

Lavastone Ltd ("Lavastone")
12 November 2019

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating ¹	Rating Action
Bond Issue	1,000	CARE MAU A-; Stable	Assigned

Rating Rationale

The rating assigned to the proposed bond issue of MUR 1,000 million by Lavastone Ltd. (Lavastone) derives strength from the satisfactory track record of CIM group, steady cash inflow from its subsidiaries/associate which own prime rent yielding properties, high occupancy level in majority of the properties, strong financial profile of 2 major subsidiaries (Lavastone Properties & Edith Cavell contributing 75-80% of cashflow to Lavastone), strong financial position of their respective tenants, majority of subsidiaries having low leverage and being profitable, longer tenure of lease agreements vis-à-vis tenor of the proposed bond coupled with demonstrated track record of timely renewal of lease agreements and comfortable coverage ratios of Lavastone.

The rating is, however, constrained by tenant concentration risk in the subsidiaries, refinancing risk at the time of redemption of the Bond and project execution risk in Riche Terre Hub, Compagnie Valomé Ltée, B59 Ltd and Victoria Station Limited.

The rating is sensitive to timely receipt of lease rentals, improvement in performance of dividend paying subsidiaries/associates, successful execution of construction/renovation projects within the envisaged cost and timelines and more than envisaged investment towards any debt funded acquisition and renovations. Ability of Lavastone to demonstrate steady cash build up from operations (Mur 80 million annually) for repayment of MUR 500 million in FY 2027 (December 2026) is major rating sensitivity.

BACKGROUND

Lavastone Ltd ("Lavastone") was originally incorporated in March 2012 as CIM Property Development Ltd, a wholly-owned subsidiary of CIM Financial Services Ltd ("CFSL" rated CARE MAU AA; Stable), mainly to hold and manage CIM group's investment in the real estate sector.

Till 2012, CFSL was part of the Rogers group, with controlling shareholders of Rogers group being the Espitalier Noel family and the Taylor family (each controlling 26.5% of the Rogers group). In 2012, the controlling shareholders restructured Rogers group which led to the Taylor Family exiting Rogers and taking control of CFSL with a holding of 53%. During that restructuring activity, CFSL had inherited few buildings (leased out for office space and commercial space) in Port Louis, an industrial park on the outskirts of Port Louis and land bank in the south west region of Mauritius.

CIM Property Development Ltd expanded its portfolio of rent yielding assets over the last few years.

In October 2018 (post receipt of all necessary Regulatory approvals including clearance from PMO's office), CFSL's Board transferred cash, property and financial assets portfolio (book value of MUR 1.1 billion) to CIM Property Development Ltd. against issue of shares. All property related entities (mainly Edith Cavell Properties, Le Morne

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

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Development Corporation Ltd and South West Safari Group Limited) held by CFSL were also transferred to CIM Property Development Ltd. CFSL also infused MUR 170 million into CIM Property Development Ltd. In November 2018, Cim Property Development Ltd. was renamed as Lavastone Ltd. and the same was subsequently listed on the Stock Exchange.

Lavastone is a holding company having investments in real estate (office space, commercial space, hotels) through its 6 subsidiaries and 1 associate. Lavastone derives its revenue as dividend from subsidiaries and associate, which in turn derives revenue by way of rentals from different properties.

Lavastone, professionally managed company, is governed by 8-member Board of Directors comprising of 3 members from Taylor family, 4 eminent professionals as Independent Director and 1 Executive Director. Mr. Colin Taylor is the Chairman of Lavastone and Taylor Smith Investment. The strategic affairs of the company are looked after by Mr. Nicolas Vaudin (MD), who joined Lavastone in 2017 and has more than 10 years of experience of working in the Mauritian real estate industry, and his team.

FINANCIAL PERFORMANCE

Standalone Financial performance of Lavastone

Mur Million

For the year ended as on	Sep-17	Sep-18	Sep-19
	Audited		Prov.
	12M	12M	12M
Total Income (Dividend + Interest)	0.0	15.0	54.1
EBITDA	-1.3	14.6	49.4
Depreciation	0.0	0.0	0.0
Interest	1.4	0.0	0.0
PBT	-2.7	5.7	49.4
PAT	-2.7	3.2	48.2
Gross Cash Accruals (GCA)	-2.7	3.2	48.2
Dividend paid/proposed	0.0	0.0	13.6
Financial Position			
Equity share capital	519.5	450.0	1721.1
Tangible networth	516.7	1025.4	1758.2
Total debt	51.9	0.0	78.5
- Long term debt	51.9	0.0	0.0
- Short term debt	0.0	0.0	78.5
Cash & Bank balances	0.0	47.6	0.0
Key Ratios			
Profitability (%)			
EBITDA / Total operating income	NM	97.79	91.35
PAT / Total income	NM	21.26	89.05
ROCE- operating (%)	NM	1.84	2.68
RONW (%)	NM	0.41	3.46
Solvency			
Long Term			
Long-term debt to equity ratio	0.10	0.00	0.00
Overall gearing ratio	0.10	0.00	0.04
Interest coverage (times)	0.00	146.30	494.16
Long-term Debt/EBITDA	0.00	0.00	0.00
Total debt/EBITDA	0.00	0.00	1.59

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In FY19, (Oct1-Sep30), Lavastone has achieved a revenue of MUR 54 million, mainly from dividend income MUR 43 million, and PAT of Mur 48 million.

Adjustments

1. Tangible network is calculated by netting off revaluation reserve, and non-purchased intangible assets from total equity.
2. Gross Cash Accruals (GCA) is calculated as PAT+ Depreciation + deferred tax+ other non-cash expenditure.
3. Overall Gearing ratio is calculated as total debt (long term and short-term debt)/Tangible Network.

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Annexure I**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.

Disclaimer

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Contact us**Contact**

Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact**Chief Rating Officer**

Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5995 3060
E-mail : vidhya.sagar@careratingsafrica.com

Group Head

Name : Ms. Pooja Appadoo
Phone : +230 5290 2000
E-mail : pooja.appadoo@careratingsafrica.com

About CARE Ratings (Africa) Private Limited:

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.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.

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