

MaxCity Property Fund Ltd ("MPFL")

CRAF assigns 'CARE MAU A- (SO); Stable' rating to the bond issue of USD 11.1 million (Mur 383 million) and reaffirms 'CARE MAU A (SO); Stable' rating assigned to the Senior Tranche of the bond issue of Mur 600 Million
23 August 2019

Ratings

Instrument	Amount (MUR Million)	Rating ¹	Rating Action
Bond	USD 11.1 million (MUR 383 million)	CARE MAU A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]*	Assigned
Bond – Senior Tranche	600	CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]*	Reaffirmed

**Bond issues are backed by the first charge on the leased properties of MaxCity Property Fund Ltd ("MPFL"). Interest payment on both the Bond Issues has first priority on lease rentals received by MPFL.*

Rating Rationale

The rating assigned to the new bond issue of USD 11.1 million of Maxcity Property Fund Limited (MPFL) is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Bonds, as per the terms of the transaction and is not a standalone rating of MaxCity Property Fund Ltd ("MPFL"). The structure involves pooling of various commercial properties under MPFL which has issued Mur 1,200 million of multicurrency bond (USD 16.1 million and Mur 300 million for 5 & 7 years) in April-July 2019, whereby the proceeds were utilized for buying out 50% stake of HVM Office Management Ltd (HVOM) in Maxcity Ebene Limited (MEL) and repayment of existing loan of Mur 400 million in MEL.

The rating assigned to the Bond issue of Mur 600 million is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the interest on the rated Bonds, as per the terms of the transaction and is not a standalone rating of MPFL.

The structure involves pooling of various commercial properties under MPFL which has issued 10 years bond (May 2017) of Mur 800 million (including Mur 600 million of senior tranche and Mur 200 million of junior tranche) whereby the proceeds were utilized for repayment of its existing high cost debt and investment in development of properties in a separate joint venture SPV.

MPFL is servicing the bondholders through the receipt of interest income from the lease rentals from its six properties (including 1 Cybercity) having proven track record of lease rentals. Construction of Phase 2 of 1-Cybercity is completed and the same became operational in the second half of 2018 and has shown good pick-up in occupancy.

The ratings derive strength from lease rentals being generated from properties at prime location, with reputed and diversified tenant base, high occupancy ratio & retention rate of tenants in these properties and comfortable coverage ratios. The rating also derives strength from experienced promoters and MPFL being a part of MaxCity group which has an established track record in real estate development in Mauritius. The rating of Mur 600 million bond derives comfort from the fact that MPFL must build up Mur 300 million of cash from its surplus cashflow for repayment of 50% of the Senior Tranche Bond issue (Mur 600 million).

The ratings are constrained by shorter lease tenure compared to bond tenure, pending full leasing of entire Phase 2 of 1-Cybercity, refinancing risk at time of redemption of bonds and foreign exchange fluctuation risk.

Timely renewal of lease agreements with existing tenants to maintain high occupancy in the existing properties, successful leasing of entire Phase 2 of 1-Cybercity and finalization of mode of arrangement of funds for redemption of bonds within stipulated time are the key rating sensitivities.

Current Transaction
Buyout of entire stake in Maxcity Ebene Limited (MEL) by Fon Sing group

Maxcity Property Fund Limited (MPFL) is entirely held by the Fon sing family. Further, MPFL held 50% stake in Maxcity Ebene Limited (MEL). The balance 50% stake of MEL was held by their partners H.V. group through HVM Office Management Ltd (HVOM).

In May 2019, MPFL acquired 100% shares of HVOM (which held 50% stake of MEL) and amalgamated HVOM with MPFL, whereby the surviving company is MPFL. Post amalgamation, MEL got merged with MPFL, thus enabling MPFL to benefit from 100% of the cash flows of MEL (which owns the 1 Cyber City Ebene property).

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

MPFL has raised a new Bond of MUR 1,200 million for buying out the entire stake of HVOM in MEL (MUR 800 million) and repayment of existing loan from MCB (MUR 400 million) in MEL.

This transaction has boosted the overall cash flows of MPFL. Earlier, MPFL was only getting MUR 22.5 million annually from MEL (interest income @ 5.62% p.a. on bond issue of MUR 400 million of MEL) on the loan extended to the latter, apart from any dividend declared by MEL. Now, MPFL has access to MEL's entire cash flows net of expenses.

Impact of transaction

New bond issue (Mur 1,200 million) was raised through a mix of USD and MUR borrowings at an average rate of 4.00-4.20% p.a. It will be repaid in 2 tranches (Mur 900 million in FY2024 and Mur 300 million in FY2026).

Post new Bond issue, Senior tranche Bond holders (Mur 600 million) have pari-passu charge with the new bond holders (Mur 1,200 million). Post-acquisition of 50% stake of MEL and transfer of 1 Cyber city to MPFL, the aggregate valuation of property stands at Mur 2,850 million [1 Cyber city - Mur 1,950 million (March 2019 valuation report) and other 5 properties - Mur 900 million]. The coverage ratio for Sr. tranche bond holders will be 1.58x (i.e. above the covenant of 1.5x).

While a moderation in the interest coverage of the Sr tranche bond issue is envisaged post this transaction, still the interest coverage during the projected period is expected to remain satisfactory over 2.00x times.

The repayment of the new bond will be within the tenure of the Sr tranche. MPFL will have access to excess cashflow generated from the rentals of the 6 properties, which can be utilised for repayment of the 2 tranches. Given the shorter tenure of the bond repayment vis-à-vis cashflow, there will be a refinancing requirement for part of the bond in FY24.

Senior tranche Bond holders (Mur 600 million) are entitled to a cash build-up account which is pledged to the Noteholders Representative. As per the covenant, MPFL must deposit 50% of the repayment amount (Mur 600 million) from its internal cashflows in this account for the repayment of the Mur 600 million at maturity.

Given that MPFL has to build up cash from its surplus cashflow for repayment of 50% of the Senior Tranche (Mur 600 million), the refinance risk for Senior Tranche (Mur 600 million) will be to the extent of Mur 300 million.

The refinancing risk for new bond and the Sr. tranche bond is expected to be low considering the property value of Mur 2,850 million, high occupancy level with well renowned tenants at various properties, having favourable location, established track record and good retention rate of tenants.

Background

Incorporated on April 5, 2017, MPFL is a wholly owned subsidiary of Maxcity Properties Ltd ("MPL"), the property development arm of MaxCity Group owned by Hanwell Ltd and specialising in large scale and upmarket property development with over 25 years of experience in property development in Mauritius.

MPFL owns six properties having leasable area of 440,000 square feet (sq. ft.), three of which are Grade-A prime properties, including one operating in a niche segment designed and built specifically for retail operators in the Home DIY/Housewares sector. These properties are 1-CyberCity office building in Ebene, Centre Commercial Emerald Park, One Cathedral Square, Court View Building, Max Tower Building and Max Plaza. In July 2018, Phase 2 of 1-Cybercity was completed.

Transaction Structure of existing & new bond issue

In May 2017, MPFL has issued Bonds of Mur 800 million with 10-year tenure which have two tranches: Senior tranche of Mur 600 million [Senior Tranche rated **CARE MAU A (SO); Stable**] and Junior Tranche of Mur 200 million (Junior Tranche: **unrated**).

In April-July 2019, MPFL has issued multicurrency bonds of Mur 1,200 million (USD 16.1 million and Mur 300 million for 5 & 7 years) which has three tranches: USD 11.1 million [**CARE MAU A - (SO); Stable**], USD 15.0 million [**unrated**] and Mur 300 million [**unrated**].

The bondholders have first charge on the six properties (including 1 Cybercity) owned by MPFL alongwith the Senior tranche of Mur 600 million. MPFL has income in the form of lease rentals from six owned properties (including 1 Cybercity) properties which is being utilized for interest payment to MPFL's bondholders and debt repayment.

Utilisation of existing & new Bond proceeds:

MPFL has utilized the proceeds to repay the existing debt on properties, towards issue expenses and towards loan/investment in SPV for land parcelling.

MPFL has raised a new Bond of MUR 1,200 million for buying out the entire stake of HVOM in MEL (MUR 800 million) and repayment of existing loan from MCB (MUR 400 million) in MEL.

As per Provisional Accounts of FY18 (January - December 31), Total income of MPFL was Mur 94.0 million with a PBT of Mur 27.6 million. The occupancy ratio was around 87%.

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 sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for 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 or its associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating.

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.

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

Phone: +230 59553060/58626551 • www.careratingsafrica.com

BRN: C14127054 • FSC License No.: CR14000001

Annexure I

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. A suffix of '(SO)' may be added to the rating indicating that the instrument / facility is a "Structured Obligation". A prefix of 'Provisional' may be added to a 'SO' rating indicating that the rating is subject to completion of certain conditions.

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.