Tropical Paradise Co. Ltd ("TPCL")

December 21, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Term Loan I	485 (Reduced from 500)	**CARE MAU A-; Negative [Single A minus; Outlook: Negative]**	**Reaffirmed**
Term Loan II	2 (Reduced from 3)		
Total	**484**		

Rating Rationale

The rating assigned to the term loans of Tropical Paradise Co. Ltd ("TPCL"), continues to derive strength from re-opening of international borders and the continuous increase of tourist's arrivals and business travellers in Mauritius. The rating also derives strength from its experienced and resourceful promoters- Eclosia group, having a controlling interest of 53.39% in TPCL, through its subsidiary's companies Indigo Hotels & Resorts Ltd and Management & Development Company Limited, which has a long track record, of operations and strong presence of TPCL in the business hotel sector of Mauritius, popularity of the 4 hotels (Labourdonnais Waterfront Hotel, Le Suffren Hotel & Marina, Hennessy Park Hotel and The Address Boutique Hotel) among the business travellers due to their favourable locations, commercial agreements with airlines and corporates, satisfactory average room revenue (ARR) and occupancy rate and diversified source of revenue with significant contribution from Food & Beverage (F&B) segment and agreements with leading Online Travel Agents (OTAs).

The rating strengths are however constrained by the financial risk and in response with the cash flow impact of COVID 19 pandemic, environmental risk and foreign exchange risk.

Outlook: Negative

The outlook is 'Negative' based on the current economic slowdown of European countries and losses posted during Q1FY23. The outlook will be revised to stable on improvement in financial performance during FY23 turning from loss to net profit.

Rating Sensitivities

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

- Ability to regain the pre-Covid ARR and occupancy rate of its hotels
- Restoring the pre-covid business performance for all the hotels.
- Reduction in debt levels on consistent basis.

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

- Any new debt funded expansion or acquisition
- Inability to increase occupancy rate of the hotels
- Sharp decline in ARR/RevPAR of the hotels

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

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BACKGROUND

Tropical Paradise Co. Ltd. ("TPCL") was incorporated in 1994 by Eclosia Group, to develop and operate business hotels in business districts of Mauritius. Eclosia through its subsidiary companies, Indigo Hotels & Resorts Ltd and Management & Development Company Limited has a controlling interest of 53.39% in TPCL. The Company's ultimate beneficial owner is Mr. Michel de Spéville.

TPCL currently owns and manages 4 properties in Mauritius (3 properties directly under TPCL and one under subsidiary; Hotel Chambly Limited). As at December 2022, TPCL has 367 rooms in Mauritius. Since inception, TPCL has positioned itself as one of the leading business hotel chains of Mauritius. Various properties of TPCL are extremely popular among the business traveller, given its location, its attractive price range and various amenities provided.

The journey started with setting up of a 5-star business property - Labourdonnais Waterfront Hotel in 1996, at Caudan Waterfront, Port Louis, which is the main business district of Mauritius. Following the success of the first hotel, TPCL opened the second hotel in 2004, the 4-star Le Suffren Hotel & Marina on the prime waterfront location at Caudan, Port Louis.

In 2011, TPCL acquired and re-branded Hennessy Park Hotel (previously known as The Link Hotel), a 4-star business hotel in the hub of Ebene Cyber City, through its 100% subsidiary Triamad Co. Ltd, which was created for such acquisition. Triamad was then amalgamated into TPCL on 1st July 2018. In 2013, TPCL opened Le Suffren Aparthotel, Mauritius's first executive apartments designed for the business traveller on a longer stay. TPCL also developed I Spa Fitness and Wellness Club in its various hotels, to become a unique "under one roof" beauty, wellness, and fitness center for guests. In 2014, TPCL renovated and refurbished The Address Boutique Hotel ("The Address"), a property of Hotel Chambly Limited ("HCL") in the residential village of Port Chambly and launched it as a 4-star hotel. Till December 2017, HCL was owned by MCB group and managed by TPCL. In January 2018, TPCL acquired 100% stake in HCL from MCB. In 2018, TPCL, through HCL, acquired Les Villas Chamblynes, a property rental company that offers short holiday lets and long-term stays in Port Chambly.

Management: TPCL is a professionally managed company governed by a Board of 13 directors, comprising of 2 Executive Directors and 11 Non-executive Director. TPCL has a team of experienced professionals who have successfully maneuverer through the entire hospitality cycle. The day-to-day operations of the company are looked after by Mr. Rolph Schmid and assisted by a team of experienced professionals. He joined TPCL in 2004 and was promoted as Managing Director over last 17 years, where he brought his highly engaging vision of management to the team. He has played an active role in the development of TPCL's operations in Mauritius. He assumes the responsibilities of all operational functions. The financial department is headed by Mr. Warren Leung who joined TPCL in November 2022 to replace Mr. David Christine (was appointed Manager in 2016). Mr. Philippe de Bragard Hardy is the Chairman.

CREDIT RISK ASSESSMENT

Experienced and resourceful promoters with long track record of operations

Indigo Hotels & Resorts Ltd, a subsidiary of Eclosia Group, holds 48.88% of TPCL. The founder of Eclosia Group, Michel De Speville, has been engaged in hotel industry of Mauritius since 1994, through TPCL, under the brand name of Indigo Hotels. Incorporated in 1969, Eclosia evolved in a few decades from a start-up into a diversified and robust group in the Mauritian economic landscape. The company's activities are in six sectors: Food, Commerce, Logistics, Business Services, Education, and Hotels & Leisure.

In 1990's, the group expanded its operations in Africa and in the Indian Ocean region, mostly in Madagascar. With more than twenty companies under its wings, the group employs over 4,000 people. With revenues close to Mur 15 billion, Eclosia is in the Top 5 of the biggest Mauritian groups. The other major shareholders of TPCL are ENL Limited (13.37%), Promotion and Development Ltd (12%) and Swan Life Ltd (11.76%).
Swan Life Ltd, incorporated in 1951, is one of the leading players in the life insurance business in Mauritius with 45% market share in Life Insurance business of Mauritius (No. 2 player in Life Insurance market of Mauritius). Currently the company had a network of 5 branches Mauritius.
ENL Limited [CARE MAU A; Stable] incorporated in 1985, is one of the large conglomerates in Mauritius, developing and managing a portfolio of more than 100 operating companies engaged in diverse industries from agriculture, land, real estate, hospitality, logistics, fintech, commerce and manufacturing. Agriculture, land and property are the major business segments of ENL.
Incorporated in 1984, Promotion and Development Ltd ("PAD") is an investment company that specializes primarily in owning real estate assets. It holds the majority stake in Caudan Development Limited (70.6%) and as the manager of that company, the company is closely involved with the Caudan Waterfront project. MCB Group holds stake in PAD via Fincorp.

Strong presence in the business hotel sector of Mauritius
In last 25 years of operations, TPCL has established itself as the leader in the business and city hotel categories in Mauritius. Labourdonnais Waterfront Hotel (5* property), Le Suffren Hotel & Marina (4* property) and Le Suffren Apart' Hotel are strategically located at Caudan waterfront Port Louis, which is the primary business district of Mauritius hosting the parliament & embassies and offices of most of the Banks, Insurance companies, Central Bank and Supreme Court. All these are within close vicinity from the hotel. Most of the international business travellers prefer to stay in these 2 hotels for easy access to Port Louis. These are the 2 most popular and renowned business hotels in Port Louis with no major competition in 5-4-star category.
Hennessy Park Hotel (4* property) is located at Ebene, a newly developing commercial technological hub. The offices of most of the Audit houses, Corporates, financial companies, telecom companies, IT companies, GBC companies, banks and management schools are in Cyber City Ebene. Because of the dearth of space and high rentals in Port Louis, most of the new office construction is happening in Cyber City Ebene. Vivea Business Park, another upcoming business district of Mauritius, is also located within the range of 5-6 km from Hennessy Park Hotel. Currently, Hennessy Park is the only 4* category hotel in Ebene. However, over the next 5 years, around 2-3 hotels properties are expected to be operational with around 300-350 room keys.
The Address Boutique Hotel is located at Terre Rouge, near Jingfei, an industrial area dominated by the Chinese population. With total of around 550 employees and 600,000 visitors every year, TPCL has been one of the leading business hotel chains in Mauritius.
Over the last 4 years, TPCL has renovated its existing hotels, and has implemented professional hospitality services (IT, laundry, linen, retail stores selling souvenirs) and remodelling of both public areas and rooms. In FY22, TPCL operated with 367 rooms in Mauritius (4-5* category).

Coronavirus (COVID-19) Outbreak, related travel restrictions and national lockdown in 2020

Since March 20, 2020, Government of Mauritius has restricted the country's air access and imposed a curfew-like lockdown till June 1, 2020, because of covid-19 pandemic. As a result, most hotels suspended their operations for an indeterminate period (until air access restrictions are lifted) to cut down variable costs because air travel restrictions meant that there would be no travellers and hence minimal revenue to the hotels until normal air access is restored. The country reopened fully from June 1, 2020, and from August 1, 2020, international borders were reopened for repatriation of Mauritian residents and occupational/resident permit holders.

From October 2021, the borders were reopened fully, thereby allowing only vaccinated travellers with a negative PCR test without quarantine on the Mauritian territory. The successful acceleration of the country's vaccination program has allowed Mauritius to progress with the full reopening and welcome visitors in a safe and secure environment. Additionally, The Mauritian government prioritized tourism workers and hotel staff in the vaccine rollout to ensure visitors will be welcomed within the sanitary protocols.

Covid Impact on TPCL: TPCL's operations were also directly impacted with the imposed conditions. The company primary focus remained stringent liquidity management, reduction of fixed expenses and continuous evaluation of further saving measures. The entire senior executive team has maintained voluntary cut throughout the financial year to assist the Group to stay afloat during the crisis. In addition, the Directors have waived in full or partly their renumeration for the year. The Group was unfortunately exposed to financial risk and in response with the cash flow impact of COVID 19 pandemic, the Group has secured adequate banking facilities.

From October 2021, since reopening of borders, the hotels are operating at an average occupancy rate of 75% as at November 2022. Based on their current order book position, the management feels they will be able to pave way towards recovery and they are expecting a significant improvement in profitability for FY23. There has been an increase in demand for rooms as the number of travellers visiting the island has increased and the other hotels are packed.

Improved financial performance

The performance was impacted in FY21 due to the pandemic and the various measures taken by the authorities to curb the spread of the virus. As such the focus over the last financial year was geared towards the optimization of food and beverages activities with local clients. In FY22, total revenue of TPCL company increased by 55% over FY21 with the recovery of international travelling since borders reopened and restrictions were lifted. There was an improvement in EBITDA from a loss of MUR 89 million in FY21 to a gain of MUR 29 million in FY22. PAT losses were also reduced from MUR 165 million in FY21 to MUR 77 million in FY22. As on June 30, 2022, TPCL had a long-term debt of MUR 616 million and overall gearing as per CRAF's calculation was at 0.97x as on June 30, 2022, with the covid 19 support loan program (0.84x as on June 30, 2021). The management is expecting its financial situation to improve despite the challenging economic environment.

For the quarter Q1FY23, TPCL incurred a loss of MUR 25 million however FY23 is expected to be profitable.

At group level we note that in FY22, total income recorded a steady rise of 131%. EBIDTA recorded progress from MUR 112 million negative in FY21 to MUR 9 million positive in FY22. Loss after tax also decreased from MUR 202 million to MUR 114 million. Gearing as per CRAF's calculation was 1.30 times.

Performance of Labourdonnais Waterfront, Hennessy Park Hotel, Le Suffren Hotel & Marina and The Address Boutique post COVID-19

Labourdonnais Waterfront Hotel ("LHL") is one of the leading 5* hotel in Mauritius. Since its creation, it has stood up as the flagship of TPCL group, as the gateway to the cultural and historical heritage of Mauritius. It is strategically located in the heart of Mauritius capital city, on the waterfront of Port Louis. Just 45 minutes from the airport, the Labourdonnais' proximity to shops, restaurants, market, Champs de Mars, the Caudan Waterfront complex, museums and business area means that it's yours to explore at your leisure. The hotel has a mix of classic room, deluxe room, executive club room, junior suite, luxury suite, penthouse and prestige suite falling in the range of MUR 8,500 - MUR 10,000 per night. The hotel offers a blend of Asian fusion of Thai, Vietnamese, Chinese and Japanese signature dishes in Yuzu restaurant, one of the popular restaurants in Mauritius. This apart hotel also provides a conference center, fitness & wellness club, kids care and complimentary sunset catamaran cruise. The property remained focused on capitalizing the food and beverage operations thus culinary promotions and new menu concepts were launched successfully.

LHL has annual contacts with the airlines like British Airways and Condor, since more than 10 years. Under the contract fixed number of rooms are booked for which the company earns an assured revenue irrespective of the occupancy. In October 2021 with the opening of the borders, British Airways and Condor have resumed their operation, and has booked 39 rooms per day for next 5 years.

Le Suffren Hotel & Marina is a 4*-star hotel incorporated in 2004. It is located at the heart of Mauritius capital city, on the prime waterfront of Port Louis. The hotel is a 45-minute drive from the airport and is within easy walking distance of the historical city center and business district as well as the Caudan Waterfront with shops, restaurants, and cafés. The hotel has a mix of classic rooms, superior rooms and junior suites falling in the range starting from MUR 4,000 – 6,600 per night. Guests can enjoy seafood and international cuisine in its 2 restaurants and 2 bars. This hotel offers a wide variety of events and leisure facilities and also provide conference center, spa fitness and wellness club and catering services. The hotel is also popular and gets booked by the crews & guests of the cruises stopping at Port Louis.

Le Suffren Hotel & Marina was not spared from the circumstances arising from COVID-19 and was closed from March 2020 to June 2020. In normal operational conditions hotel has derived around 46% of its revenue from room accommodation. Unlike the previous financial year, the hotel maintained the room accommodation offer during the confinement period and hosted a minimal number of guests after their release from the compulsory quarantine period.

Hennessy Park Hotel ("HPH") is one of the leading 4-star business hotel. It is conveniently located where more than 300 companies operate in the hi-tech business park of Ebene Cybercity. It is just 15 minutes away from the capital city of Port Louis and 35 minutes from the international airport. The hotel has a mix of classic room and junior suite falling in the range starting from MUR 4,000 to MUR 6,200 per night. With 2 restaurants and 2 bars Hennessy offers a choice of contemporary and eclectic restaurants serving up diverse cuisines from local favorites to Japanese flavors. The hotel has a lounge bar called Backstage, a popular venue for entertaining any time of the day. This hotel also provides a conference center, wellness and spa center, kids care and catering services. Hennessy has in place the contacts with British Airways and IMF.

The major contribution to revenue in Hennessy is from the F&B section. During the normal operational conditions, the hotel derives around 60% of its revenue from F&B on account of higher sales of food and beverages, arising out of quality food served by the hotel and its convenient location.

The Address Boutique Hotel ("The Address") is a 4-star hotel comprising of 240 individual villas, 30 villas RES, and a 42-room hotel with 12 suites. The main activity is to own and operate The Address Boutique Hotel and to manage rental, provide housekeeping and maintenance services through Les Villas Chambly to a group of homeowners of villas and apartments located next to the hotel. The Address is 45km from the airport and is centrally located just 10 minutes from the capital, Port Louis, and 15 minutes from the beaches and attractions of the north of the island. The Address has a mix of classic rooms, superior rooms and junior suites ranging between MUR 3,500 to MUR 4,500 per night. The hotel offers Japanese and Mediterranean food in its 2 restaurant and 2 bars. This apart hotel also provides conference center, wedding and corporate events, wellness and spa kids care and catering services.

The major contribution to revenue in The Address was from the F&B section. The attractive location (viewing the sea) of the hotel attracts lot of corporates, individual to conduct their meetings, conferences and celebrations making an increase in F&B revenue and contributing to overall revenue increase.

Environmental risk

The properties of Labourdonnais Waterfront Hotel and Le Suffren Hotel & Marina are located on the seafront, making it be potentially vulnerable to changing climatic conditions, namely through sea level rise, amongst others. As reported in Special Investing Report of Mauritius by Financial Times, Sea levels in Mauritius are increasing at an average rate of 5.6 mm a year, are a particular danger to the hotels located near the seafront. This in turn may affect the tourism sector of the country. The company has taken insurance cover from Swan Insurance.

Foreign exchange risk

As per the management, TPCL receives approximately 15% of its revenue in Euro, exposing its profits to adverse MUR/EUR movements. Expenses denominated in Euro are insignificant.

Revival of hotel Industry

The hotel industry in Mauritius has been among the main pillars of the economy over the last two decades having contributed on average, to 7% of the country's GDP, with 1.3 million tourist arrivals registered in 2019. The total tourism earnings were MUR 63,107 million. Following the outbreak of the Covid-19 pandemic and the closure of borders for over 18 months, the level of activity in the sector was brought to a halt and for 2020 and 2021, Mauritius registered only 308,980 and 179,780 arrivals only. As at June 2022, there was a total of 106 hotels in Mauritius with 13,649 available rooms and 31,745 bed places.

Financials

Financial summary (Standalone) **Mur Million**

For the year ended as on	**Jun-20**	**Jun-21**	**Jun-22**
	12M, Audited		
Revenue	576	199	473
Total Income	599	270	507
EBITDA	4	(89)	29
Depreciation	25	76	79
Interest	32	37	40
PBT	(71)	(201)	(89)
PAT	(60)	(165)	(77)
Gross Cash Accruals (GCA)	(47)	(90)	2
Dividend paid/proposed	-	-	-
Equity share capital	1,116	1,116	1,116
Tangible networth	1,162	1,005	937
Total debt	700	842	905
- Long term debt	546	606	616
- Short term debt	153	236	289
Cash & Bank balances	10	3	21
Key Ratios			
EBITDA / Total operating income	-2.4	-0.4	0.1
Long-term debt to equity ratio	0.5	0.6	0.7
Overall gearing ratio	0.60	0.84	0.97
Adjusted gearing (including revaluation reserve)	0.47	0.60	0.60
Interest coverage (times)	0.1	NM	0.7
Current ratio	0.9	0.6	0.6
Avg. Collection Period (days)	80	203	116
Avg. Inventory (days)	35	53	40
Avg. Creditors (days)	72	108	106
Op. cycle (days)	43	148	50

Financials – Summary table (Consolidated) ***Mur Million***

For the year ended as on	Jun-20	Jun-21	Jun-22
	12M	12M	12M
Revenue	658	237	549
Total Income	685	322	590
EBITDA	-26	-112	9
Depreciation & amortisation	26	84	89
Interest	37	42	46
PBT	-89	-238	-126
PAT	-78	-202	-114
Gross Cash Accruals (GCA)	-63	-118	-25
Dividend paid/proposed	0	0	-
Equity share capital	1116	1116	1,116
Tangible networth	1127	934	830
Total debt	802	951	1,118
Cash & Bank balances	10	3	4
Key Ratios			
EBIDTA / Total income	-3.8	-0.3	0.0
Long term debt to equity ratio	0.6	0.7	0.9
Overall gearing ratio	0.7	1.0	1.3
Adjusted gearing (including revaluation reserve)	0.5	0.7	0.7

Adjustments

1. Total Income includes revenue from others (Management fees/Interest Income, rental income, etc.)
2. Gross Cash Accruals (GCA) is calculated as PAT + Depreciation + deferred tax + other non-cash expenditure less Fair Value gain/loss.
3. Tangible networth (TNW) is calculated by adding compulsorily convertible preference shares.
4. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Networth.

Annexure I

Details of Instrument

Investors	Particulars	Amount (MUR Million)	Repayment (MUR Million)	Interest Rate
MCB Bank	Term Loan 1	MUR 485	11 years (repayment in 40 quarterly instalments started from August 2021)	5.65% (Revised on Dec 2022)
	Term Loan II	MUR 2	7 years (84 monthly instalments starting from December 2019)	5.65% (Revised on Dec 2022)

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