MaxCity Property Fund Ltd ((“MPFL”)

July 02, 2021

CRAF assigns CARE MAU A-; Stable rating to the proposed Bond issue of MaxCity Property Fund Ltd (“MPFL”) and withdraws CARE MAU A (SO); Stable rating assigned to Senior Tranche of Bond Issue

Ratings

Instrument	Amount	Rating[1]	Rating Action
Proposed Bond Issue – Long Term*	800	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Assigned
Bond Issue – Long Term**	300	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Assigned
Bond Issue**	USD 11.1 million@ (MUR 444 million)	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Bond Issue (Senior Tranche)	600	CARE MAU A (SO); Stable [Single A (Structured Obligation; Outlook: Stable]	Withdrawn

**Total bond issue size was MUR 1,000 million; however, rating is assigned to Mur 800 million only.*

*** Total bond issue size was USD 26.1 million & MUR 300 million; however, rating is assigned to USD 11.1 million and MUR 300 million only.*

@1USD=MUR40

<u>Withdrawal of Rating assigned to Senior Tranche of the bond issue of MUR 600 million</u>

Mauritius Union [Noteholder’s representative of MaxCity Property Fund Ltd (MPFL)], has confirmed that the Bond issue of MUR 600 million (Senior Tranche – rated CARE MAU A Stable) and MUR 200 million (Junior Tranche - Unrated) has been fully redeemed. Accordingly, CRAF has withdrawn CARE MAU A Stable rating assigned to the Senior Tranche of the bond issue.

Rating Rationale

The rating involves pooling of six commercial properties under MPFL which has issued Mur 1,200 million of multicurrency bond (USD 26.1 million and Mur 300 million repayable in 5th and 7th year from the date of issue in August 2019) and MUR 1,000 million of bonds (repayable in 3rd, 5th, 7th and 10th year from date of issue in May 2021). MPFL is/will be servicing the bondholders through the receipt of lease rentals (in a designated escrow account) from its six properties (including 1 Cybercity) having proven track record of lease rentals.

The rating also derives comfort from the fact that MPFL must build up 50% cash from its surplus cashflow for repayment of MUR 800 million bond (repayable in 3rd, 5th and 7th year from date of issue in May 2021).

The ratings continue to derive strength from lease rentals being generated from properties at prime location, with reputed and diversified tenant base, continued high occupancy ratio & retention rate of tenants in these properties and comfortable coverage ratios. The ratings also derive 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 occupancy rate of all the properties together was at 87% in March 2021, with occupancy rate of Phase 2 of 1 CyberCity (operational from July 2018) being 83% in March 2021.

The ratings are constrained by shorter lease tenure compared to bond tenure, vacancy in the buildings, worsening of the global situation from the pandemic affecting collection of rentals, refinancing risk at time of redemption of bonds and foreign exchange fluctuation risk.

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

Rating Sensitivities:

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

- High occupancy ratio
- Timely renewal of lease rentals with existing tenants
- Successful leasing of entire Phase 2 of 1 CyberCity
- Comfortable coverage ratios
- Ability to maintain a steady cashflow and 50% cash build up for the Bond issue of Mur 800 Million

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

- Major dip in occupancy ratio or rental income
- Lockdown due to Covid-19 pandemic impacting rental collection
- Additional debt
- Refinancing Risk -Finalization of mode of arrangement of funds for redemption of both the Bonds

Update since last rating exercise (December 2020):

- **New Bond issue:** In April 2021, MPFL proposes to raise a bond of MUR 1,000 million and utilise the proceeds to repay the existing Bonds issued on May 2017 amounting to MUR 800 million (Senior Tranche of MUR 600 million and Junior Tranche (unrated) of Mur 200 million). On May 27, 2021, MPFL successfully raised MUR 1,000 million and utilised the proceeds to repay MUR 800 million of Bonds issue in May 2017. The balance MUR 200 million is proposed to be utilised to acquire a rental generating asset.
- **Occupancy and WALE:** Overall occupancy and weighted average tenure of lease in all properties have been maintained since the last rating exercise in December 2020. Overall Average occupancy of six properties as of March 2021 was 87% (December 2020 – 87%). WALE remained at 3.1 years. The average rent per sq. ft (MUR 49 for FY20) is also in line with the projected rate considered during the last review.
- **Tenants:** EDB, a key tenant in One Cathedral Square Building with rented space of 1,394 sqm was supposed to vacate and relocate to a new building in April 2021. In February 2021, they have renewed their contract for another 1 year till April 2022, since the new building is still under construction.

  In December 2020, Ocorian reduced its rented space by 501 sqm when vacating the 12th Floor of 1 CyberCity Building. The rental space was taken up shortly thereafter i.e., in February 2021 by Astek who has signed a rental agreement for 659 sqm. The remaining vacant space of 331 sqm on the 12th Floor has been provisionally booked by another client.

  Parabole Maurice has terminated its agreement at Centre Commercial Emerald Park on December 31, 2020. The 913 sqm space will be converted into a multi-tenancy floor of 726 sqm. A new tenant has already signed an agreement to rent 222 sqm of the 726 sqm space. The management is in advanced stage of negotiation with other prospective tenants.
- **Impact of COVID-19 on rental collection:** MPFL remained resilient to the Covid-19 pandemic and lockdown in 2020. The impact on the rentals receipt was insignificant since the company's rental collection from office tenants is 84% and from retail outlet is 16%. Almost 100% of rental income from offices were collected between April 2020 to December 2020. Out of total rental income from offices of MUR 195 million (January 2020 to December 2020), only MUR 1 million is yet to be collected (has already provided for in Dec 2020 Accounts). In the retail portfolio (Centre Commercial Emerald Park) out of total rental income of MUR 39 million (January 2020 to December 2020), only MUR 6 million is yet to be collected (already provided for in Dec 2020 Accounts).

- MPFL has collected 100% of its rental in January and February 2021. Post lockdown in March 2021, the company has collected 83% of the rentals from office portfolio and has informed that the balance amount is pending due to administrative issues pertaining to lockdown. In the retail portfolio, entire MUR 3.25 million for March 2021 is pending and will be received after re-opening.
- **Increase in investment in Sottise Development Ltd (Grand Baie La Croisette mall):** MPFL holds 100% of the shareholding of MaxCity Properties GB Ltd which in turn holds 26.41% stake in Sottise Development Ltd (holding Grand Baie La Croisette mall) – profitable cashflow generating company. In FY20, Swan Limited infused MUR 250 million in MPFL. MPFL utilised these proceeds and its stake dilution in MaxCity Properties GB Ltd to increase stake in Sottise Development Ltd.
  In FY20, MaxCity Properties GB Ltd increased its shareholding in Sottise Development Ltd by acquiring additional 35.80% stake (increasing total stake to 62.21%). The transaction was financed partly by cash (infused by Swan Limited) and partly through shares offering of MaxCity Properties GB Ltd. Post this transaction as on December 31, 2020, MPFL holds 70.2% in MaxCity Properties GB Ltd, which in turn holds 62.21% stake in Sottise Development Ltd. Accordingly, MPFL's effective stake in Sottise Development Ltd has increased from 26.41% to 43.69%.

Background

Incorporated in April 2017, MPFL is a wholly owned subsidiary of MaxCity Properties Limited ("MPL"). MPFL owns six properties - two Grade-A prime properties namely 1 CyberCity and One Cathedral Square, one operating in a niche segment, designed, and built specifically for retail operators in the Home DIY/Housewares sector namely Centre Commercial Emerald Park and the three other properties are Court View Building, Max Tower Building and Max Plaza. Following the amalgamation of MEL into MPFL, 1 CyberCity (Phase 1 – 105,946 sq. ft and Phase 2 – 164,242 sq. ft), a Grade A prime property, is now under the ownership of MPFL. Accordingly, the total leasable area is 441,777 sq. ft.

As per Audited Annual Report (January - December 31), Total income of MPFL is MUR 200.7 million with a PBT of MUR 108.4 million. The occupancy ratio is 87%.

Cash Interest coverage for repayment of the Bond issues (MUR 2,000 million) is expected to remain comfortable for the projected period i.e., between 2.58-11.00x times reflecting the ability to absorb non-receipt of some of the lease rentals due to delay in renewal of lease post expiry. Interest is paid prior to payment of management fees. Refinancing USD & MUR Bonds at maturity will not be an issue due to high occupancy level with well renowned tenants at various properties, established track record and good retention rate of tenants. In addition, considering low LTV, refinancing risk would be low.

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 may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CRAF 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.

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.

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