

Loinette Capital Limited
04 November 2024

Rating

Instrument/Facilities	Amount (MUR Million)	Rating ¹	Rating Action
Bank Facilities	MUR 396 million	CARE MAU AA (SO); Positive*	Revised from CARE MAU A; Stable

* *The Structured Obligation (SO) rating of Loinette Capital Limited is based on the unconditional and irrevocable Corporate Guarantee and letter of Undertaking provided by the parent company, CIM Financial Services Ltd (rated CARE MAU AA; Positive/ CARE MAU A1+), which undertakes to lenders to meet any cashflow shortfall from Loinette Capital Limited.*

Rating Rationale of Loinette Capital

The revision in the rating of the bank facilities of Loinette Capital Limited ("Loinette Capital") factors in the unconditional and irrevocable corporate guarantee and undertaking provided by the parent Company, CIM Financial Services Ltd ("CFSL"), which undertakes to meet any cashflow shortfall by Loinette Capital.

Rating Rationale and Key rating drivers of CFSL¹

The ratings assigned to the bond issues and bank facilities of CIM Financial Services Ltd ("CFSL") continue to derive strength from the long track record and dominant market position of CFSL in the consumer financing sector with a large & distributed network, sustained year-on-year growth in disbursements and loan asset book, stable returns generated from lending operations, robust collection efficiency mechanism which ensures timely and regular cash inflows, strong Capital Adequacy Ratio (CAR) providing cushion to absorb any shock in the credit risk, healthy liquidity position and comfortable gearing position. The rating also factors in the improving Gross Non-Performing Asset (GNPA) levels and improved profitability for the 9FY24 (01 October 2022 to 30 June 2024) and the experience and established track record of the promoters.

The ratings are however constrained by the high gross NPA level despite the improvement and net NPA being reduced on account of provisioning, entry of new players in CFA segment, risk associated with volatility in interest rates and the impact of elevated inflation weighing on borrowers.

Rating Sensitivities of CFSL:

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

- Sustained improvement in Gross NPA to below 9%
- Growth in disbursement & profitability on a sustained basis

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

- Deterioration in asset quality leading to the GNPA reaching close to 15% range
- Decline in the CAR to below 20%

¹ The rating rationale for CIM Financial Services Ltd is available at: www.careratingsafrica.com

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

Rating Sensitivities of Loinette Capital:

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

- Strengthening in the credit profile of CFSL

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

- Deterioration in the credit profile of CFSL

BACKGROUND

Loinette Capital Limited ("Loinette Capital"), a 75% subsidiary of CIM Financial Services Ltd ("CFSL" – rated CARE MAU AA; Positive/ CARE MAU A1+), was incorporated in the British Virgin Islands in October 1997 and thereafter re-domiciled in Mauritius in October 2019. The Company holds a Global Business License and is regulated by the Financial Services Commission ("FSC") in Mauritius. It also holds a Credit Finance License under Section 14 of the Mauritian Financial Services Act 2007. Operating in the East, Central and West Sub-Saharan Africa since 1998, Loinette Capital engages with SMEs and equipment dealers to provide asset-backed financing.

Loinette Capital provides financing to African SMEs for the purchase of equipment to be used for undertaking extractive industries, infrastructure, agricultural and materials handling projects. The financed equipment is used by clients who have obtained contracts for 1-to-5-year periods to undertake extractive industries, infrastructure, agricultural and materials handling works, and the equipment is held as collateral by Loinette Capital over the duration of the loan. The asset-backed loans are provided for periods ranging between 16 and 24 months and the interest rate charged by Loinette Capital for the year ending 31 December 2023 averaged 13% per annum.

Some of the types of equipment financed by the Company include articulated dump trucks, excavators, drill rigs, tractor loader, hoppers, crushers, bulldozers, amongst others. Additionally, Loinette Capital also finances dealers which supply the equipment to operators.

Generally, the Company finances up to 85% of the equipment value. Over the recent years, Loinette Capital has supported the development of infrastructure across Africa by providing around USD 350 million in lending to sector operators.

Loinette Capital is owned and controlled by CFSL which acquired a 75% stake in the Company in July 2023. CFSL is the leading provider of consumer credit facility in Mauritius with an 80% market share, and it also controls significant market share in the provision of leasing and unsecured loans facilities. The minority 25% stake in Loinette Capital is held by IA Bell & Company (Pty) Ltd, the majority shareholder in Bell Equipment Limited, a renowned manufacturer of mining and construction equipment across the African continent.

Financial performance of Loinette Capital Limited

During FY23, proposed bank facilities of MUR 396 million were rated for Loinette Capital Limited. However, the Company did not avail of the bank facilities till end of FY23 which explains an almost stagnant loan book as on 31 December 2023 compared to end of FY22. Interest income was slightly down by 8.92% in FY23 mainly due to a 7.42% contraction in the asset-backed loans portfolio which is the main asset class for Loinette Capital. The Company achieved a normalised PAT of MUR 26 million for FY23, more than double the prior year's PAT. The higher profitability for FY23 resulted from MUR 35 million in gains on disposal of investments in money market funds.

Despite a slight decrease, Loinette Capital continues to generate healthy returns from its lending operations as shown by the NIM and net interest spread which were at 13.32% and 13.55% respectively for FY23. Net spread earned on capital employed increased from 3.41% in FY22 to 4.73% in FY23.

During H1FY24, Loinette Capital has been growing its loan book which went from MUR 574 million as on 30 June 2023 to MUR 987 million as on 30 June 2024. The growth was partly financed from disbursement of the bank facilities (MUR 228 million) and partly from internal accruals. Owing to the larger loan asset book, the Company registered a 25% increase in interest income from MUR 53 million for H1FY23 to H1FY24. Meanwhile, the quality of the loan book has improved resulting in provision being cut to MUR 18 million for H1FY24 compared to MUR 38 million for the previous period. Overall, Loinette Capital registered an increase in PAT from MUR 16 million to MUR 23 million for H1FY24.

CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)

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Annexure I**Details of Rated Facilities**

Facilities	Bank	Amount	Tenor
Term Loan	Afrasia Bank Limited	MUR 132 million *(USD 3 million)	3 Years
Term Loan	Afrasia Bank Limited	MUR 132 million #(EUR 2.7 million)	3 Years
Short Term Loan	Absa Bank (Mauritius) Limited	MUR 132 million *(USD 3 million)	1 Year Renewable
Total		MUR 396 million	

*Applicable Exchange Rates: * USD 1: MUR 44
EUR 1: MUR 49*

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.

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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 the 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.

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