Swan Bonds Ltd
24 september 2024

Rating

Instrument	Amount	Rating[1]	Rating Action
Proposed Senior Secured Credit-Linked Bonds (CLBs)	**MUR 650 million**	**CARE MAU AA (SO); Stable#**	Assigned

 # The rating is based on the credit enhancement (CE) structure of the CLBs backed by an unconditional & irrevocable buy back arrangement between Swan Bonds Ltd ("SBL") and Swan Life Ltd ["SLL" – rated CARE MAU AA+ (Is); Stable] in form of put option. SBL and SLL have entered into a buyback agreement where SLL will have an unconditional and irrevocable legal obligation to buy back the underlying assets from SBL prior to maturity of the Credit Linked Bonds (CLBs), providing liquidity to SBL to give exit to the bondholders. Additionally, the structure is also strengthened by the CE in the form of MUR 50 million as cash or cash equivalent which shall be pledged in favour of bondholders to meet interest payments on the CLBs in case there is a shortfall in interest receivable from the underlying securities.

While arriving at the rating, CRAF has relied on the legal opinion confirming that as per the agreement SBL has the option to sell any option debentures to SLL prior to maturity date of the CLBs while SLL has an obligation to purchase such option debentures from SBL. CRAF understands that even in the event of default in the underlying portfolio, SLL is under the obligation to buyback the bonds from SBL at the end of the maturity of CLBs.

Rating Rationale

The rating assigned to the Proposed Secured Credit-Linked Bonds (CLBs) issue of SBL is backed by the unconditional and irrevocable buy back agreement with SLL which effectively transfers the credit risk of the underlying portfolio from SBL to SLL and addresses the maturity mismatch between the CLBs and underlying bonds. The rating is also strengthened by the credit enhancement in the form of pledged account of MUR 50 million as cash or cash equivalent to meet the interest obligations.

Rating Rationale and Key rating drivers of SLL

The Issuer rating assigned to SLL continues to derive strength from the company being part of the Swan Group with Swan General Ltd (leading general insurance company in Mauritius and holding company of the Group) holding 82.7% stake in SLL, the successful track record of the life insurance segment in Mauritius extending over 70 years, leadership position in the Mauritian life insurance sector with around 45% market share on a Gross Premium Written basis, a highly professional & experienced management team, and satisfactory track record of meeting claims. The rating also factors in the Company's robust and well diversified investment portfolio, low levels of non-performing loans in its mortgage portfolio, highly comfortable asset-liability maturity profile combined with a strong solvency position well above regulatory requirements further support the strength of SLL.

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

The rating strengths are partially offset by moderate underwriting performance and probable impact of an ageing population of Mauritius weighing on the company's performance in the long term. Further, CRAF also factors in the SLL's investment in the group companies of Swan General's major shareholders which is well within the Regulatory concentration limit.

Rating Sensitivities of SLL:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in overall premium collections, underwriting profitability
- Sustained reduction in claims and improvement in profitability ratios
- Continuous decline in investment in Swan General's shareholder's group companies over next 2 years

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Dip in solvency ratio to 3x or below as against 6.3x as on 31 December 2022
- Weakening of profitability, capitalization, investment portfolio and solvency levels.
- Increase in gearing level above 2x.

Rating Sensitivities of SBL:

Positive Factors - Factors that could lead to a positive rating action/upgrade:

- Strengthening in the credit profile of SLL

Negative Factors - Factors that could lead to a negative rating action/downgrade:

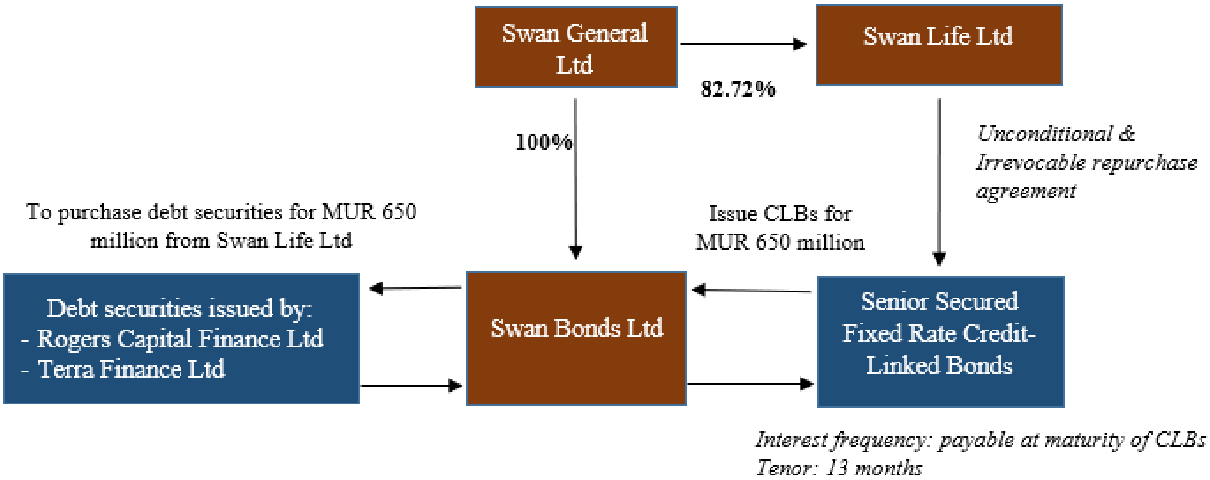
- Deterioration in the credit profile of SLL
- Inability of SLL to buy back the reference securities from SBL prior to maturity of the CLBs

BACKGROUND

Swan Bonds Ltd ("SBL") is a public limited company incorporated as a Special Purpose Vehicle (SPV) in September 2017. SBL is a wholly owned subsidiary of Swan General Ltd ("SGL"), which is also the main shareholder of Swan Life Ltd ["SLL" – CARE MAU AA+(Is); Stable], with an 82.72% stake. Both SGL and SLL are the leaders in the Mauritian general and life insurance markets, controlling close to 30% and 45% of the markets respectively.

The principal activity of SBL is to raise capital through bonds issue to investors and invest into debt securities. SBL is proposing to issue secured fixed rate credit-linked bonds for an aggregate amount of MUR 1,300 million under this program with the current issue of MUR 650 million being the first tranche of the issue program. The proceeds from the issue of the Senior CLBs will be invested into a portfolio of securities ("reference portfolio") comprising of debt securities of two Mauritian entities namely, Rogers Capital Finance Ltd (MUR 350 million) and Terra Finance Ltd (MUR 300 million), which shall constitute 54% and 46% of the portfolio respectively.

The reference portfolio is illustrated below:



SBL will rely on interest receivable from RCFL and TFL to service interest payable on the CLBs.

Rogers Capital Finance Ltd - Established in 2017 and licensed by the Financial Services Commission (FSC) of Mauritius, RCFL was set up with the objective of providing specialised financial services with particular emphasis on credit financing. Since its inception, the Company has been engaged in providing finance lease, factoring, consumer financing and unsecured loans facilities. At the start of 2023, RCFL disposed of its consumer financing and unsecured loans businesses and since then, focuses on the provision of finance leases while also providing factoring services. With a book of MUR 2,065 million as on 30 June 2023, RCFL is the fourth largest player in the finance lease sector of Mauritius with around 14% market share. For the year ended 30 June 2023, RCFL earned interest and total income of MUR 157 million and MUR 230 million respectively and generated MUR 8 million in PAT from continuing operations.

Terra Finance Ltd - TFL is a 100% subsidiary of Terra Mauricia Ltd ("Terra"), one of the largest business groups in Mauritius which started its operations more than 100 years ago in the sugarcane industry and has over the past century expanded to establish itself among the leaders in the distribution, property & leisure, construction and power generation sectors through various subsidiaries & associates which collectively form the Terra Group. The Group had total assets of MUR 25,679 million as on 30 September 2023.

TFL holds a treasury management certificate from the FSC, and its main business activity is to provide treasury management services primarily to companies under the Terra Group. For the year ended 31 December 2022, TFL earned interest and total income of MUR 178 million and MUR 189 million respectively and generated a PAT of MUR 21 million. As on 31 December 2022, the loan asset book of TFL stood at MUR 4,312 million.

On a consolidated basis, Terra Group registered total income of MUR 6,605 million and achieved a PAT of MUR 993 million for the year ended 31 December 2022.

Annexure I

Details of Rated Instrument

Instrument	Amount	Tenure
Proposed Senior Secured Credit-Linked Fixed Rate Bonds	MUR 650 million	13 months

Principal terms pertaining to the Proposed Senior Secured Credit linked Bonds

TERMS AND CONDITIONS	
Nature of Instruments	Proposed Senior Secured credit-linked fixed rate bonds
Issuer	Swan Bonds Ltd
Method of placing	Already identified Sophisticated Investors
Aggregate Nominal Amount	Up to MUR 650 million
Use of proceeds	To invest in debt securities issued by unrated entities (Reference Portfolio)
Reference portfolio	MUR 350 million - Rogers Capital Finance Ltd (54% of reference portfolio) MUR 300 million – Terra Finance Ltd (46% of reference portfolio)
Interest Payment Date	Interest is payable at maturity of the CLBs
Tenor of the bonds	13 months
Undertaking	The Issuer shall issue an undertaking: 1) To confer and inscribe a pledge on debt securities issued by Terra Finance Ltd and Rogers Capital Finance Ltd in favor of the Security Agent for the Senior Secured Bonds. 2) To confer and inscribe a pledge on a separate bank account in the name of the Issuer funded with MUR 50 million in favor of the Security Agent for the Senior Secured Bonds' holders. The MUR 50 million stems from equity invested by Swan Life Ltd in Swan Bonds Ltd and represents interest payment due on the Senior Secured Bonds at Maturity Date and additional security in favor of Senior Secured Bonds. The MUR 50 million available on the bank account can be invested in instruments issued by the Government of Mauritius. 3) To confer and inscribe a floating charge on its total assets (excluding separate bank account and any balance therein and any Govt Bonds) in favour of the Security Agent for all Bondholders.
Security Interest	**The Bonds shall be secured as follows:** 1) A pledge on debt securities issued by Terra Finance Ltd and Rogers Capital Finance Ltd in favor of the Security Agent for the Senior Secured Bonds. 2) A pledge on a separate bank account in the name of the Issuer funded with MUR 50 million in favor of the Security Agent for the Senior Secured Bonds' holders within 30 business days as from the Issue Date. The MUR 50 million stems from equity invested by Swan Life Ltd in Swan Bonds Ltd and represents interest payment due on the Senior Secured Bonds at Maturity Date and additional security in favor of Senior Secured Bonds. The MUR 50 million available on the bank account can be invested in instruments issued by the Government of Mauritius and the proceeds therefrom will be used to pay any interest payment due to the Senior Secured Bondholders at Maturity Date. 15 business days prior to the Interest Payment Date, the Issuer shall ensure that the separate bank account is funded with the amount due either from interest payment due on debt securities issued by Terra Finance Ltd and Rogers Capital Finance Ltd or proceeds from the Government Bonds (where MUR 50 million invested) if there is any shortfall. 3) A floating charge on total assets of the Issuer (excluding separate bank account and any balance therein and any Government Bonds) in favor of the Security Agent.
Status of the Bonds	The Bonds will constitute secured debt obligations of the Issuer and: • will rank pari passu without any preference among themselves within a Tranche; and • the Senior Tranche will rank senior to all Junior Secured Bonds

Disclaimer

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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 II

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".

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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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.