Lavastone Ltd ("Lavastone")

20 November 2020

Ratings

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

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 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 (around MUR 40 million annually on a cumulative basis for repayment of MUR 500 million in FY28/October 2027 and another MUR 40 million on a cumulative basis for repayment of MUR 500 million in FY29 /October 2028) 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; Negative), 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.

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

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 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 9-member Board of Directors comprising of 3 members from Taylor family, 4 eminent professionals as Independent Director and 2 Executive Directors. 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-18**	**Sep-19**
	Audited	
	12M	**12M**
Dividend income	-	43.1
Interest on loan given to subsidiaries		17.4
Other income	15.0	-
Total Income	15.0	60.5
EBITDA	14.6	55.7
Depreciation	-	-
Interest	-	-
PBT	5.7	55.7
PAT	3.2	54.6
Gross Cash Accruals (GCA)	3.2	54.6
Dividend paid/proposed	-	13.6
Financial Position		
Equity share capital	450.0	1,721.1
Tangible networth	1,025.4	1,762.5
Total debt	-	-
- Long term debt	-	-
- Short term debt	-	-
Cash & Bank balances	47.6	14.4
Key Ratios		

Profitability (%)		
EBITDA / Total operating income	97.79	92.13
PAT / Total income	21.26	90.32
ROCE- operating (%)	1.84	2.75
RONW (%)	0.41	3.92
Solvency		
Long Term		
Long-term debt to equity ratio	0.00	0.00
Overall gearing ratio	0.00	0.00
Interest coverage (times)	146.30	557.10
Long-term Debt/EBITDA	0.00	0.00
Total debt/EBITDA	0.00	0.00

In FY19, (Oct 1-Sep 30), Lavastone has achieved a revenue of MUR 60 million mainly from dividend income MUR 43 million, and posted a PAT of MUR 54 million.

Adjustments

1. Tangible networth 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 Networth.

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.

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.

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