Rating Rationale
SPICE Finance Ltd

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.

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.

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. For investments in finance leases, the assets under lease are registered under Lessee & Lessor until the lessee pays in full the contractual amount due, whereby title is then transferred. Should the lessee defaults in payment, Lessor has the right to undertake legal procedures to recover the asset under lease, which in substance acts as a collateral against defaults.

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 also raises deposits from customers and offers fixed and floating interest rate term deposits over periods ranging from 1 to 72 months. The investor gets to invest capital at a pre-determined interest rate for a defined period and in return receives regular interest disbursements. The minimum deposit amount is MUR 25,000 for both fixed and floating term deposits.

Fixed interest rate deposits carry the same rate from the inception to the maturity of the deposit irrespective of changes in the monetary policy. Floating interest rate deposits are linked to Base Deposit Rate (BDR), which in turn is linked to BOM Repo Rate.

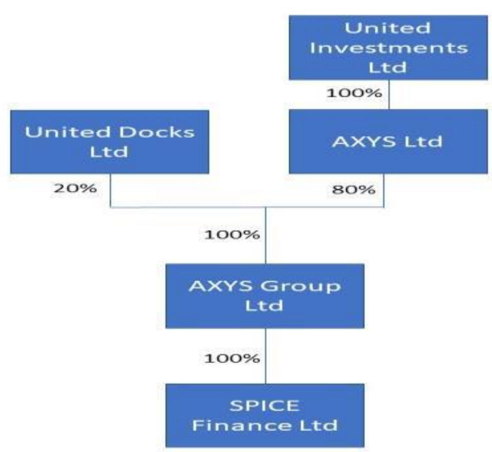
SPICE Finance Ltd is a professionally managed company and it is governed by 7-member Board of Directors who are collectively responsible for the company's leadership, strategy, values, standards, control, management, and long-term success. The board is composed of 3 independent directors, 2 non-executive directors and 2 executive directors.

The strategic affairs of the company are looked after by Mr. Vikash Tulsidas (CEO and Executive Director of SFL) and assisted by a team of experienced professionals. He was appointed as a Director of SPICE in October 2013 and is the CEO since February 2017. He graduated from University of Warwick and first joined AXYS Group in 2004. He has significant expertise about stock markets and has been an active member of the executive committee of the Port-Louis Stockbroking Association, a director of the Central Depository & Settlement and later chairman. He was also a Director of the Stock Exchange of Mauritius for several years. Mr. Sylvain Pascal an independent member of the Board, is the Chairman of SFL.

CREDIT RISK ASSESSMENT

Long & satisfactory track record of the company & experienced promoters

SFL, a Non-Banking Deposit Taking Institution (NBDIT), commenced its leasing business in 2004. The company is engaged in providing leasing facilities (operating and finance lease) to individuals and corporates by raising deposits from public (individuals and corporates). It is a wholly owned subsidiary of AXYS Group Ltd ("AXYS"), which in turn is owned by AXYS Limited (80%) and United Docks Ltd (20%). The current shareholding structure as at December 31, 2021 is as depicted:



United Investments Ltd ("UIL"), incorporated in 1984, is an investment company involved in both financial and non-financial activities. AXYS Ltd. holds the finance cluster of the group and offers services such as Asset & Wealth Management, Corporate Services, Brokerage, Corporate Finance, Asset Financing and Deposit Taking. Other than financial services, the company is also engaged in technology, hospitality and agriculture sector. All the non-financial services are regrouped under the OXIA brand. Top 5 largest shareholders, holding 73% stake in UIL are - Terra Mauricia Ltd (29%), Firefox Ltd (20.6%), Portfolio and Investment Management Ltd (9.3%), Michel Guy Rivalland (8.7%) and Jason Limited (5.4%).

UIL, through its communique dated February 4, 2022, has announced that it 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.

AXYS Group Ltd ("AXYS"): AXYS is a financial services group with over 25 years of specialist experience. The company was founded in 1992 as an asset management company, the first fund management company in Mauritius, by Mr. Didier Merven. Over the years it has diversified into different service offerings such as corporate finance, asset financing, deposit taking, corporate services and brokerage. AXYS has over USD 10 Billion worth of clients' assets and is one of the entities in Mauritius that offers multiple and complementary services. It is internationally present with subsidiaries in Switzerland, UAE, Kenya, South Africa, Hong Kong and Brazil.

Professional and highly qualified management team

SPICE Finance Ltd has a highly qualified and experienced pool of employee with significant experience and expertise in their related field. Each division is managed by a Head, who reports to the CEO.

Dominant market share in leasing business in Mauritius

SFL has around 8,000 active leases across the country. It is one of the major leasing companies of Mauritius in terms of Total Asset under Management (AUM). Vehicles and equipment are leased to the customers for periods ranging from 12 to 96 months. SFL, over the years, has grown both organically as well as inorganically.

Assets	Average Ticket size (MUR Million)	LTV (%)	Average Tenure (months)
Motor Vehicle	0.47	70-75%	63
Equipment	1.11	75-80%	52
Boat	1.27	60-65%	58
Truck	0.32	70-75%	62
Motorcycle	0.26	70-75%	42

In view of the individual ticket size being relatively small, client-wise and group exposure was well within the prudential limit of owned funds of 25% and 40% respectively, as prescribed by Bank of Mauritius.

SFL has a well-diversified portfolio of receivables spread over different sectors of the economy. As at June 30, 2021, 58% of its total exposure was in personal segment followed by transport.

Satisfactory disbursement and Asset under Management during last 3 years

Total Assets under Management (AUM) has increased by 2.3% in FY21 amounting to Mur 3,231 million. Total Assets under Management is as under.

Assets as on (MUR Million)	30.6.2019	% of total portfolio	30.6.2020	% of total portfolio	30.6.2021	% of total portfolio
Motor Vehicle	2,866	*94.7%*	2,977	*94.3%*	2,989	*92.5%*
Equipment	95	*3.1%*	116	*3.7%*	183	*5.6%*
Vessels	35	*1.2%*	36	*1.1%*	37	*1.1%*
Truck	21	*0.7%*	17	*0.5%*	12	*0.4%*
Boat	6	*0.2%*	9	*0.3%*	9	*0.3%*
Motorcycle	2	*0.1%*	3	*0.1%*	1	*0.04%*
Quad	1	*0.0%*	0	*0.0%*	0	*0.01%*
Total	**3,026**		**3,158**		**3,231**	

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. Post June 21, the company has made fresh disbursements of MUR 726 million in H1FY22. Subsequent to re-opening of the economy after lockdown, SFL adopted a cautious approach on disbursement given the closure of the international borders impacting the tourism & aviation sector directly and in-direct impact of the pandemic on various sectors of the economy which would have translated into a future job loss.

Steady return

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. The product-wise average IRR is as under:-

Assets	Average IRR (FY21)
Motor Vehicle	7.90%
Equipment	8.15%
Boat	9.50%
Truck	8.53%
Motorcycle	8.57%

Satisfactory collection efficiency

SFL recognized NPA above 90 days for Finance lease and writes off (specific provisions) 100% of loan overdue beyond 360 days. This apart SFL also makes portfolio provisioning (1% of the portfolio value) in line with the Guideline on Credit Impairment Measurement and Income Recognition of BoM.

Particulars (*MUR Million)*	30/06/2019	30/06/2020	30/06/2021
Gross NPA	96	120	84
Gross Loan assets	3,026	3,158	3,205
GNPA (%)	3.17%	3.80%	2.63%
Provisions	20	32	32
Net NPA	76	88	52
Net Loan assets	2,981	3,158	3,173
NNPA (%)	2.55%	2.79%	1.65%
Net NPA/Net worth (%)	20%	23%	11%

The collection of SFL for the period from July 2021 to December 2021:

Collection for the period →	July 1, 2021 – December 31, 2021	
Portfolio →	**Finance Lease**	**Operating Lease**
Amount to be collected (Interest + Principal)	710	98
Amount collected	659	91
Collection efficiency	**93%**	

SFL's avg. collection efficiency was 93% in between July 1- December 31, 2021. SFL's avg. collection efficiency was around 96% in FY21 (around 95% for FY20).

For FY21, SFL was approached by around 225 leasing customers (whose total capital/rentals outstanding is Mur 116 million to be repaid over next 5 years) to provide moratorium. Under the scheme, SFL's clients are provided 6 months capital moratorium (impact over next 6 months will be deferment in net finance or operating lease receivables of MUR 35 million) with 2 different types of interest moratorium options: -

A. Full Interest payable during the moratorium period;

B. Moratorium of both interest and capital payment;

More than 95% of the clients, opted for option A. Thus, the company is having a regular flow of interest income even during the moratorium period leading to the stable liquidity position.

In FY21, SFL has restructured loans for around 350 vehicles aggregating to MUR 277 million (9% of the total Loan portfolio as at June 30, 2021). Management has confirmed that in FY21, it has amicably settled outstanding amount of around MUR 240 million by assisting the lessees in sale of such assets (mostly motor vehicles). This has enabled the company to keep its NPA level under industry average.

Satisfactory Capital Adequacy Ratio ("CAR") and moderate overall gearing ratio

SFL's CAR as on December 31, 2021, and June 30, 2021, was satisfactory at 15.35% and 15.76% respectively, which is well above the Regulatory norm of 10% (stipulated by Bank of Mauritius). Overall gearing ratio was at 6.47 times as on June 30, 2021 (7.83 times as on June 30, 2020).

Comfortable asset-liability maturity profile & liquidity profile

Being a deposit taking NBFC, SFL has to maintain 10% of its deposits in liquid portfolio (Cash & Bank/Fixed Deposit with Banks/Treasury Bills issued by GoM). Thus, the company have sufficient cash balance and investment in treasury bills for the last 3 years:

For the year ended June 30 (MUR Million)	2019	2020	FY21
Deposits from customers	2,997	3,013	2,942
Cash & Bank	452	406	344
Investment in treasury bills	25	-	-
Liquid assets as % of deposit from customers	**16%**	**13%**	**12%**

SFL's asset liability maturity profile as on December 31, 2021 is as under: - *MUR Million*

Particulars	<1 months	1-3 months	3-6 months	6 - 12 months	1 - 3 years	Over 3 years	Non-Maturity Items	Total
ASSETS								
Cash and bank balances	301	-	-	-	-	-	-	301
Loans (Finance lease)	80	235	196	391	1,237	807	-	2,946
Goodwill and other intangible assets	-	-	-	-	-	-	3	3
Property plant and equipment	-	-	-	-	-	-	35	35
Operating Lease	10	20	29	48	117	37	167	429
Other assets	-	70	-	-	-	-	-	70
Gross assets	392	325	225	439	1,354	844	205	3,784
Less Allowances for credit impairment							(73)	(73)
Total Assets	**392**	**325**	**225**	**439**	**1,354**	**844**	**132**	**3,711**
LIABILITIES								
Deposits	157	157	191	422	1,238	819		2,984
Other Liabilities		226			9			235
Other Liabilities			1					1
Share Capital							490	490
Total Liabilities	**157**	**384**	**193**	**422**	**1,247**	**819**	**490**	**3,711**
Net Liquidity Gap	**235**	**(58)**	**33**	**17**	**107**	**25**	**(358)**	**-**
Cumulative GAP [A-B]	**235**	**176**	**209**	**226**	**333**	**358**	**-**	**-**

SFL does not have any cumulative mismatch in asset liability maturity profile over next 3 years.

SFL has MUR 927 million of deposits maturing over next 1 year, against which the company has finance and operating lease receivable of MUR 1,010 million, cash & bank balance of MUR 301 million and unutilized overdraft facility of MUR 150 million as on Dec 31, 2021. Average utilization of overdraft of MUR 150 million from MCB for last 3 years has been NIL.

Satisfactory financial position with increasing Return on Total Assets (ROTA) *MUR Million*

Particulars	FY19	FY20	FY21
Income from lease operations	430	417	407
Other income	23	7	8
Total Income	**453**	**424**	**414**
Interest expense and depreciation on Operating Lease assets	292	267	227
Net Income from leasing operations	**138**	**151**	**180**

Despite of the increase in AUM in FY20 & FY21, income from leasing operations have dipped from MUR 430 million in FY19 to Mur 417 million in FY20 and further to MUR 407 million in FY21 mainly due to the reduction of the interest rate post COVID-19 pandemic. Net income from leasing operations has increased from Mur 151 million in FY20 to Mur 180 million in FY21 mainly due to increase in finance lease portfolio. Other income majorly include profit on disposal of property, plant and equipment, interest on investment, penalty fees etc.

For investment in finance leases, the asset under lease are register under SFL until the lessee pays in full the contractual amount due. Should the lessee defaults in payment, the company has the right to repossess the asset under lease, which in substance acts as a collateral against defaults. SFL's source of profit on sale of assets arises through sale of repossessed asset that was held as collateral under finance lease arrangement. The income is calculated as the net difference between the unsettled claim balance and the resale value. SFL's another source of profit on sale of assets arises as the difference between the sale value and terminal value of the sold asset which was earlier given on operating leases.

Stable Profitability

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%). The collection efficiency in FY21 was around 96%. GNPA (%) at 2.63% in FY21 is lower than FY20 (3.80%). ROTA was at 1.94% as on June 30, 2021 (1.41% on June 30, 2020).

Reselling Risk

Mauritius has an extensive and active second-car market. Total sale of cars in Mauritius is around 16,000-18,000 annually, of which, refurbished and local-used cars contribute to almost 50% of the total automobile sales in a fiscal year in Mauritius. Refurbished cars from Japan are quite popular amongst the local buyers as well, mostly because of low mileage and price efficiency. Similar to the refurbished vehicles, there is an ever-existing demand for the repossessed vehicle for SFL. These repossessions also usually have low mileage and are available at prices much below the market value which attracts the buyers preferring refurbished vehicles. Therefore, as confirmed by the management, SFL mostly has made profit on the sale of repossessed vehicles.

Industry Risk

In Mauritius, Non-Bank Deposit-Taking Institutions' (NBDTIs') main activity relates to the mobilization of deposits and the granting of leasing and loan facilities to individuals and corporates. There are 6 NBDTIs in operation as at end-December 2021, of which 5 were exclusively involved in leasing activities, 2 carried out lending business only and the remaining 4 were involved with both leasing and lending operations. 4 of the NBDTIs were subsidiaries/related companies of banking institutions or insurance companies. As at end-June 2021, all NBDTIs were holding the minimum required capital of Mur. 200 million, and their total assets represented around 4.4% of the total assets of the financial sector. Theses NBDITs mostly provide leasing and factoring services.

Total assets of NBDTIs increased by 0.8%, from Rs. 66.2 billion as at end-June 2020 to reach Mur. 66.7 billion as at end-June 2021. The share of loans to total assets rose from 53.9% as at end-June 2020 to 66.5% at the end of June 2021, while investment in finance leases to total assets increased marginally from 12.2% to 12.5% over the same period. The advances-to-deposits ratio increased from 115.9% at end-June 2020 to 124.4% at end-June 2021. Leases-to-deposits ratio (based on deposits held by leasing companies only) stood at 88.9% at end-June 2021.

Leasing Companies

Leasing facilities are provided by 9 entities in Mauritius as on 31st December 2021. 5 of them are banks and Non-Bank Deposit-Taking Institutions (NBDTIs), licensed by the Bank of Mauritius. The remaining four are Non-Deposit Taking Institutions (NDTIs), which are licensed by the Financial Services Commission (FSC).

Banks, NBDTIs, and NDTIs offer leasing facilities to both households and corporates. Banks provide only finance leases, while NBDTIs and NDTIs offer both finance and operating leases. Leasing and credit finance are often the primary source of finance available to Small & Medium Enterprises (SMEs). Leasing companies are subject to less stringent regulations than banks – allowing them to leverage more resources (higher gearing), to be exempted from credit allocation requirements and to use of market rates of interest.

As at end-September 2021, total leasing facilities granted to the household and business sectors stood at Mur 20.6 billion compared to Mur 21.0 billion as at September 2020. The automobiles segment accounted for 88% of total leasing facilities as at September 2021, up from 86.9% for the previous year. As at end-September 2021, an amount of Mur 18.2 billion (Mur 18.3 billion as at end-Sept 2020) was extended towards the purchase of automobiles, while the number of leases granted aggregated to 38,098 at the same date (38,755 as at end-Sept 2020). Leasing facilities granted to "other" sector represented facilities offered for buildings, office equipment, machinery and other assets and stood at Mur 2.4 billion as at September 2021 (Mur 2.7 billion as at end-Sept 2020).

The Leasing assets under Management of different companies are MCB Finlease Company Limited (MUR 3.8 billion), SFL (Mur 3 Billion), CIM Financial Services Limited (Mur 2.6 Billion), La Prudence Leasing (MUR 1.3 billion), SICOM (MUR 460 million) and Mutual Aid (MUR 400 million).

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.

Financial Performance *MUR Million*

For the year ended June 30th	2019	2020	2021
Interest income	212	223	221
Other Operating Income	228	201	193
Total Income	**440**	**424**	**414**
Operating expenses (excl. provisions)	32	40	45
Provision for NPA	(13)	19	7
Depreciation & amortization	164	138	127
Interest	141	140	112
PBT	**71**	**62**	**84**
PAT	**61**	**51**	**70**
Gross cash accruals	225	189	197
Total AUM	3,026	3,158	3,231
Total debt	3	1	1
Total Deposits from customers	2,996	3,013	2,942
Total deposit & debt	2,999	3,014	2,943
Equity share capital	200	200	200
Tangible net worth	385	385	455
Ratios			
PAT margin	13.37	11.93	16.98
NIM (%)	5.69	5.72	5.76
Interest Income/ Int. earning assets (%)	8.38	8.81	8.24
Interest expended/ Average Borrowed Funds	4.53	4.66	3.76
Interest spread (%)	3.85	4.16	4.48
Operating Expenses (before provn. & write-offs) / Average total assets (%)	1.76	1.83	2.12
RONW (%)	16.87	13.15	16.74
ROCE (%)	6.12	5.97	6.61
Cost of Capital (%)	4.07	5.60	3.78
Net Spread	2.06	0.37	2.83
Return on total assets (ROTA) (%)	1.66	1.41	1.94
Overall gearing	7.79	7.83	6.47
Interest Coverage (after prov.)	2.67	2.44	2.88
Interest coverage (before prov.)	2.58	2.57	2.95
Gross NPA (%)	3.17	3.80	2.63
Net NPA (%)	2.55	2.79	1.67
Net NPA / Net worth (%)	20	23	11

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 Instruments

1. Details of proposed Bond Issue

Instrument	Amt. (MUR Million)	Repayment	Indicative Interest Rate
Long term Bond	Tranche I – 100	13 months from disbursement (July 2023)	3.15% p.a.
	Tranche II – 300	3 years from disbursement (June 2025)	3.90% p.a.
	Tranche II – 100	5 years from disbursement (June 2028)	4.60% p.a.

The repayment terms are as follows: ***(MUR Million)***

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Principal	0	0	100	300	0	0	100