SPICE Finance Ltd

19 May 2023

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Proposed Bond Issue	500	**CARE MAU A-; CWD [Single A Minus; Credit Watch with Developing Implications]**	**Continues to be under Credit Watch with Developing Implications**
Total	**500**		

CWD: The rating assigned to SPICE Finance Ltd ("SPL") is placed under Credit Watch with Developing Implications on account of the proposed Management Buyout of United Investments Ltd (ultimate shareholder of SPICE Finance Ltd) investments in AXYS Ltd.

Rating Rationale

The rating assigned to the proposed bond issue of SFL continues to derive strength from long & satisfactory track record of SFL in the provisioning of leasing facilities, highly professional and qualified management team, competitive position and strong market share in the Mauritian leasing segment allowing flexibility in pricing, consistent growth in yearly disbursements barring Covid-19 period, continued expansion of finance lease portfolio being funded mainly from lower cost deposits with terms almost mirroring the maturity of leases, achievement of health net interest margins and return of total assets (ROTA), while also maintaining a comfortable capital adequacy ratio, low levels of non-performing assets on total lease book and satisfactory asset-liability maturity (ALM) & liquidity profile.

The rating is however constrained by risk associated with increasing competition in the financial services business especially with the entry of new players in the market, negative liquidity gaps between 3 to 12 months period, overall gearing being a relatively high levels despite a marginal decrease from prior year and the current inflationary environment and rising interest rates weighing heavily on households, which may ultimately affect their debt repayment abilities.

Rating Sensitivities:

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

- Continued increases in disbursements leading to further expansion of leasing portfolio.
- Improvement in asset liability maturity profile.
- Sharp decline in gearing ratio.
- Replacement of high-cost deposits by lower cost funding

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

- Dip in the Capital Adequacy Ratio whereby nearing the regulatory requirement of 10%
- Breach of Bank of Mauritius Guidelines on liquidity requirement and Credit Concentration Risk
- Deterioration in asset quality leading to significant increase in Gross NPA

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

BACKGROUND

SPICE Finance Ltd ("SFL"), formerly known as AXYS Leasing, is a public limited liability company incorporated in 1997. It holds a deposit-taking license under the Mauritian Banking Act 2004 and it is also licensed by Financial Services Commission ("FSC") to conduct leasing operations.

SFL is a wholly owned by AXYS Group Ltd ("AXYS"), which in turn is an 80% subsidiary of AXYS Ltd, with United Docks Ltd holding the remaining 20% stake. The ultimate parent company of SPL is United Investments Ltd ("UIL") which controls 100% of AXYS 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).

The Company has grown to become among the top 3 largest leasing companies in Mauritius with more than 7,000 active leases at 30 June 2022.

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

Finance Lease (also known as capital lease). Under finance leases, all the risks and rewards relating to asset ownership are transferred to the lessee. The lessee makes regular fixed repayments to the lessor (SFL) over a specified period of time. For investments in finance leases, the assets under lease are registered under named of SFL until the lessee pays the full contractual amount due, following which, the ownership of the asset is transferred to the name of the lessee. Under finance lease agreements, SFL retains the underlying asset as collateral and in case of non-repayment or default from the lessee, SFL has the right to repossess the underlying assets. The duration of finance lease agreements generally varies between 60 to 84 months.

Operating lease. Under operating lease agreements, the lessee obtains the right to use the underlying asset in exchange for fixed regular payments to SFL for a specified time period. Under this facility, the risks and rewards are not transferred to the lessee and the asset remains in the books of SFL which retains the ownership of the asset following the expiry of the lease agreement.

Sale and Leaseback. Under this facility, a client owning an asset has the option to sell the asset to SFL against cash and the asset is then leased back to the client by SFL against lease rental payments. At the end of the contract, the lessee can exercise his call option allowing him to recover the asset at its residual value (normally 1% of the value of the asset at purchase).

SFL finances its leasing portfolio by raising deposits from individuals and corporates for terms ranging from 1 to 72 months. The interest rates on these deposits are either at fixed or floating rates and vary between 0.50% to 5.85%.

SPICE Finance Ltd is a professionally managed company which is governed by 7-member Board of Directors. Mr. Sylvain Pascal, independent director, is the Chairperson of the board.

Mr. Vikash Tulsidas and Mrs. Vijeyalutchmee Monien Mootoosamy are the two executive directors at SPICE Finance Ltd. Mr. Tulsidas is the CEO of SFL and he is responsible for the effective running of the day-to-day operations of the

Company and acts as the main point of contact between the Board and the senior management of SPL. Mr. Tulsidas was appointed as Director of SPL in October 2013 and became its CEO in February 2017.

Barring FY21 where the finance lease portfolio did not experience a major growth, SFL has recorded consistent increase in interest income. Despite the low interest rates which prevailed, a 15.19% expansion in finance lease assets has contributed to a 9.95% increase in interest income. This was however, offset by an 11.91% decrease in other operating income as a result of the strategy of the Company to shed its operating lease business and focus on finance leases. Overall, the total income was down but marginally.

On a brighter side, the low interest rate environment has helped in maintaining interest expenses on deposits at lower levels during FY21 and FY22, compared to FY20 and previous years, despite a 9.76% growth in the deposit book at end of FY22.

The improved economic conditions as from the beginning of 2022 has eased the strain on both corporates and individuals and hence, provided confidence that their credit worthiness would improve. As a result, a lower level of provisioning was made for the year. The above factors combined have led to a 24.29% increase in PAT for FY22.

The finance lease portfolio of SFL grew by 15.59% during FY22, on the back of the buoyant motor vehicles market which has fueled demand for finance leases from SFL.

While growing its book, the Company has managed to maintain the quality of its assets as shown by the GNPA which came down from 2.65% at end of FY21 to 2.20% at end of FY22. To mitigate the effect of a counterparty not meeting its contractual obligations, SFL made strict provisioning on its non-performing assets which led to a NNPA ratio below 2% over the past four years.

SFL finances its leasing activities by raising deposits from individuals and corporates. At 30 June 2022, the Company had a deposit book of MUR 3,229 million (FY21: MUR 2,942 million) with around 57% of the book having a term of up to 5 years. The deposits are managed to reflect the duration of the finance leases.

Overall gearing at 30 June 2022 was 6.84 times, almost at par with prior year level of 6.47 times.

For the half year ended 31 December 2022, SFL earned a total income of MUR 205 million and achieved a PAT of MUR 40 million. The Company's deposit book grew by 5.13% from June 2022 level to reach MUR 3,395 million at 31 December 2022. These new deposits were redeployed into finance leases which increased from MUR 3,165 million at June 2022 to MUR 3,405 million at 31 December 2022.

At 31 December 2022, SFL had a CAR of 14.48%, still comfortably above the regulatory requirement of 10%.

Annexure I

Proposed Bond Issue

Instrument	Amount (MUR Million)	Indicative Interest Rate	Tenure
Proposed Bond Issue	100	4.75%	1 Year
	125	Key Rate + 1.25%	3 Years
	150	Key Rate + 1.25%	3 Years
	125	Key Rate + 1.75%	5 Years
Total	**500**		

Disclaimer

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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.

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CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
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