SPICE FINANCE LTD
15 April 2024

Rating Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Bond Issue	**MUR 150 million**	**CARE MAU A-; Credit Watch with Developing Implications**	Continues on 'Credit Watch with Developing Implications'
Proposed Bond Issue	**MUR 350 million**	**CARE MAU A-; Credit Watch with Developing Implications**	Continues on 'Credit Watch with Developing Implications'
Total	**MUR 500 million**		

Rationale for Credit Watch with Developing Implications: The rating assigned to SPICE FINANCE LTD (**"SFL"**) is continued to be placed under Credit Watch with Developing Implications on account of the proposed Management Buyout of United Investments Ltd (ultimate shareholder of SFL) investments in AXYS Ltd. **CRAF would continue to monitor the developments in this regard and will take a view on the ratings once the transaction is completed and impact on the credit risk profile of SFL including future business strategy is clear.**

Rating Rationale

The rating assigned to the bond issues of SFL continues to derive strength from the long and satisfactory track record of SFL in the provisioning of leasing facilities, highly professional and qualified management team, competitive position and strong market share in the Mauritian leasing segment. The rating also factors in the consistent growth in yearly disbursements, continued expansion of finance lease portfolio, achievement of healthy net interest margins(NIM) and return of total assets (ROTA), while also maintaining a comfortable capital adequacy ratio, low levels of non-performing assets on total lease book and satisfactory asset-liability maturity (ALM) & liquidity profile.

The rating is however constrained by the risk associated with increasing competition in the financial services business, negative liquidity gaps between 1 to 12 months period, high deposits cost leading towards the issue of bond as an alternative source of finance and high interest rates weighing heavily on households, which may ultimately affect their debt repayment abilities.

Rating Sensitivities:

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

- Ability to expand asset book while simultaneously maintaining NNPA below 1%
- Ability to diversify the funding profile and avoid reliance on high-cost deposits.
- Reduction in overall gearing ratio below 5x on a sustainable basis

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

- Decline in CAR below 12% (Regulatory norm of 10%)
- Significant deterioration of asset quality with increase in NNPA above 3%
- Overall gearing rising above 8x with the issuance of additional bond.

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

- Breach of regulatory requirements such as liquidity requirement, credit & concentration risk and related party transactions.

BACKGROUND

SPICE FINANCE LTD ("SFL"), formerly known as AXYS Leasing, is a public limited liability company incorporated in 1997. It holds a deposit-taking license under the Mauritian Banking Act 2004 and it is also licensed by Financial Services Commission ("FSC") to conduct leasing operations.

SFL is a wholly owned by AXYS Group Ltd ("**AXYS**"), which in turn is an 80% subsidiary of AXYS Ltd, with United Docks Ltd holding the remaining 20% stake. The ultimate parent company of SFL is United Investments Ltd ("UIL") which controls 100% of AXYS Ltd.

SFL started its leasing operation in 2004, as a Non-Banking Deposit Taking Institution (NBDIT) with the main objective to provide leasing facilities (both operating and finance lease) to individuals and corporates by raising deposits from public (individuals and corporates). The company has grown to become among the largest leasing companies in Mauritius with nearly MUR 3,868 million as asset under management as on 30 June 2023. SFL provides Finance Lease, Operating Lease and Sale & Leaseback services. SFL facilitates the purchase of movable assets and equipment for corporates, individuals and SMEs.

Finance Lease : Under finance leases (also referred as capital lease), all the risks and rewards relating to asset ownership are transferred to the lessee. The lessee makes regular fixed repayments to the lessor (SFL) over a specified period of time. For investments in finance leases, the assets under lease are registered under named of SFL until the lessee pays the full contractual amount due, following which, the ownership of the asset is transferred to the name of the lessee. Under finance lease agreements, SFL retains the underlying asset as collateral and in case of non-repayment or default from the lessee, SFL has the right to repossess the underlying assets. The duration of finance lease agreements generally varies between 60 to 84 months.

Operating lease. Under operating lease agreements, the lessee obtains the right to use the underlying asset in exchange for fixed regular payments to SFL for a specified time period. Under this facility, the risks and rewards are not transferred to the lessee and the asset remains in the books of SFL which retains the ownership of the asset following the expiry of the lease agreement.

Sale and Leaseback. Under this facility, a client owning an asset has the option to sell the asset to SFL against cash and the asset is then leased back to the client by SFL against lease rental payments. At the end of the contract, the lessee can exercise his call option allowing him to recover the asset at its residual value (normally 1% of the value of the asset at purchase).

SFL finances its leasing portfolio by raising deposits from individuals and corporates for terms ranging from 1 to 72 months. The interest rates on these deposits are either at fixed or floating rates and vary between 1.25% to 7.65%.

Management: SPICE FINANCE LTD is a professionally managed company which is governed by 7-member Board of Directors. Mr. Espitalier Noel Patrice Jean Pierre Edouard is the successor of Mr. Sylvain Pascal as the Chairperson of the board. Mr. Vikash Tulsidas and Mrs. Vijeyalutchmee Monien Mootoosamy are the two executive directors at SPICE

FINANCE LTD. Mr. Tulsidas is the CEO of SFL and he is responsible for the effective running of the day-to-day operations of the Company and acts as the main point of contact between the Board and the senior management of SPL. Mr. Tulsidas was appointed as Director of SPL in October 2013 and became its CEO in February 2017.

Update on proposed Management buyout: In August 2021, United Investments Ltd (ultimate shareholder of SPICE FINANCE LTD), announced the proposed sale of its investments in AXYS Ltd to the management of different companies of the AXYS Group. Further on 04 February 2022, UIL has confirmed entering into a non-binding Term Sheet concerning the sale of all its operational financial services investees (AXYS Ltd) and it was at the time negotiating the Share Purchase Agreement and its commercial terms. On 21 July 2022, United Investments Ltd ("UIL") announced that a Share Purchase Agreement (SPA) had been signed with Alternativ Capital Investments ("ACIL"). ACIL is a consortium led by Senior Management of AXYS Group together with local and foreign shareholders. The SPA was subject to a number of Conditions Precedent including regulatory approvals and the deal was expected to be finalized by latest 30 September 2022. On 06 October 2022, UIL announced that the Completion date of the SPA between the Company and ACIL had been extended from 30 September to 30 November 2022. However, as on date, the deal is still not finalized. The management of SFL stated that there is still no clarity on the date of completion of the SPA.

Improved financial performance for SPICE FINANCE LTD

Barring FY21 where the finance lease portfolio did not experience a major growth, SFL has recorded consistent increase in interest income. Despite the low interest rates which prevailed, a 15.59% expansion in finance lease assets has contributed to a 10.16% increase in interest income in FY22. This was however, offset by a 12.05% decrease in other operating income because of the strategy of the company to shed its operating lease business and focus on finance leases.

The low interest rate environment has helped in maintaining interest expenses on deposits at lower levels during FY21 and FY22, compared to FY20 and previous years, despite a 9.78% growth in the deposit book at end of FY22. The improved economic conditions as from the beginning of 2022 has eased the strain on both corporates and individuals and hence, provided confidence that their credit worthiness would improve. As a result, a lower level of provisioning was made for the year. The above factors combined have led to a 24.29% increase in PAT for FY22.

The hike in interest rate as from the end of FY22 was adequately managed by SFL as demonstrated by the FY23 financial performance. In June 2022, the key rate was 2.25% and it increased to 4.50% in December 2022. Eventually, the cost of capital to finance the lease book followed the same trend with an increase of 31% from MUR 110 million to reach MUR 144 million in FY23. To hedge against rising interest rate, in FY23, SFL maintained approximately 49% of its finance lease book as floating rate leases and combined with the increase in disbursement by 14% from MUR 1,428 million to 1,625 million, the company posted MUR 323 million (FY22: MUR 243 million) as interest income. Income was generated mostly from leases while around only MUR 3 million was generated from excess cash parked into investment securities. Profit after tax was MUR 111 million in FY23 (FY22: MUR 87 million) and net interest margin and ROTA was 4.87% and 2.59% as on 30 June 2023. Asset quality is a key determinant of the results of SFL because of the provisioning attached to non-performing assets. The company was able to expand its lease book while at the same time maintaining proper asset quality. This fact is supported by improvement in GNPA and NNPA from 2.20%

and 1.43% to 2.10% and 0.68% respectively although provisions for non-performing assets increased to MUR 56 million in FY23 against MUR 28 million in FY22. Overall gearing at 30 June 2023 was 6.97 times, almost at par with prior year level of 6.84 times but with the proposed bond issue, SFL can forecast an increase in the overall gearing ratio.

Summary of Financial Performance for SPICE FINANCE LTD **MUR million**

Year ended/ As on June 30	FY21	FY22	FY23
12M		**Audited**	
Interest income *	221	243	323
Other Operating Income **	193	170	139
Total Income	**414**	**413**	**462**
Operating expenses	45	55	53
Depreciation & amortization	127	106	85
Interest	112	110	144
PBT	84	105	132
PAT	70	87	111
Gross cash accruals	197	194	195
Loan AUM	3,205	3,577	3,868
Total assets on the balance sheet	3,634	4,023	4,507
Total capital employed	2,534	2,450	2,806
Total debt	1	-	-
Total Deposits from customers	2,942	3,229	3,708
Equity share capital	200	200	200
Tangible networth	455	472	532
Cash & Bank Balances	344	404	131
Ratios			
PAT margin	16.98	21.07	23.97
NIM (%)	3.42	3.93	4.80
Int. Income/ Int. earning assets (%)	8.24	8.24	9.02
Int. expended/ Av. Borrowed Funds (%)	3.76	3.56	4.15
Int. spread (%)	4.48	4.68	4.87
Operating Exp/ Av. capital employed (%)	2.12	2.91	2.81
Operating Exp/ Av. total assets (%)	1.73	1.89	1.73
RONW (%)	16.74	18.79	22.04
ROCE (%)	6.61	8.62	10.52
Cost of Capital (%)	3.78	7.21	7.38
Net Spread	2.83	1.41	3.14
Return on total assets (ROTA) (%)	1.94	2.27	2.59
Overall gearing	6.47	6.84	6.97
Interest Coverage (%)	2.88	2.93	2.51
Gross NPA (%)	2.65	2.20	2.10
Net NPA (%)	1.68	1.44	0.68
Net NPA / Net worth (%)	11.57	10.74	4.98
Capital Adequacy ratio (%)	15.76	15.03	15.69

**** Includes interest income on finance lease, bank balances and investment in securities.***

***** Includes rental income from operating lease, facility & penalty fees and profit on sale of assets.***

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.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated facilities 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.

Contact us

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

Analytical contact
Chief Rating Officer
Name : Mr. Vidhyasagar Lingesan
Phone : +230 5273 1406
E-mail : Vidhya.sagar@careratingsafrica.com

Group Head
Name : Ms. Pooja Appadoo
Phone : +230 5955 3060
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.