Brief Rating Rationale

CRAF reaffirmed the CARE MAU A-; Stable rating assigned to the Proposed Bond Issue of Mur 500 Million of SPICE Finance Ltd.

Ratings

Instrument	Amount (MUR Million)	Rating**	Rating Action
Bond	500 (Five Hundred Million)	**CARE MAU A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**

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

Rating Rationale

The ratings assigned to the proposed bond issue of Mur 500 Million of SPICE Finance Ltd ("SFL") has been reaffirmed at CARE MAU A-; Stable. The rating continues to derives strength from long & satisfactory track record of SFL and its experienced promoter - United Investments Ltd. ("UIL") and AXYS Group, professional and highly 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 95% for last 3 years and 95% for H1FY21), satisfactory capital adequacy ratio ("CAR") with moderate gearing, comfortable asset-liability maturity profile & liquidity profile and satisfactory financial position with stable 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 lockdown on the economy and employment rate of Mauritius, leading to increase in provisioning and NPAs.

CRAF expects the projected contraction in GDP growth of Mauritius in CY21, due to prolonged impact of the lockdown in various businesses, may transmit into job losses, which may have an impact on the collection efficiency of SFL over next 6 months.

However, under the current scenario neither CRAF nor SFL are in position to evaluate the magnitude of the actual impact of the same on SFL's collection efficiency over next six months. CRAF, based on its discussion with management of SFL, takes note that SFL's avg. collection efficiency was around 95% in between July 2021 – December 2021. CRAF will continuously monitor the collection efficiency of SFL over next few months and any significant dip in collection efficiency may trigger a review of the rating.

Rating Sensitivities:

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

- Improvement in disbursement, profitability and asset quality on a sustained basis.

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

- Deterioration in asset quality of GNPA/Stage 3 Assets.
- Weakening of profitability, collection efficiency and capital adequacy levels.

- Moderation in liquidity profile.
- Negative cumulative mismatch in asset-liability maturity profile between 3 months to 5 years.

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.

Finance Lease is also known as capital lease. All the risks and rewards relating to asset ownership are transferred to the lessee. The lessee pays regular fixed repayments to the leasing company over a period of time. There is an option to transfer the asset to the lessee at the end of the lease period and thus the lessee has full right of the asset and can disclose same in its books.

Operating Lease is a lease facility whereby all the risks and rewards relating to asset ownership remain with the lessor. The lessee will return the asset to the lessor when the lease agreement expires.

Sale and Leaseback is where a client, owning an asset, can sell the asset to SFL against cash and the asset will be leased back to the client by SFL against a lease rental.

SFL has around 7,000 active leases across the country. SFL has a well-diversified portfolio of receivables spread over different sectors of the economy. 58% of its total exposure was in personal segment followed by transport.

SFL’s disbursement dipped in FY20 over FY19 due to lockdown between March -June 2020 and cautious approach adopted by SFL post lockdown. Total Assets under Management (AUM) has increased by 4.36% in FY20 amounting to Mur 3,158 Million.

SFL’s net investment in finance leases increased by 8% from Mur 2,428 Million in FY19 to Mur 2,619 Million in FY20.

IRR remained at the same level in FY19 & FY20, given that SFL’s cost of raising deposits ranges from 2.75% -7.25% based on maturity of the deposits. Majority of the SFL’s lending are in fixed rates (67%) and around 66% of the deposits raised are in fixed rate.

SFL's avg. collection efficiency was 95% in between July 1- December 31, 2020. SFL's avg. collection efficiency was around 95% in FY20. SFL has written of provision for NPAs of MUR 32 million in FY20 (MUR 20 million in FY19).

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

In FY20, SFL booked a total revenue of Mur 424 Million (Mur 440 million in FY19). PAT was Mur 51 Million for FY20 (Mur 61 Million in FY19) showing a dip of 16% over the last year due to lower operating income and higher expenses & provisioning. SFL has paid a dividend of MUR 50 million in December 2019, since the company has not paid any dividend during FY16-19 last 4 years (last dividend was paid in FY15).

Net investment in finance leases increased by 8% from Mur 2,428 Million in FY19 to Mur 2,619 Million in FY20. Deposit book has remained stable with an increase from Mur 2,996 Million in FY19 to Mur 3,013 million in FY20. Cost of capital in FY20 has increased from 4.07% to 5.60%, due to the distribution of dividend amounting to Mur 50 Million in FY20. Overall gearing and interest coverage were also satisfactory. NIM was hovering in the range of 8.0-9.0% during last 3 years due to higher IRRs. ROTA was at 1.41% on June 30, 2020. The collection efficiency in FY20 was around 95%.

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.