

Brief Rating Rationale
CRAF places rating assigned to the Proposed Bond Issue of SPICE Finance Ltd.
under Credit Watch with developing implications

Ratings

Instrument*	Amount (MUR Million)	Rating**	Rating Action
Bond	500 (Five Hundred Million)	CARE MAU A-; CWD [Single A Minus; Under Credit watch with Developing Implications]	Rating placed on Credit watch with Developing Implications due to the proposed change in shareholding structure as detailed below

**Details of facilities/instruments in Annexure I*

***Complete definition of the ratings assigned are provided in Annexure II*

Rating Rationale

The rating, assigned to the proposed bond issue of Mur 500 million of SPICE Finance Ltd (“SFL”), has been placed under credit watch with developing implications due to the announcement of proposed change in shareholding structure of AXYS Ltd. – holding company of SFL.

United Investments Limited (UIL; major shareholder of AXYS Ltd.), through its communique dated February 4, 2022, has announced that UIL has signed a non-binding Term Sheet, concerning the sale of all its operational financial services investees (AXYS Ltd.) with a Consortium which includes a number of the Senior management of different companies of AXYS. Currently, the same management is looking after the operations of different companies. UIL is currently negotiating the Share Purchase Agreement and its commercial terms will be made public once finalised. The above transaction is subject to condition precedents and regulatory approvals and the company is in the process of applying for the same.

CRAF would continue to monitor the developments in this regard and will take a view on the ratings once the transaction is completed and impact on the credit risk profile of SFL including future business strategy is clear.

The rating continues to derive strength from long & satisfactory track record of SFL, professional and qualified management team, dominant market share in leasing business in Mauritius, satisfactory disbursement and asset quality during last 3 years, steady IRRs, high collection efficiency (over 90% for last 3 years), satisfactory capital adequacy ratio (“CAR”) with moderate gearing, comfortable asset-liability maturity profile & liquidity profile and satisfactory financial position with increasing Return on Total Assets (ROTA).

The rating is constrained by risk associated with increasing competition in the financial services business, entry of new players in leasing business, exposure to regulatory risks, risk associated with volatility in interest rates and uncertainty related to the collection efficiency of the company on its leasing exposure in view of the negative impact of the COVID-19 pandemic on the economy and employment rate of Mauritius, leading to increase in provisioning and NPAs.

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Rating Sensitivities:

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Completion of proposed stake sale pursuant to the announcement made
- Ability to improve asset quality and profitability with growth in Asset under management (AUM).
- Improvement in asset liability maturity profile.
- Decline in gearing ratio

Negative Factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Decline in CAR below 12% (Regulatory norm of 10%).
- Deterioration in liquidity profile
- Dip in Asset quality, profitability, and sharp increase in NPA levels.

BACKGROUND

SPICE Finance Ltd (“SFL”), incorporated in 1997, is a wholly owned subsidiary of AXYS Group Ltd (“AXYS”). AXYS group is owned by AXYS Limited (holds 80% stake in AXYS Group) and United Docks Ltd (holds 20% stake in AXYS Group). AXYS Limited is a wholly owned subsidiary of United Investments Ltd. (UIL). In August 2017, AXYS Leasing was rebranded as SPICE Finance Ltd.

SFL started its leasing operation in 2004, as a Non-Banking Deposit Taking Institution (NBDIT) with the main objective to provide leasing facilities (both operating and finance lease) to individuals and corporates by raising deposits from public (individuals and corporates). SFL is licensed by the Financial Services Commission for its leasing business and regulated by the Bank of Mauritius for its deposit taking business. SFL has nearly 7,000 active leases.

Activities of SFL

SFL provides Finance Lease, Operating Lease and Sale & Leaseback services. SFL facilitates the purchase of movable assets and equipment for corporates, individuals and SMEs.

United Investment Ltd (ultimate shareholder of Spice Ltd), through its communique dated August 30, 2021, has announced the proposed sale of UIL’s investments in AXYS Ltd. to the management of different companies of AXYS. The same management is looking after the operations of different companies. Further on February 04, 2022, UIL has confirmed entering into a non-binding Term Sheet concerning the sale of all its operational financial services investees (AXYS Ltd.) and is currently negotiating the Share Purchase Agreement and its commercial terms. Sales is expected to be completed by June 30, 2022.

Despite of the second lockdown in Mauritius in March 2021, and sharp decline in disbursement during that period, SFL’s disbursement witnessed a y-o-y growth of 4% in FY21 over FY20. This was supported by encouraging average monthly disbursements of MUR 104 million for the first 8 months of the financial year. Total Assets under Management (AUM) has increased to Mur 3,231 million in FY21.

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IRR remained almost at the same level in FY20 and FY21, given that the company cost of raising deposits ranges from 0.40% - 5.85% based on maturity of the deposits. Majority of the SFL's lending are in fixed rates (60%) and around 62% of the deposits raised are in fixed rate.

SFL's avg. collection efficiency was 93% in between July 1- Dec. 31, 2021. Avg. collection efficiency was around 96% in FY21 (around 95% for FY20). GNPA (%) at 2.63% in FY21 is lower than FY20 (3.80%).

SPICE doesn't have any mismatch in asset liability maturity profile over next 3 years. It also has unutilized working capital facilities which can be utilized to meet its short-term cumulative GAP, if required.

In FY21, SFL booked a total revenue of Mur 414 million (Mur 424 million in FY20). With a sustained disbursement value and interest rate, lower interest expense PBT, PAT and GCA has increased in FY21. PAT increased from MUR 51 million in FY20 to MUR 70 million in FY21. SFL has not paid any dividend in FY21 (MUR 50 million in FY20).

SFL's investment in finance lease increased by 5% from Mur 2,673 million in 2020 to Mur 2,804 million in 2021. Operating lease for the company stood at Mur 460 million in FY21 compared to Mur 525 million in FY20. The company's deposit book has marginally decreased from MUR 3,013 million in FY20 to MUR 2,942 million in FY21.

Overall gearing and interest coverage were also satisfactory. CAR as at June 30, 2021 was 15.76% well above the Regulatory requirement of 10%. NIM was hovering in the range of 5.0-6.0% during last 3 years due to higher IRRs. ROTA at 1.94% was higher compared to FY20 (1.41%). ROTA was at 1.94% as on June 30, 2021 (1.41% on June 30, 2020).

Prospects

SFL's prospects largely depends on the fortunes of an automotive and equipment's, 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 collection efficiency & ROTA along with maintaining CAR & liquidity at similar levels are key rating sensitivities.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from reliable and credible sources. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and 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. CRAF may also be involved with other commercial transactions with the entity.

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CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure II

Rating Symbols

Long /Medium-term Instruments

Symbols	Rating Definition
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {'+' (plus) / '-'(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category.

Rating Outlook

The rating outlook can be 'Positive', 'Stable' or 'Negative'.

A 'Positive' outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A 'Negative' outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A 'Stable' outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

Modifiers {'+' (plus) / '-'(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.

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