HV Holdings Ltd

December 09, 2022

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Proposed Bond (long term)	1,500	**CARE MAU BBB+; Stable [Triple B Plus; Outlook: Stable]**	**Assigned**
Total	**1,500**		

Rating Rationale

The rating assigned to the proposed long-term bond issue of HV Holdings Ltd (HV Holdings) derives strength from the experienced and resourceful promoters, established group with investment across diverse business verticals, professional team managing each vertical, comfortable cashflow of the income generating companies, consistent flow of income to HV Holdings and the stable operational & financial performance of the various business verticals.

The rating also takes into consideration the portfolio of properties and land bank generating rental which can be monetized, liquidity in the form of quoted shares in MCBG and SBM and the comfortable financial performance of HV Holdings with low gearing and adequate liquidity at group level.

The rating is, however, constrained by the volatility in revenue of the various business verticals, risk associated with capex and stabilization of proposed retails showrooms, foreign exchange rate risk and market risk associated with import business to Madagascar, sales risk associated with real estate vertical, interest rate risk, the moderate level of debt in the group companies and the high collection period at group level.

Rating Sensitivities

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

- Completion of significant expansion of number of retail showrooms and stabilisation of operations
- Ability to maintain steady profitability in all the dividend paying companies
- Ability to complete and sell real estate residential project in a timely manner as envisaged

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

- Additional debt both at the company & group level over and above proposed bond issue of MUR 1,500 million affecting the ability to service debt
- Delay in expansion of showrooms and stabilisation of the same. • Decline in total operating income below 15% at company level

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

Background

Incorporated in 2006, HV Holdings Ltd ("**HV Holdings**") is an investment and holding company of HV group which is controlled and managed by the Hematlal family (holding 100% stake). It is the main holding company of HV Group of entities with its main operations in Mauritius. The Madagascar entities are under Udima Ltd, owned by a Trust where HV Holdings Ltd is the beneficiary. HV Group ranks among the Top 50 groups of the Indian Ocean (ranked 26th in 2022 and 31st in 2021 in Mauritius by Business Magazine). HV Holdings consists of various subsidiaries with activities in real estate, retail and distribution, franchises of famous brands and international trade. It also has an investment portfolio of quoted shares.

HV Holdings derives its revenue as dividends, interest on loans given to subsidiaries and management fee from the various companies engaged in diversified sectors such as property & real estate, retail and distribution and import & export. The major companies are HV Retail & Distribution Ltd, HV Lifestyle Ltd, HV Property Management Ltd and HV International Ltd. Majority of the dividend is derived from HV International Ltd and from its investment in quoted and unquoted shares. However, during the projected years, HV Holdings will receive substantial amount of dividend from the other business verticals to service the debt at the holding company level. HV Holdings' consolidated revenue for FY21 was MUR 5,671 million (MUR 4,019 million FY20).

Group background: In 1970, Mr. Hematlal Veljee started the business of trade of textile and haberdashery in Antananarivo, Madagascar where he was born. In the 1990s, his two sons, Mr. Sanjeev and Mr. Roupesh joined the family business to further grow and diversify the activities of the business. In 2001, Hematlal family relocated to Mauritius and in 2004, they set up HV Holdings Ltd and Aurs (in memory of their late father). The brothers turned a single retail shop into a reputed conglomerate. The business has stood strong for more than 50 years since inception in 1970.

The Real Estate and Property cluster kicked off with the acquisition of MaxCity building in Port Louis in 2007. In 2009, HV Industries Ltd was started as a noodle manufacturing entity. The Real Estate cluster grew further with the acquisition of stake in Grand Baie La Croisette Mall (Sottise Development Ltd). In 2013, HV Group diversified into retail of home equipment and became a Samsung distributor. It launched Cosmos (retail store selling home equipment and electronic products) in Madagascar. Later on, in 2016, HV Group acquired 50% stake in Orchestra and 50% stake in FF Mega Stores Ltd (Foir Fouille) in 2018. During the same year, it also finalized the Montebello and La Salette deals, and it acquired 50% stake in Flacq Retail Park.

In 2019, HV Group acquired Le Warehouse Ltd (operating retail shops under the brand 361), obtained new franchise businesses in Mauritius and relocated HV Industries noodle factory to Madagascar. In 2021, it acquired full stake in Orchestra, Foir Fouille, KJ Mega Stores and Flacq Retail Park.

In 2022, there was a restructuring of HV Holdings Ltd and HV Industries Ltd where Mr. Roupesh took control of HV Holdings Ltd, and Mr. Sanjeev had control for HV Industries Ltd, while both brothers still work in partnership in key landmark real estate projects and for the distribution of FMCG products in Madagascar.

Management: HV Holdings is a professionally managed company. It is governed by a 6-member Board of directors comprising of three executive directors, one non-executive director and two independent directors. The strategic affairs of the company are looked after by Mr. Roupesh Hematlal who is the Executive Chairman of the group. Mr. Roupesh is the CEO of HV Holdings and has more than 25 years of experience in international trade, retail and distribution and real estate in the Indian Ocean region. He is assisted by a diverse team of experienced and qualified professionals.

Standalone performance in FY21: HV Holdings derives its revenue mainly from dividend income, management fee and loan interest receivable from the group companies and from its investment in quoted and unquoted shares. HV Holdings provides financial, legal, secretarial, administrative, and strategic support to all its group companies for which it receives Management fee. This is recurring income. In FY21, HV Holdings received total income of MUR 130 million (MUR 104 million in FY20). It posted a higher EBITDA and PAT as compared to FY20. PAT was significantly higher at MUR 288 million (MUR 82 million in FY20) due to foreign exchange gain (MUR 114 million) and fair value gain on financial asset of MUR 114 million received during the year. HV Holdings had a cash balance of MUR 650 million as of December 31, 2021. As per the management, they will be maintaining the cash of around MUR 500 million or in liquid investment to meet any working capital or repayment requirement of the group. The overall gearing was 0.38x in FY21 and same will increase to 0.78x in December 2022 following the bond issue. It paid nil dividend for the past three years. Average working capital utilization during the last 12 months was 94%. All corporate guarantee provided to any of its group companies will be subordinated to the bond.

Consolidated performance in FY21: HV Holdings consolidated witnessed growth in revenue for the past three years. In FY21, revenue increased to MUR 5,939 million as compared to MUR 4,103 million for FY20. The 44% increase in revenue is attributed to improved performance of the group companies. In FY20, performance of HV International was impacted by the pandemic as there was restrictions on air travel which have delayed fulfilment of orders and collection of revenue. As a result, the performance in FY21 was better as there was higher sales, and all orders were fulfilled.

The pandemic also led to temporary closure of all 361 outlets (HV Home Equipment Ltd) and HV Lifestyle Ltd.'s operations for two and a half months in FY20 and FY21 due to the lockdown imposed by the Government. None of the group companies had to approach HV Holdings Ltd for financial assistance aside from the capital injected in Le Warehouse Ltd, post the acquisition.

Subsequently, EBITDA and PAT were also higher in FY21 at MUR 757 million and MUR 679 million respectively. HV Holdings witnessed an upsurge in its PAT due to MUR 114 million gain on revaluation of financial asset, MUR 114 million from gain in foreign exchange and share of profits from associates amounting to MUR 26 million.

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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