue has increased manifold from Mur 5 Million in FY18 to Mur 72.2 Million in FY19 due to higher interest income triggered by higher disbursements in FY19. Total Asset under Management has increased manifold from Mur 139 Million in FY18 to Mur 1,221 Million in FY19.

### *Satisfactory financial position with a high collection efficiency*

In line with the increase in total revenue, PAT and GCA have increased significantly in FY19. Interest coverage was 2.74 for FY19 (-6.67 for FY18). NIM was hovering around 2.5%.

As on June 30, 2020, Gross NPA is Nil. The company has not done any provisioning also. During the last 3 years of operations the company has been successful in the collection of claims well within the stipulated time and has never launched any claim with CGI.

### *Capital requirement well above the Regulatory norm but with a high overall gearing ratio*

As on Dec 31, 2019, SBMF has a Net worth of MUR 99 million against the statutory requirement of higher of MUR 5 million or 5% of total liabilities (5% of Mur 1,150 Million as on 31.12.2019 – Mur 57.5 Million). The capital structure consists of stated capital (Mur 80 Million) and retained earnings (Mur 20 Million). Overall gearing ratio was at 10.35 times as on Dec 31, 2019 (20.22 times as on Dec 31, 2018). CRAF expects SBMF to shore up its capital base in view of expected increase in its factoring portfolio.

### *Comfortable asset-liability maturity profile & liquidity profile*

SBMF's asset liability maturity profile as on July 01, 2020 is as under: - (**MUR Million)**

| Particulars | 0-1 months | 1-2 months | 2-4 months | 6 - 12 months | 1 - 3 years | Over 3 years | Non-Maturity Items | Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash balances | 1 | - | - | - | - | - | - | 1 |
| Trade receivables | 327 | 419 | 183 | 501 | - | - | - | 1,430 |
| Intangible assets | - | - | - | - | - | - | 1 | 1 |
| Property plant and equipment | - | - | - | - | - | - | 1 | 1 |
| **Total Assets (A)** | **328** | **419** | **183** | **501** | **-** | **-** | **2** | **1,433** |
| **LIABILITIES** | | | | | | | | - |
| Trade payable | 28 | 36 | 19 | 43 | - | - | - | 126 |
| Bank overdraft | 250 | 350 | 150 | 454 | - | - | - | 1,204 |
| Income tax liability | - | - | 3 | - | - | - | - | 3 |
| Share capital | - | - | - | - | - | - | 100 | 100 |
| **Total Liabilities (B)** | 278 | 386 | 172 | 497 | - | - | 100 | 1,433 |
| **GAP [A-B]** | **50** | **33** | **11** | **4** | **-** | **-** | **(98)** | **-** |
| **Cumulative GAP [A-B]** | **50** | **83** | **94** | **98** | **98** | **98** | **-** | **-** |

As at July 2020, average utilization of working capital limits (MUR 1.5 Billion) for the last 12 months was about 71.44%. Amount utilized in different currency is as follows:

| Currency | Tied up Limit (Mur Million) | Tied up Limit (%) | Average utilization (Mur Million) | Average utilization (%) |
|---|---|---|---|---|
| MUR Limit | 448.8 | 29.92% | 134.7 | 8.98% |
| EUR Limit | 656.4 | 43.76% | 553.0 | 36.87% |
| USD Limit | 394.8 | 26.32% | 383.9 | 25.59% |
| **Total** | **1,500** | | **1,071.6** | |

And as on July 31, 2020, Mur 430 Million remained unutilized, providing liquidity cushion to the company.

### *Satisfactory Client Portfolio*

As on July 1, 2020, the total outstanding receivables from the factoring business was Mur 1,430 Million comprising mainly of clients operating in the sugar sector, construction sector, textile sector and retail sector. The three main clients operating in the sugar sector, construction sector and textile sector account for around 88% of the total factoring done by SBMF as on that date.

SBMF has factored the bills raised by the clients operating in the aforementioned sectors to their respective debtors (domestic and international) and on due date the debtors will pay the amount to SBMF.

***The debtors of the clients operating in the sugar sector, textile sector and retail sector are covered by credit insurance from CGI, which means that in case of default by the debtors, CGI will make good for the loss.***

The debtors of the client operating in the construction sector are not covered by the credit insurance from CGI.

The client-wise breakup of receivables is as under:

| Sector wise Clients | Receivables (MUR Million) | % of Receivables |
|---|---|---|
| Sugar Sector | 121 | 8% |
| Construction Sector | 512 | 36% |
| Textile Sector | 623 | 44% |
| Retail Sector | 174 | 12% |
| **TOTAL** | **1,430** | |

**Analysis of Debtors:**
**Debtors without Credit Insurance from CGI:**

SBMF has factored the bills raised by a company operating in construction sector to its debtor, for the construction work executed on the project, i.e., on due date the debtor will pay to SBMF.

SBM Bank has provided a Guarantee Finance Arrangement (GFA) in favour of the end buyers on behalf of the debtor. This means that SBM has guaranteed to the end buyers that in case of default by the debtor in the construction of the project in a time bound manner & within the projected cost or the client goes bankrupt, the end buyers have the right to invoke the GFA. Post such invocation, SBM will take over the project from the debtor and will ensure the project completion including providing any additional funding, if required.

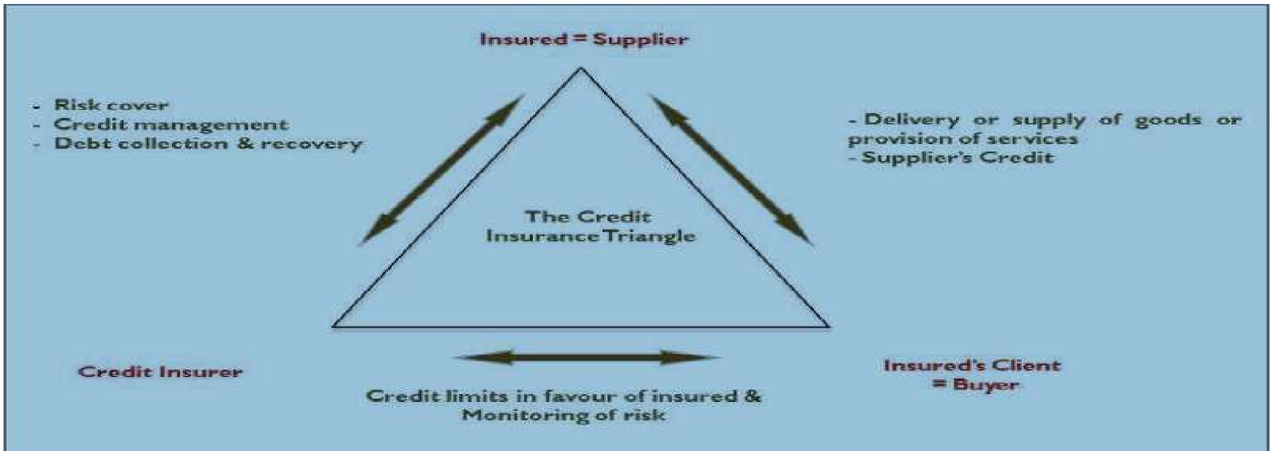
As a part of GFA, SBM has created a designated escrow Account, where the sale proceeds of the entire project are getting deposited and the expenses are made from that Account based on bills raised by the debtor and approved by of SBM officials.

SBMF has not taken any credit insurance from CGI, since the receipt and payment of funds (pertaining to the factoring of the Invoices) from the account of the debtor (debtor of SBMF) are monitored by SBM Bank and they will pay the factoring amount directly from the debtor's Account to SBMF.

**Analysis of CREDIT GUARANTEE INSURANCE CO. LTD.**

***Background***

Credit Guarantee Insurance Co. Ltd ("CGI") was incorporated in Mauritius and started its operations in February 2009 as a public company with limited liability. The Company is licensed and regulated by the Financial Services Commission. Prudence Holding Limited, a Company incorporated under the Mauritian Companies Act 2001 as a public company, holds 60% of the shareholding of Credit Guarantee Insurance Co Ltd. MCB Group Ltd. (The Mauritius Commercial Bank Ltd., wholly owned subsidiary of MCB Group Ltd., is rated CARE MAU AAA (IS) Stable) holds 40% of the shareholding of Credit Guarantee Insurance Co Ltd. CGI's core business is to provide credit insurance to domestic suppliers for both local and export markets. Credit insurance provides cover to businesses against non-payment of receivables owed to them by business customers for goods or services provided on credit terms. CGI also provide Business Information Reports which help the clients to know their customer or prospect's long-term business viability and staying informed of any changes in their status. CGI currently service more than 100 clients. As at 30th June 2020, CGI has insured around Mur 10 Billion (Mur 14 Billion as at Dec 31, 2019) worth of debtor for its customers. The general framework of the credit insurance business is as follows:




CGI's underwriting team carries out the risk assessment for around 6,000 buyers (domestic, regional and international) and issues more than 10,000 credit limits yearly. CGI have in place different level of reinsurance program to protect from any catastrophic losses.

In FY 2019 (Jan-Dec 19), CGI incurred a loss of Mur 8.6 Million (2018: PAT of Mur 2.3 Million).

**Management -** CGI is a professionally managed company. It is governed by 7-member Board of Directors composed of skilled, knowledgeable and experienced professionals. The board is composed of 4 Non-executive directors and 3 Independent non-executive director. The strategic affairs of the company are looked after by professional Mr. Dominique GALEA (Chairperson).

The day to day operations of the company are looked after by the General Manager, Mr. Alexis Delamaire. His main areas are in Credit Management, Risk Management, and Commercial Finance. He reports to Mr. Dominique GALEA, Chairman of CGI.

***Market Share and network* -** CGI is the only player in the credit insurance business in Mauritius.

***Long & satisfactory track record of the company & experienced promoters***

Credit Guarantee Insurance Co. Ltd ("CGI"), incorporated in February 2009 and is engaged in providing credit insurance to domestic suppliers for both local and export markets. Prudence Holding Limited holds 60% of the shareholding of Credit Guarantee Insurance Co Ltd. Mr. Dominique Galéa is the Chairman and the major shareholder of La Prudence.

MCB Group Ltd. holds 40% of the shareholding of Credit Guarantee Insurance Co Ltd. MCB group has a diversified ownership base of more than 20,000 shareholders, with foreign shareholding accounting for around 14% of the total. Top 6 largest shareholders holding in total of 18.53% stake are - National Pensions

Fund (6.91%), Swan Life Ltd (3.37%), Promotion and Development Limited (3.01%), SICOM (2.19%), Eastspring Investments (Singapore) Ltd. (1.85%) and MUA Life Ltd. (1.2%). The financials are as under:

| MCB Group Limited | FY17 | FY18 | FY19 |
|---|---|---|---|
| | *MUR Million* | | |
| Interest Income | 14,034 | 15,113 | 18,841 |
| Interest Expenses | 4,478 | 4,384 | 5,885 |
| Net interest income | 9,556 | 10,729 | 12,957 |
| PAT | 6,748 | 7,241 | 9,593 |
| Deposits | 274,863 | 297,719 | 331,501 |
| Tangible Net Worth | 48,054 | 53,481 | 57,707 |
| Advances | 196,496 | 218,219 | 246,713 |
| Investments in securities | 74,730 | 88,747 | 126,204 |
| Total Assets | 345,210 | 386,370 | 471,161 |
| Gross NPA | 10,882 | 9,734 | 10,559 |
| Gross NPL ratio | 6.2% | 4.5% | 4.1% |
| Net NPA | 7,906 | 6,331 | 6,786 |
| CAR (%) | 18.8 | 17.1 | 17.4 |

In FY10-11, CGI incurred a loss of MUR 10 million in order to meet some claims. To make good for the loss, both the promoters infused MUR 14 million in FY11. Post that CGI has been profitable and was always in a better position to carry out business smoothly. As on Dec 31, 2019, CGI’s share capital is MUR 39 million (Net worth MUR 41 million) vis-à-vis regulatory requirement of share capital of MUR 25 million.

### *Satisfactory investments portfolio and liquidity*

**Investments:** CGI had an investment portfolio of Mur 25 Million as on December 31, 2019 [FY 2018 Mur 21 Million], the fair value of which is Mur 20 Million as on June 30, 2020. The breakup is as under:

| Period ending as at | | 31st Dec 2019 | | 30th June 2020 | |
|---|---|---|---|---|---|
| Particulars | Rating | Mur Million | % of Total Investment | Mur Million | % of Total Investment |
| Mauritius Commercial Bank Ltd | CARE MAU AAA (IS) Stable | 12.76 | 50% | 9.44 | 46% |
| New Mauritius Hotel Limited | NA | 4.04 | 16% | 1.62 | 8% |
| Phoenix Investment Company Ltd | NA | 0.63 | 2% | 0.67 | 3% |
| Semaris Ltd | NA | 0.61 | 2% | 0.67 | 3% |
| SBM Equity Bonds | NA | 3.65 | 14% | 4.00 | 20% |
| Mauritius Union Assurance CY Ltd | CARE MAU AA-; Stable | 3.62 | 14% | 3.95 | 19% |
| **Total Investment** | | 25.31 | | 20.35 | |

On the liquidity front, 46% of the total investments comprised of shares in MCB Group and 20% of the SBM Equity Bonds, which are readily marketable in nature, providing sufficient liquidity cushion to the company.

**Cash and Fixed Deposits** - As on June 30, 2020, CGI has Mur 34 Million in cash and deposits (MUR 38 million as on Dec 31, 2019) parked with financial institutions like The Mauritius Commercial Bank Limited, La Prudence Leasing and Finance Co. Ltd. and Mutual Aid Association Ltd.

### *Satisfactory Solvency Position*

CGI has a satisfactory solvency position. As on December 31, 2019, the ratio of Excess Capital Available over Capital required margin stood at 303% [FY18 185%] against the statutory limit of 150% as per Insurance (General Insurance Business Solvency) Rules 2007. As informed going forward, the company intends to maintain minimum solvency margin of around 300%.

### *Risk Underwritten*

CGI's core business is to provide credit insurance to domestic suppliers for both local and export markets for 3-4 months. CGI provides cover to businesses against non-payment of receivables owed to them by business customers for goods or services provided on credit terms. CGI also provide Business Information Reports which help the clients to know their customer or prospect's long-term business viability and staying informed of any changes in their status. CGI currently service more than 100 clients.

At the commencement of the Insurance process, CGI takes reinsurance for 70% of the amount insured, with Reinsurance Agencies. ***Hence, at any given point of time, 70% of the risk underwritten (MUR 10 billion as on June 30, 2020) by CGI is always covered through Reinsurers.***

### *Reinsurers*

**Quota Share Treaty**

In Reinsurance treaty signed by CGI, while **Retention** is 30% of any one risk, **Cession** is 35-40% of 70% of the risk with the leading reinsurer (Atradius Reinsurance DAC) and balance 65-60% with other Reinsurers (with approval from lead Reinsurer). This is for a maximum treaty limit of MUR 300 million for any one risk/group being the aggregation of limits under all policies. As informed by CGI management, all the treaty limits of CGI are well within Mur 300 million.

Domestic and export credit up to Mur 100 Million is to be approved by CGI but a credit amount exceeding Mur 100 Million shall be accepted post approval by the Leading Reinsurer (Atradius). Reinsurers of CGI are:

| Reinsurer | Rating Agency | Rating |
|---|---|---|
| Atradius Reinsurance DAC (leading Reinsurer) (Netherlands) | A.M.Best | A |
| Credendo – Export Credit Agency (Belgium) | Standard & Poor's | AA |
| Catlin Re Switzerland Ltd (Switzerland) | A.M.Best | A+ |
| Endurance Specialty Insurance Limited (U.S.) | A.M.Best | A+ |
| R+V Versicherung AG (Germany) | Standard & Poor's | AA- |
| Credit Guarantee Insurance Corporation of Africa Ltd (South Africa) | Global Credit Rating | AA+ |

Out of the total reinsured amount of Mur 43.70 Million as on 31st December 2019, Atradius Reinsurance DAC holds Mur 16.56 Million (i.e. 38% of the reinsured amount). Thus, Atradius Reinsurance DAC is the leading reinsurer of CGI.

**For the balance 30% of the Risk underwritten, CGI has taken Excess of loss Treaty (over & above Reinsurance treaty).**

**Excess of loss Treaty**

In Reinsurance Treaty, Credit Excess of loss is the one in which the reinsurer indemnifies or compensates the ceding company (CGI) for losses that exceed a specified limit (Mur 5.62 million in case of CGI). Under the Excess of loss Treaty it is stated that *"The Reinsurers hereby agree to indemnify CGI for that part of its Ultimate Net Loss which exceeds the amount specified as the Deductible (Mur 5.62 million and above) in the Contractual details"*. Amount indemnified by the Reinsurers shall be up to but not exceeding a further amount, Ultimate Net Loss, specified as the limit in the Contractual details. Thus, under excess of loss Reinsurance company is held responsible for the total amount of losses above the Deductible limit. The different layers of loss treaty with amount deductible and limits specified are as hereunder:

| Layer | Ultimate Net Loss | Deductible | Limit |
|---|---|---|---|
| | *(MUR Million)* | | |
| First Layer | 13.12 | 5.62 | 39.00 |
| Second Layer | 18.75 | 18.75 | 56.00 |
| Third Layer | 52.50 | 37.50 | 105.00 |

Thus, in case the Ultimate Net Loss or net claim submitted by each debtor amounts to maximum Mur 13.12 Million, amount payable by CGI will be maximum of Mur 5.62 Million and any excess over and above Mur 5.62 Million will be paid by the reinsurance company (as per the Excess of loss treaty). Thus, in any case the liability for CGI will not exceed Mur 5.62 Million for each claim submitted.

**SUMMARY OF FINANCIALS: Credit Guarantee Insurance Co. Ltd** *Mur Million*

| Financial Year Ending December 31, | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Gross Premium Written** | **44** | **53** | **58** |
| % of NPE | *333* | *346* | *390* |
| **Net Premium Written** | **13** | **14** | **15** |
| % of NPE | *97* | *94* | *98* |
| Less: Reserve for unexpired risks | **0** | **1** | **0** |
| **Net Premium Earned** | **13** | **15** | **15** |
| **Net Claims Incurred** | **0** | **6** | **20** |
| % of NPE | *3* | *37* | *134* |
| **Net Commission** | **9** | **12** | **12** |
| % of NPE | *65* | *81* | *81* |
| Operating exp. related to insurance business | **18** | **19** | **15** |
| % of NPE | *133* | *123* | *102* |
| **Net Underwriting Profit** | **3** | **3** | **-8** |
| % of NPE | *25* | *21* | *(56)* |
| **Net Investment Income** | **2** | **1** | **0** |
| % of NPE | *13* | *6* | *3* |
| **Operating Profit/ (Loss) (A-B)** | **5** | **4** | **-8** |
| % of NPE | *39* | *28* | *(54)* |
| **PAT** | **4** | **2** | **-9** |
| **Net worth** | **45** | **47** | **41** |
| **Tangible Net worth** | **43** | **46** | **37** |
| Claims Outstanding | **6** | **5** | **18** |
| **Investments** | **14** | **42** | **45** |
| **Cash & bank balances** | **26** | **30** | **27** |
| **Total assets** | **107** | **125** | **147** |
| **Ratios** | | | |
| GPW growth | - | 19.94 | 10.41 |
| NPW growth | - | 12.58 | 2.29 |
| GPW/ Tangible net worth | 102.58 | 116.05 | 157.63 |
| NPW/Tangible net worth | 29.85 | 31.55 | 39.76 |
| Claim/Loss Ratio (Net Claims Incurred/ NPE) | 3 | 37 | 134 |
| Commissions Ratio (Comm. / NPE) | 65 | 81 | 81 |
| Expense Ratio (Net Exp. / NPE) | 136 | 125 | 103 |
| Combined Ratio | 204.4 | 242.8 | 318.5 |
| Net Earnings ratio | 28.12 | 14.89 | (57.54) |
| Investment Yield (Total Investment including investment in subsidiary) | - | 3.55 | 3.89 |
| RONW | - | 5.13 | (20.85) |
| ROTA | - | 5.13 | (20.85) |

### *Financial performance*

In FY19, CGI's Net Premium Written has increased to Mur 15 Million (Mur 14 Million for FY18). The company reported a Loss of Mur 8.6 Million in FY19 (Profit of Mur 2.3 Million in FY 18). This was mainly due higher claims received in FY19. CGI has received claims worth MUR 46 million in FY19 (MUR 33 million in FY18). In FY19 itself CGI has settled claims worth MUR 29 million (received MUR 21 million from reinsurance companies). As on Dec 31, 2019, the company had outstanding claims of MUR 18 million.

During discussion, the management has stated that the loss in CGI in FY19, was due to higher net claims incurred (considering provision for MUR 18 million of unpaid claims as at December 31, 2019). The claims were outstanding due to pending Reports from valuers and documents from the insurers. In case, CGI would have settled the entire claim it would have received amounts from reinsurers, in which case the maximum liability would have been around MUR 6 million (based on reinsurance and excess of loss treaty with reinsurers).

### *Industry Risk*

### ***Factoring***

In Mauritius, there are 3 Factoring Companies in operation as at end- July 2020, involved in credit financing, 2 of the factoring Companies are subsidiaries/related companies of banking institutions. Factoring provide solutions to SMEs and big corporates to increase working capital, to effectively manage receivables or simply better manage their cash flow and funding requirements. Total factoring volume to GDP (%) in Mauritius was reported at 1.78 % in 2018, according to the World Bank collection of developments indicators.

In the wake of the Covid-19 crisis, factoring faces many challenges but also provides a wide array of opportunities. In Mauritius, the authorities took bold and timely economic and financial measures to support companies and industries at large to protect them against the financial impact of COVID-19. Although it is difficult to give a full and final assessment of the impact of this sanitary crisis on the business landscape. . It is in this context that some of the factoring companies in Mauritius launched the Special Factoring Scheme in collaboration with The Investment Support Programme. . This financial tool turned out to be very effective for many Small and Medium Enterprises (SMEs), regardless of the sector in which they operate, and help in providing liquidity cushion.

The three main Factoring companies in Mauritius are SBM Factors Ltd. MCB Factors and CIM Finance Ltd.

MCB Factors ("MCBF") is the benchmark in terms of factoring in Mauritius. MCBF manages more than 300,000 invoices per year providing working capital to more than 700 Mauritian companies since inception. MCBF purchased invoices exceeding Mur 7 Billion in value for the last financial year.

Since 2004, CIM Finance Ltd ("CFL") provides factoring solutions. CFL manages debtors worth Mur 300 Million for the FY19. It charges around 1.5 - 2.5% of Invoice amount as Factoring Fees.

### ***Insurance***

The Mauritian insurance industry is regulated and supervised by the Financial Services Commission (FSC) under the Insurance Act 2005, with a regulatory framework aligned with International Association of Insurance Supervisors (IAIS) standards and principles. The industry caters for long-term insurance business (life insurance, pension and health insurance) and general insurance business (accident, health, engineering, credit guarantee, liability, property, transportation etc.). There are also providers offering external insurance business, restricted solely to non-Mauritian policies. Insurance sector grew by 5% in 2019 over 2018 and made up 2.5% of the GDP (GDP for 2019 was MUR 498.5 billion).

In Mauritius there are 14 General Insurance companies, which generated a gross premiums of Mur 9.1 Billion and net premiums of Mur 5.9 Billion in 2018. Total claims paid by the general insurance companies amounts to Mur 3.9 Billion in 2018. Credit Guarantee Insurance Co. Ltd. (CGI) is the only credit insurance provider in Mauritius. CGI contributes to 0.6% of the gross premium generated and paid 0.2% of the total claims paid.

***Prospects***

SBMF's prospects largely depends on the fortunes of textile industry 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.

Ability of SBMF to shore up its capital in view of expected increase in its factoring portfolio, maintain asset quality and profitability while expanding client portfolio, reduction in expected support from the group, asset liability maturity profile, increase in non-recourse factoring and increase in overall gearing are the key rating sensitivities.

## Financial Performance of SBMF

*MUR Million*

| For the year ended/As on | 31/12/2018 | 31/12/2019 |
|---|---|---|
| | Audited | |
| **Total Income** | **5** | **74** |
| Operating expenses (excl. provisions) | 7 | 12 |
| Provision for NPA | 0 | 0 |
| Depreciation | 0.1 | 0.1 |
| Interest | 1 | 21 |
| **PBT** | **(8)** | **35** |
| **PAT** | **(8)** | **32** |
| Gross cash accruals | (8) | 32 |
| Total Assets under Management (AUM) | 139 | 1,221 |
| Total assets on the balance sheet | 140 | 1,247 |
| Total capital employed | 123 | 1,119 |
| Total debt | 117 | 1,020 |
| Equity share capital | 20 | 80 |
| Tangible net worth | 6 | 99 |
| **Ratios** | | |
| PAT margin | (148.81) | 43.50 |
| NIM (%) | 1.99 | 2.49 |
| Interest Income/ Int. earning assets (%) | 7.15 | 5.91 |
| Interest expended/ Average Borrowed Funds | 1.71 | 2.01 |
| Interest spread (%) | 5.45 | 3.90 |
| Operating Expenses (before prov. & write-offs) / Average total assets (%) | 15.01 | 2.57 |
| RONW (%) | (112.68) | 61.70 |
| ROCE (%) | (10.55) | 8.98 |
| Cost of Capital (%) | 1.52 | 3.30 |
| Net Spread | (12.07) | 5.68 |
| Return on total assets (ROTA) (%) | (10.50) | 2.58 |
| Overall gearing | 20.22 | 10.35 |
| Interest Coverage | (6.67) | 2.74 |

**Adjustments**

1. Tangible net worth is calculated by netting off intangible assets from total equity.
2. 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 Net worth.
4. Total Assets and Total AUM is calculated after deducting Deferred Tax and Intangible Assets from Total Assets

# Annexure - I
## Details of Rated Bank Facility

### A-1 Details of Bank Facilities
### Long-term facilities

| Name of the Bank | Facility | Amount (MUR Million) |
|---|---|---|
| SBM Bank (Mauritius) Ltd | Bank Facility (overdraft) | 1,500 |
| Interest Payment | Monthly | |