

Lavastone Ltd ("Lavastone")

04 October 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating ¹	Rating Action
Bond	350	CARE MAU A-; Stable	Reaffirmed
Bond	600 (reduced from MUR 650 million)	CARE MAU A-; Stable	Reaffirmed
Proposed Bond	50	CARE MAU A-; Stable	Reaffirmed

Rating Rationale

The rating assigned to the Bond issues of Lavastone Ltd (Lavastone) continue to derive strength from the experienced promoters, steady cash inflow from its subsidiaries/associate which own portfolio of rental yielding properties located in prime location of Port Louis, stable and higher occupancy level in majority of the properties, stable financial risk profile of the major subsidiaries (Lavastone Properties & Edith Cavell), satisfactory risk profile of the tenants, majority of subsidiaries are profitable with nil outside debt, longer tenure of lease agreements vis-à-vis tenor of the liabilities coupled with demonstrated track record of timely renewal of lease agreements and comfortable cash coverage ratios.

The rating is, however, constrained by tenant concentration risk in the subsidiaries, refinancing risk at the time of redemption of the Bond and poor performance of the hotel post re-opening by end of October 2023.

Rating sensitivities

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

- Improvement in occupancy level and financial performance of dividend paying subsidiaries/associates.
- Successful execution of renovation/expansion projects in different properties within envisaged cost and timeline
- Reduction in debt and debt to EBITDA going below 3x (consolidated)

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

- Significantly large debt-funded new acquisitions and renovations not envisaged adversely impacting cash flows/debt coverage indicators.
- Non-Cash buildup of 50% from February 2024 over next 4 years for the principal repayment in Feb 2028
- Delay in renovation of hotel project and less than expected performance of the hotel post re-opening in June 2023

BACKGROUND

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

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

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properties. Lavastone was a wholly owned subsidiary of CIM Holdings Limited – holding company of CIM Financial Services Ltd (“CFSL” rated CARE MAU AA; Stable).

Kingston Asset Management Ltd (KAML) is a Mauritius based investment holding company of Mr. Colin Taylor & his siblings and Scott Investment Ltd (SIL) is held by his cousin Mr. Tim Taylor. Following a restructuring exercise by Cim Holdings Ltd, as of December 2020, Scott Investments Ltd (SIL) and KAML each had a 26.5% stake in Lavastone. As per Lavastone communique dated September 06, 2021, KAML had acquired 203,120,004 ordinary shares of Lavastone at a price of Rs 1.76/-per ordinary share and following the transaction KAML holds a total of 406,997,716 shares **representing 60.82% of stake of Lavastone and the balance 39.18% is held by public** which is listed on Mauritius Stock Exchange. Lavastone have inherited the main assets from CIM Group and has been expanding its rent yielding portfolio over the last few years.

Management: Lavastone is a professionally managed company, with experienced management. It is governed by 8-member Board of Directors comprising of 4 eminent professional as non-executive directors, 1 executive director and 3 independent directors. Mr. Colin Taylor is the Chairman of Lavastone, KAML 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 around 15 years of established track record in the Mauritian real estate industry, and his team.

Performance of Lavastone standalone in FY22: Lavastone is an investment company, and its only source of revenue is dividend received from its subsidiary/associate companies. Post restructuring and transfer of various subsidiaries under Lavastone, it started receiving income in the form of dividends from its subsidiaries which hold yielding properties. Lavastone also receives interest and capital repayments on the loans extended to its subsidiaries (over a period of 15 years). Majority of the group companies are debt free barring B59 which has availed debt from BCP Bank and BH Property Investment which has a loan from ABSA Bank. In FY22, (Oct1-Sep30), Lavastone company posted an exceptional high total income of MUR 400 million against a total income of MUR 67 million due to the one-off high dividend income of MUR 375 million from Lavastone Properties post disposal of Riche Terre Hub. It also received an interest income of MUR 23 million during the year. Accordingly, Lavastone company posted an EBITDA of MUR 389 million and PAT of MUR 374 million in FY22.

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Standalone Financial performance of Lavastone*MUR Million*

For the year ended as on	FY20	FY21	FY22
12M	Audited		
Total Income	75	67	400
EBITDA	67	60	389
Interest	10	11	14
PBT	36	50	375
PAT	35	50	374
Gross Cash Accruals (GCA)	56	50	374
Dividend paid/proposed	14	27	27
Equity share capital	1,721	1,721	1,721
Tangible networth	1,745	1,775	2,122
Total debt	345	379	465
Cash & Bank balances	-	18	5
Key Ratios			
EBITDA / Total operating income	89.04	89.07	97.29
PAT / Total income	47.00	74.34	93.68
ROCE- operating (%)	2.35	2.10	15.44
RONW (%)	2.01	2.84	19.21
Long-term debt to equity ratio	0.00	0.21	0.19
Overall gearing ratio	0.20	0.21	0.22
Interest coverage (times)	6.66	5.42	28.21
Long-term Debt/EBITDA	0.00	6.32	1.05
Total debt/EBITDA	5.17	6.33	1.20

Consolidated performance in FY22: In FY22, total income increased by 35% from MUR 217 million to MUR 293 million derived mainly from an increase in rental income from MUR 234 million to MUR 175 million. EBITDA was higher at MUR 180 million (MUR 112 million in FY21) and the group achieved PAT of MUR 180 million (MUR 162 million in FY21).

Consolidated Financial performance of Lavastone*MUR Million*

For the year ended as on	Sep-20	Sep-21	Sep-22
	12M, Audited		
Total Income	197	217	293
EBITDA	99	112	180
Depreciation	1	3	5
Interest	18	16	35
PBT	- 106	198	209
PAT	- 104	162	180
Gross Cash Accruals (GCA)	67	188	132
Dividend paid/proposed	14	29	27
Equity share capital	1,721	1,721	1,721
Tangible networth	2,744	2,876	3,013
Total debt	437	665	857
Cash/Bank	29	63	80
Key Ratios			
EBITDA / Total operating income	50.13	51.54	61.41
PAT / Total income	-52.94	74.77	61.50
ROCE- operating (%)	3.10	3.13	4.55
RONW (%)	-3.72	5.77	6.12
Long-term debt to equity ratio	0.03	0.21	0.26
Overall gearing ratio	0.16	0.23	0.28

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For the year ended as on	Sep-20	Sep-21	Sep-22
	12M, Audited		
Interest coverage (times)	5.57	7.17	5.16
Long-term Debt/EBITDA	0.64	3.11	3.86
Total debt/EBITDA	2.79	4.93	4.23
Current ratio	0.28	0.84	0.87

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 II

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

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. Our 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.

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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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