Lavastone Ltd

14 October 2024

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating[1]	Rating Action
Bond Issue	**MUR 350 million**	**CARE MAU A-; Stable**	Reaffirmed
Bond Issue	**MUR 550 million**	**CARE MAU A-; Stable**	Reaffirmed
Total	**MUR 900 million**		

Rating Rationale

The ratings 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, long 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 ratings are, however, constrained by tenant concentration risk in the subsidiaries and refinancing risk at the time of redemption of the bonds, the seasonal nature of the tourism and hospitality industry which can affect the performance of Mourouk Hotel.

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 over the next 4 years for the principal repayment in the year 2028.
- Delay in execution of renovation/expansion projects in different properties within envisaged cost and timeline.

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 properties. As per Lavastone communique dated September 06, 2021, KAM had acquired 203,120,004 ordinary shares of Lavastone at a price of Rs 1.76/-per ordinary share and following the transaction KAM holds a total of 406,997,716 shares representing 60.82% of

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

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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.

Financial Analysis

Standalone performance of Lavastone in FY23: In FY23, Lavastone company posted a total income of MUR 66 million against MUR 400 million in FY22. The exceptional high total income of MUR 400 million in FY22 is due to the one-off high dividend income of MUR 375 million from Lavastone Properties post disposal of Riche Terre Hub. The total income of FY23, include MUR 64 million received as interest income from loan to group companies and the remaining MUR 2 million was derived from rent. Accordingly, the company posted a lower EBITDA of MUR 46 million and PAT of MUR 7 million in FY23 against EBITDA of MUR 389 million and PAT of MUR 374 million in FY22. GCA was positive at MUR 7 million and Lavastone declared a dividend amounting to MUR 44 million. In February 2023, MUR 550 million of the bond issue was drawn and as of September 30, 2023, total debt amounted to MUR 1 billion, overall gearing was 0.48 times (September 30, 2022: 0.22 times) and interest coverage was 1.14 times.

Consolidated performance in FY23: In FY23, total income increased by 41% from MUR 293 million to MUR 414 million derived mainly from the proceeds from sale of land. Accordingly, EBITDA improved to MUR 235 million (MUR 180 million in FY22) and the group achieved a PAT of MUR 216 million (MUR 180 million in FY22). Overall gearing ratio was 0.43 times as of September 30, 2023, and interest coverage ratio was 3.38 times.

Standalone financials of Lavastone MUR million

For the year ended / as on 30 September	FY21	FY22	FY23
12M	**Audited**	**Audited**	**Audited**
Total Income	89	400	66
EBITDA	81	389	46
Depreciation	-	-	-
Interest	11	14	40
PBT	72	375	8
PAT	71	374	7
Gross Cash Accruals (GCA)	71	374	7
Dividend paid/proposed	27	27	44
Equity share capital	1,721	1,721	1,721
Tangible networth	1,775	2,122	2,085
Total debt	379	465	1,007
- Long term debt	378	409	1,007
- Short term debt (repayable within one year)	1	56	-
Cash & Bank balances	18	5	348
Key Ratios			
EBITDA / Total operating income (%)	91.72	97.29	70.11
PAT / Total income (%)	80.55	93.68	10.66
ROCE- operating (%)	3.11	15.44	-0.62
RONW (%)	4.05	19.21	0.33

For the year ended / as on 30 September	FY21	FY22	FY23
12M	Audited	Audited	Audited
Long-term debt to equity ratio (times)	0.21	0.19	0.48
Overall gearing ratio (times)	0.21	0.22	0.48
Interest coverage (times)	7.36	28.21	1.14
Long-term Debt/EBITDA (times)	4.65	1.05	21.80
Total debt/EBITDA (times)	4.66	1.20	21.80

Consolidated financials of Lavastone MUR million

For the year ended/ as on September 30	FY21	FY22	FY23
12M	Audited	Audited	Audited
Total Income	217	293	414
EBITDA	112	180	235
Depreciation	3	5	7
Interest	16	35	70
PBT	198	209	247
PAT	162	180	216
Gross Cash Accruals (GCA)	188	132	238
Dividend paid/proposed	29	27	44
Equity share capital	1,721	1,721	1,721
Tangible networth	2,876	3,013	3,207
Total debt	665	857	1,372
- Long term debt	604	786	1,336
- Short term debt	61	71	36
Cash/Bank	63	80	395
Key Ratios			
EBITDA / Total operating income (%)	51.54	61.41	56.86
PAT / Total income (%)	74.77	61.50	52.33
ROCE- operating (%)	3.13	4.55	5.22
RONW (%)	5.77	6.12	6.96
Long-term debt to equity ratio (times)	0.21	0.26	0.42
Overall gearing ratio (times)	0.23	0.28	0.43
Interest coverage (times)	7.17	5.16	3.38
Long-term Debt/EBITDA (times)	3.11	3.86	4.51
Total debt/EBITDA (times)	4.93	4.23	4.74
Current ratio (times)	0.84	0.87	3.29

Adjustments

1. Tangible net worth is calculated by netting off revaluation reserve and 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 including lease liabilities) / Tangible Networth.

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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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.