

Brief Rationale

CRAF assigns CARE MAU A1+ rating to the proposed Money Market Instrument of Mur 1,200 million and reaffirms the rating of CARE MAU A1+ for the Money Market Instrument of Mur 1,500 million of Mauritius Sugar Syndicate Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Proposed Money Market Instrument (MMI) (Short Term)	1,200* (enhanced from Mur 1,000 million)	CARE MAU A1+ [Single A One Plus]	Assigned
Money Market Instrument (MMI) (Short Term)	1,500*	CARE MAU A1+ [Single A One Plus]	Reaffirmed

**“The aggregate of outstanding MMI and working capital facilities shall always be within the overall sanctioned working capital limits (overdraft limit & committed money market line) of MSS of MUR 6,300 million with banks”. CRAF will monitor the MMI and working capital utilization on monthly basis.*

Rating Rationale

The rating assigned to the Short-Term Money Market Instrument of MUR 1,500 million of Mauritius Sugar Syndicate (“MSS”) for a period of 1 year was reaffirmed. CRAF also assigned CARE MAU A1+ rating to the Proposed Money Market Instrument of Mur 1,200 million for a period of 6 months. The rating continues to derive strength from the strategic importance of MSS in the sugar sector of Mauritius, professional and highly qualified management team & committee members, profit sharing arrangement independent of Government intervention, higher premium for White Refined Sugar (“WRS”) & Speciality Sugar (“SS”), efficient pricing & forex hedging mechanism, duty free access to E.U. region – getting higher premium for refined sugar, credit sales to reputed clients, robust recovery process, onboarding of the new client only on cash basis and strong liquidity.

The rating also considers the non-profit organisational structure/business model of MSS leading to restriction in building up of the net worth.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade: **Not applicable.**

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

- Delay in collection of receivables from its open account customers.

BACKGROUND

Mauritius Sugar Syndicate (“MSS”), incorporated in 1919, was legally constituted for an indefinite period in pursuance of the Mauritius Sugar Syndicate Act of 1951 (An Act of Parliament).

MSS is the sole organization responsible for the marketing & selling of all sugar produced in Mauritius. It is a 100-year-old organization dealing with marketing and sale of sugars - including a unique range of specialty sugars produced in Mauritius. Its structure aims at providing maximum returns to all sugar producers (growers and millers in Mauritius). All growers (corporate & independent sugarcane planters) & millers (3 Corporate mills producing sugar, ethanol & bagasse from sugar cane) are members of MSS. MSS has 10,432 members in 2020-21 (July 2020-June 2021 crop Season) [10,883 in 2019-20 crop season].

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MSS's objective is to sell, all sugars received by it from its members, and distribute the proceeds of such sale to its members after deduction of its actual operational (including bad debt, if any) and finance expense. MSS also imports non originating raw sugar (NOS), get it processed in the local mills for sale in the local and international market. Profit from such transactions is also distributed among the members. The sugars produced in Mauritius are almost fully exported (97%). MSS sells majority of the sugars in European Union (around 65%) followed by African regional market (through COMESA) (around 25%), USA and others.

Mauritius Sugar Syndicate is managed and administered, as provided by its Articles of Association (1967), by a statutory committee known as the "Committee" which comprises 22 members (14 representatives of the corporate sector of the industry including corporate growers and 8 representatives of large and small cane planters). The representatives of the corporate sector are appointed by the relevant members while the planters' representatives are appointed by the Minister of Agro-Industry and Food Security upon recommendation of their respective associations.

MSS is the final Authority to fix the indicative (beginning of Crop year - July) & final sugar price (end of Crop year – May-June) for any Crop year in Mauritius.

Indicative crop price is fixed on expected sales price and MSS distributes 60-80% of the indicative price (60% to large planters & 80% to small planters) at the beginning of Crop season. Final price is fixed on actual revenue & expenses at the end of crop year. Post fixation of the final price, MSS distributes the balance to the growers & millers. Hence, MSS will never incur a profit or a loss. 78% of the final Syndicate price is paid to the growers and 22% of the Syndicate price is paid to the millers.

Govt. of Mauritius (GoM) does not interfere into the fixation of the final sugar price. However, in case of lower sugar prices worldwide, which in turn translates into a lower sugar price for local growers and millers, the Govt provide subsidies to the growers through MSS.

MSS sells sugar primarily in European Union in Regions (Southern Europe - Greece, Italy and Southern Spain), which pays the highest premium for refined sugar. Mauritius, as a member of the Eastern and Southern African (ESA) trade bloc, continues to benefit from duty-free access to the E.U. market.

MSS has open accounts only with those clients which are reputed and with whom it has had long standing working relationship. These clients can benefit from credit terms ranging from 30-60 days for exports worth to Rs 75-100 million per month. In case of delay in payment by more than 20 days from delivery of sugar, MSS can halt next shipment (even on transit).

One of such clients is Cristal Union , to whom the MSS has been supplying sugars for more than 20 years. For last 5 years, MSS has entered into a Marketing Agreement with Cristalco, the trading arm of Cristal Union, whereby it sells MSS's sugar in different countries in Europe (Spain, Greece, Germany, France, Netherlands, Italy etc.) and shares the final profit. This agreement benefits MSS in terms of higher sugar price. MSS ships MUR 200-300 million worth of sugar on monthly basis. In case of delay in payment MSS has the option of blocking the next shipment.

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None of these clients have ever defaulted in payment during last 15 years and MSS has also never provided any bad debt or provisioning of these clients. MSS has developed strong business partnerships with these clients over the years. In case of any bad debt, the same will be passed on to the growers & millers as cost. MSS has MUR 6,300 million of sanctioned overdraft and committed money market lines from Banks in Mauritius and MUR 1,451 million of uncommitted money market lines from banks in Mauritius.

Around 95% of the revenue are from the export of sugar. Exports are mainly denominated in EUR and USD. The MSS has established practice of hedging its foreign currency receipts to mitigate the risks and volatility inherent in the currency market. The Forex Management Committee manages the foreign exchange risk by monitoring the concentration and timing of trade receivables by type of currencies. To manage its foreign exchange risk arising from future commercial transactions, and recognized assets and liabilities, the MSS use foreign exchange forward contracts and has foreign currency bank accounts which are transacted with commercial banks. During last 2 years MSS has been opted for forward covers to cover the risk of volatility in forex. The premium paid to cover the forex risk is included finance cost. In July 2021, MSS has taken 6 months forex cover to hedge all its forex receivables.

Purpose of the proposed Money Market Instrument:

MSS has MUR 6,300 million of overdraft and committed money market line from banks. In August 2021, MSS has successfully raised Money market Instrument (MMI) of Mur 1,500 million for a period of 1 year and proposes to issue an additional MMI of MUR 1,200 million for the period of 6 months and utilise the same to reduce its costly working capital borrowings from banks. MMI's will be also secured by preferential lien over all sugars as conferred by Government Ordinance No.87 of 1951. MSS has provided an undertaking to CRAF that the aggregate outstanding under MMI and working capital limit shall be within the overall sanctioned working capital limit of MUR 6,300 million.

Disclaimer

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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.

Short term Instruments

Symbols	Rating Definition
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.

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