KASA INVESTMENTS LTD

25 November 2024

Ratings

Instrument/Facilities	Amount(MUR Million)	Rating	Rating Action
Bond Issue	**MUR 600 million**	**CARE MAU A (SO)*; Stable**	Reaffirmed

The Structured Obligation (SO) is on account of the credit enhancement in the form of exclusive pledge of unencumbered shares of MCB Group Ltd. (MCBG – CARE MAU AAA; Stable) & MUA Ltd (CARE MAU AA-; Positive) with over 1.7x cover and Debt Service Reserve Account (DSRA) equals to 1 year coupon payment

Rating Rationale

The rating assigned to the Bond issue of KASA Investments Ltd ("KIL") is supported by the integrity of the legal structure and the structured payment mechanism designed to ensure timely payment of the rated Bonds, as per the terms of the transaction and is not a standalone rating of the company.

The rating continues to derive strength from the credit enhancement in the form of pledge of shares of MCB Group Ltd (MCBG – rated CARE MAU AAA; Stable) and MUA Ltd (MUA - rated CARE MAU AA-; Positive) with minimum of 1.7x cover and the presence of a Debt Service Reserve Account (DSRA) – equivalent to 1 year coupon payment.

The rating also reflects the fact that a significant portion of KIL's investments consists of MCB Group Limited ("MCBG"), MUA Ltd ("MUA"), and United Docks Ltd. It takes into account the consistent dividend payments by MCBG and MUA, the lower volatility and higher trading volume of these stocks compared to most other listed stocks on the Stock Exchange of Mauritius (SEM) over the past decade, the experienced and resourceful promoter, and the satisfactory performance of KIL.

The rating is, however, constrained by the dependence of the company on dividend income from MCBG & MUA, envisaged high reliance on sale of MCBG & MUA shares or refinancing of the rated debt at the time of its maturity, the exposure to regulatory risk, the volatility in share price of MCBG & MUA – security for the transaction and decline in performance of cash generating subsidiaries.

Rating Sensitivities

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

- Investment value to debt improving to 2.5x or above;
- Increase in dividend pay-out by MCBG & MUA compared to the projected pay out leading to improved PAT for KIL; and
- Ability to maintain an interest coverage ratio above 1.5x.

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

- Additional debt affecting KIL's ability to service debt;
- Decrease in Investment value to debt or decline in share price of MCBG & MUA by more than 20%;
- Lower dividend pay-out by MCBG & MUA compared to the projected pay out which affect KIL ability to service debt/interest; and
- Deterioration in credit profile of MCBG & MUA.

BACKGROUND

KASA INVESTMENTS LTD ("KIL"), formerly known as Ducray Lenoir (Investments) Ltd, was incorporated in July 2005, as an investment holding company. KIL is a wholly owned subsidiary of KASA Group Ltd which is fully controlled and managed by Mr. Dominique Galea and his family. KIL holds investment in listed domestic companies (primarily in MUA Ltd ("MUA"), Mauritius Commercial Bank Group ("MCBG") and United Docks Ltd("UDL"). KIL also holds 50% in Horus Ltee which in turns, owns 18.73% in UDL.

As of August 2024, KIL had an investment portfolio of MUR 1,557 million (December 31, 2023 - MUR 1,638 million). Out of its investment portfolio, 98% represents investment in MCB Group Limited (55% of the total investment portfolio), MUA Ltd (27% of the total investment portfolio), and United Docks Ltd (16% of the total investment portfolio).

Management: KIL is governed by 4-member Board of Directors comprising of 4 Non- Executive Directors. The strategic affairs of the company are looked after by Mr. Dominique Galea - Chairman of the group.

Performance in FY23: KIL derives its revenue from dividends received from its investment in listed entities (mainly MCBG and MUA). MUA Ltd has declared an interim dividend of MUR 0.80 and same has been paid during August 2024 and with regards to MCB Group, the company has declared dividend of MUR 9.50 per share and payment has effected in June 2024. KIL's total income was lower in FY23 at MUR 66 million compared to MUR 169 million in FY22 due to one-off proceeds of MUR 95 million following divestment in Ducray Lenoir International and Ducray Lenoir. Accordingly, in FY23, EBITDA was also lower at MUR 65 million (MUR 168 million in FY22). However, PAT was higher MUR 193 million in FY23 (MUR 142 million in FY 22) due to fair value gain on investment amounting to MUR 165 million. Gearing was 0.67 times and Interest coverage was 1.77 times as on December 31, 2023.

Disclaimer

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CRAF's ratings do not factor in any rating related 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

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:

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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.