

Rating Rationale 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) and 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].

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.

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

FSC License No.: CR14000001

Telephone: +230 59553060/58626551

www.careratingsafrica.com

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.

MSS's operations are structured into specialized departments geared to provide support services of direct relevance to its core business, namely marketing and sales, logistics and planning, finance and accounts, service assistance to producers, thus ensuring quality and food safety for the sugars supplied.

Rating Approach

MSS is a Non-profit organisation. Profit is not a motive of MSS and build-up of net worth is restricted because of its business model. The Syndicate aims at providing maximum returns to the growers (cane planters) and millers (producing sugar, ethanol & bagasse from the cane) by way of procuring & selling the entire sugar produced in Mauritius and distribution of the proceeds during the year after ensuring deduction of its actual operational (incl. bad debt, if any) and finance expenses. Thus, entire profit generated by MSS gets distributed to the growers and millers.

MSS has a steady cash flow mechanism, wherein MSS releases funds to growers & planters through a two-step price payment mechanism during the year. In the beginning of every Crop year (July), MSS fixes an indicative sugar price based on the expected sugar production, demand & prices of sugar in its export markets and after considering all its indicative operational and finance expense. It releases 80% of the indicative price to the small planters and 60% of the indicative price to the large planters & millers by borrowing from the Banks. The balance 20-40% is released at the end of the Crop year (June) once the final sugar price for the crop year is fixed by MSS - after considering the actual sales and expenses. The collection from the debtors is utilized to repay the short-term borrowings to banks (utilized to pay to the growers and millers).

MSS's Net worth should be ideally NIL as on all Account closing dates since MSS distributes all the excess profit after meeting its expenses. However, Net worth was MUR (65) million as on June 30, 2020 (MUR 12 million as on June 30, 2019) due to unrealized gains/(losses) on various derivative contracts MSS has taken to hedge the currency fluctuation.

MSS's loans (from Banks and Financial Institution) are secured by preferential lien over all sugars as conferred by Government Ordinance No.87 of 1951. (Point 5 Pg 2 of Mauritius Sugar Syndicate ACT).

.

CREDIT RISK ASSESSMENT

Strategic importance of MSS in the sugar sector of Mauritius

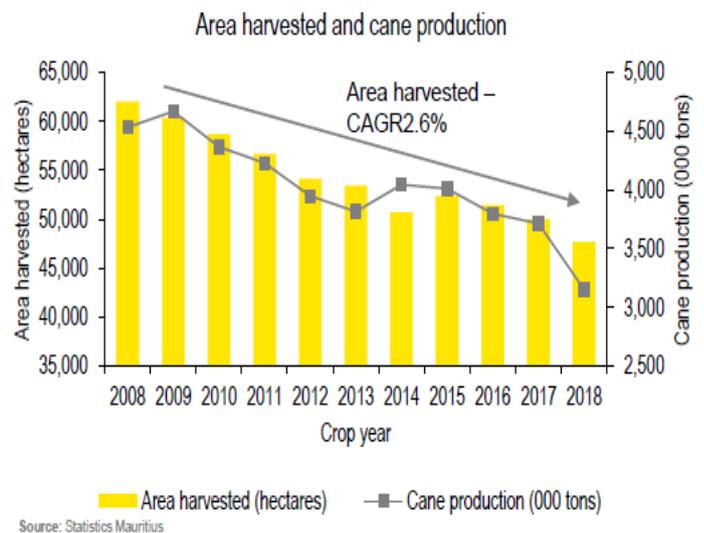
MSS is the sole organization responsible for the marketing and selling of all sugars produced in Mauritius.

It is a 100-year-old organization dealing with marketing and sale of sugars - including a unique range of specialty sugars [White refined sugar –(WRS) and Specialty Sugar (SS)] produced in Mauritius.

All sugarcane growers (20 Corporate planters, 150 Cooperatives and 5,800 individual sugarcane planters) and millers (3 Corporate mills producing sugar, from sugar cane) of Mauritius are members of MSS. Its structure aims at providing maximum returns to all its members.

Growers or planters

In Mauritius, sugar cane is cultivated on a total area of around 50,000 hectares (Ha) and the island has the capacity to produce some 350,000 - 400,000 tons of sugar annually. 5,800 individual planters (cultivating on less than 10 hectares) grow sugarcane on some 11,000 hectares and contribute to 20-22% of national sugarcane production. The balance (around 78-80%) is supplied by 20 corporate planters (ENL Agri, Omnicane Agri, Terra Agri, Alteo Agri, Medine, etc.) and 150 Cooperatives.



Millers and Refiners

At present, there are 3 millers in Mauritius - Omnicane Milling Operations Limited (CARE MAU BBB+ Stable), Alteo Milling Limited (holding company Alteo Limited rated CARE MAU A Stable) and Terra Milling Limited. Annually all three millers together crush 3,000,000 – 3,500,000 of sugar cane and produces 300,000-350,000 tons of raw sugar annually. Post closure of Medine Sugar estate’s mill in 2019 and as per Agreement between the other 3 millers and the MSS, 42% of annual cane production by Medine (around 350,000 tonnes) goes to Omnicane for crushing and balance to Alteo and Terra.

In July 20-June 21, 3 mills produced 270,000 tons of raw sugar (330,000 tons of raw sugar was produced in July 19- June 20).

Highly qualified management team & committee members

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. Details of few of the Committee members are as below:

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Name	Designation
Keeshorlal Gungah	President
Jacques Marrier D’Unienville (Omnican Limited)	Vice - President
Andre Bonieux (ALTEO Limited)	Millers’ representative
Hector Espitalier-Noël (ENL Limited)	Millers’ representative
Nicolas Maigrot (Terra Mauricia Ltd)	Millers’ representative
Dhiren Ponnusamy (Medine Group)	Millers’ representative
Jean Li Yuen Fong (Ex- Director of Mauritius Sugar Producers' Association)	Millers’ representative
Amal Kumar Mohabeer Mungur (Ex-President of the Mauritius Chamber of Agriculture)	Millers’ representative
Heymant Rao Sonoo	Large planters’ representatives
Jugdutt Rampersad (Director of SIFB and member of the Mauritius Heart Foundation)	Small planters’ representatives

Mr. Keeshorlal Gungah, current President of MSS, holds more than 50 years of experience in Agriculture, with long service in the Tea industry. Mr. Jacques Marrier D’Unienville is the Vice President. They are assisted by Mr. Devesh Dukhira, CEO of MSS, and a team of experienced professionals. Mr. Dukhira, who joined MSS in 2001 and appointed as CEO in 2015, holds an MSc in Business Administration and Management from Boston University.

Profit-sharing arrangement independent of Government intervention

MSS sells all sugars, it receives from its members, and then distributes the proceeds of sale after deduction of its actual operational and finance expenses. It 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. In FY17 and FY18, due to lower sugar prices in European Union and world market Govt. of Mauritius from Sugar Insurance Fund Board provided compensation and loans to the sugar producers, which enabled them to reduce losses in these years. The compensation and loans are provided through MSS.

Higher premium for White Refined Sugar (WRS) & Speciality Sugar (SS)

Mauritius mainly exports WRS and SS, which is in high demand in Europe and U.S. market. The specialty sugar fetches higher premium compared to raw sugar and provides higher return to the producers.

In recent years, unfavourable weather condition in Europe led to the reduction in the beet sugar production in the area. This led to higher demand for special sugars produced in Mauritius in the EU market (65% of the export market of Mauritius).

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

FSC License No.: CR14000001

Telephone: +230 59553060/58626551

www.careratingsafrica.com

Mauritius produces WRS and 18 varieties of Special Sugars SS which includes different types of Demerara, Muscovado and Golden Caster sugar. These sugars command a premium in the European market over the normal sugar. Different varieties of sugar produced in Mauritius are as under:



All the millers send their entire raw sugar production to MSS. MSS then re-allocates the raw sugar to the producers of WRS and SS as per the demand in EU market. MSS pays a conversion price to the refiners based on a fixed percentage of the FOB price of white refined sugar and speciality sugars.

Efficient pricing Mechanism

MSS first deducts the manufacturing premium (conversion Fees) paid to the producers of WRS and SS [converting raw sugar into special sugar and WRS] and its common expenses from the revenue received from sale of sugar. The net revenue (comprising of the mark-up derived from these value-added sugars) is then distributed to all categories of growers/planters and millers as part of the ex-Syndicate price based on tonnage of sugar accrued. The income and expenditure statement for each crop year is published in the MSS Annual Report and illustrates the calculation of the ex-Syndicate price, in MUR per ton of sugar.

Special sugars are segmented into 3 main classes: Production costs, product making complexity and production process and then they are classified as good, better, and best range branding.

For pricing purposes, market feedback and competition are taken into consideration. Marketing and promotion fees are included in the price to customers for promoting the brand of “Mauritius sugar”.

MSS communicates the Indicative and final price of every year in its website. The price communicated for last 3 years are as under:

Sugar Season	Communicated	Indicative Price (MUR/ton)	Final Price (MUR/ton)
July 2019-June 2020	July 2019	10,000	11,384
July 2020-June 2021	July 2020	13,000	14,062
July 2021-June 2022	July 2021	14,750	-

Export primarily in E.U region due to duty Free access

MSS exports around 97% of the sugar produced in Mauritius. Export destinations are as under: -



MSS, which is already present in over 55 countries across the world, with total of 120 customers, continues to strengthen its energies towards further market diversification. Break-up of export and local sales:

International Market	(2018-19) Tons	%	(2019-20) Tons	%	(2020-21) Tons	%
European Union	232,735	64	260,046	74	224,561	65
African regional market (through COMESA)- sugar deficient and protected market	101,366	28	63,148	18	101,734	27
World market (incl. local sales)	20,685	5	16,652	5	17,363	5
United States	10,936	3	13,381	3	12,959	4
Total Export	365,722		353,227		356,617	
Total sales in local market	16,080		11,326		15,246	
Total Sales	381,802		364,553		371,863	

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. Due to preferential trade access, MSS has the ability to arbitrate sales, especially for WRS, between the EU and non-EU markets, in light of the most remunerative market prices obtainable and the EUR/US\$ exchange rate. It also has duty free access to U.S. market for 12,500 tons annually.

Post significant dip in sugar prices in E.U due to higher beet sugar production in FY17 & FY18, MSS is trying to mitigate risk of relying solely on E.U. by exploring other markets such as U.K., India, China and Africa. Post Brexit it has entered into Agreement with U.K. to supply special sugar. In, FY21, MSS has entered into an Agreement with India to export Special Sugar (10,000 tons in Year 1 to 40,000 tons from Year 3 onwards). In FY20, MSS has also entered into the agreement with China for export of Special Sugar (15,000 tons in Year 1 to be increased to 50,000 tons in Year 8).

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

Credit sales to Reputed clientele

MSS, supplies its range of special sugars to diverse clientele in Europe, USA, Africa and local market. It sells sugar on credit terms (44% in FY20 and 54% in FY21) to only those customers with whom they have long standing relationship. It has signed contracts with these clients for 10-60 days credit term. In case of all other clients including sales in local market, the Syndicate, after selling the sugar, allows shipment of sugar only after receiving full payment in advance.

MSS has open accounts only with those clients – who 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.

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.

Robust recovery process

MSS generally provides a 10- 60 days average credit period on sale of sugar only to those customers with whom they have strong relationship. Break of credit and cash sales for last 3 years:

Expected Sales Revenue (Mur Million)	FY20	% of total sales	FY21	% of total sales
Credit sales - Customers with open account	3,251	44%	4,124	54%
Cash Sales - Customers making full payment prior to passing title of sugar sold	4,171	56%	3,483	46%
TOTAL	7,422	100%	7,607	100%

Break up of Trade receivables during last 3 years:

Mur million	FY19	FY20	FY21
- Export proceeds	892	1,351	1,229
- Unshipped sugar	2,027	2,025	2,079
- Other	132	76	31
Trade and other receivables	3,051	3,452	3,339

Export proceeds as on June 30, 2020, has increased from last year due to closure of offices in Europe, wrt to COVID-19 pandemic, leading to delayed payment.

All outstanding debtors pertaining to June 30, 2020, has been fully collected. Export proceeds amounting to Mur 1,229 million as at June 30, 2021 pertains to the sales made in the year FY21 (July 2020 to June 2021).

They also intimated that outstanding debtor pertaining to June 30, 2021, has been majorly collected.

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

FSC License No.: CR14000001

Telephone: +230 59553060/58626551

www.careratingsafrica.com

As of June 30, 2020, trade receivables of MUR 193 million for the syndicate (2019: Mur 18 million) were past due but not impaired. The management stated that delay in receipt of the same was due to closure of offices due to COVID-19 pandemic.

Onboarding new clients only on cash basis

MSS is now diversifying its clients base with entry to new markets like Regional Market and Asian Market (China & India). While MSS assess the credit quality of the customer before accepting the client as new customer, it follows a strict policy for sale to new clients - where the customer are required the make the payment in full either before the shipment against faxed documents or provide a letter of credit or collection bill negotiated through local banks.

Strong Liquidity

MSS has a fixed payment structure for all the sugar producers. MSS release funds to growers & planters through a two-step price payment mechanism during the year (mentioned above).

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. These banking facilities are in MUR/USD/Euro. Month wise average and maximum utilization is as under:

Months	Committed Facility	Avg. utilisation Mur Million	Avg. utilisation (%)	Max utilisation Mur Million	Max. utilisation (%)
Aug-20	6,300	2,439	39%	3,139	50%
Sep-20	6,300	2,491	40%	3,291	52%
Oct-20	6,300	3,038	48%	3,938	63%
Nov-20	6,300	3,122	50%	3,722	59%
Dec-20	6,300	3,220	51%	4,020	64%
Jan-21	6,300	2,602	41%	3,302	52%
Feb-21	6,300	2,705	43%	3,405	54%
Mar-21	6,300	2,385	38%	2,985	47%
Apr-21	6,300	1,952	31%	2,552	41%
May-21	6,300	2,724	43%	3,524	56%
Jun-21	6,300	2,081	33%	2,781	44%
Jul-21	6300	2,600	41%	3,000	56%
Utilisation			41%		52%

Efficient hedging mechanism

Around 95% of the revenue are from the export of sugar. Exports are mainly denominated in EUR and USD. 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, 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 in finance cost. In July 2021, MSS has taken 6 months forex cover to hedge all its forex receivables.

Sugar Industry - Mauritius and International market

Mauritius is famous for its Specialty Sugar (SS), which is in huge demand in Europe and US market. MSS also imports raw sugar for processes into White Refined Sugar. The imported raw sugar is blended with the Mauritian raw sugar to produce White Refined sugar which is then supplied to the local and international market

Sugar Production and sales

Performance of the Mauritian Sugar Industry for past five years:

Year	Hectares of land	Cane Crushed (tons)	Sugar Produced (tons)	Total Disposable sugar (tons)#	Domestic Sales of sugar (tons)	International Sales of sugar (tons)	Total sales (international + local)	Price per ton of sugar (MUR/tons)
2015/16	52,408	4,009,232	366,070	471,346	17,741	430,583	448,324	13,166.37
2016/17	51,477	3,795,619	386,277	527,240	33,127	460,018	493,145	15,571.50
2017/18	49,974	3,713,331	355,213	421,529	18,003	345,209	363,212	10,716.64
2018/19	47,678	3,154,516	323,406	411,583	16,080	365,722	381,802	8,685.60
2019/20	45,054	3,405,250	331,105	394,335	11,326	353,227	364,553	11,383.65
2020/21	43,711	2,619,014	270,875	403,233	15,246	356,616	371,862	14,062.00

#Total disposable sugar comprises of the present year crop outturn added to carry over stocks from the previous year and the imported raw sugar feedstock during the year.

Sugar price in Mauritius for last 10 years till 2019-20

Between the years 2007-2017, sugar prices were relatively high ranging between MUR 13,000 -18,000. The highest sugar price was recorded in 2007-08 at MUR 18,620 per tons. FY18-19 recorded the lowest price of sugar at MUR 8,700 per tons. Government of Mauritius (through Sugar Insurance Fund Board) came up with several measures and financial assistance to the cane growers to encourage sugar production.

Sugar sales for the 2019-20 crop took place under improved market conditions, after two consecutive years of direly depressed prices. As world supply (falling from 176 M mt in 2018-19 to 172 M mt in 2019-20) fell short of demand in 2019-20, the deficit was estimated by the International Sugar Organization (ISO) in September 2019 at 4.76 M tons for the October 2019 – September 2020 campaign, compared with global surpluses of 8.49 M mt in 2017-18 and 1.81 M mt in 2018-19 campaign. The estimated deficit increased during the year and was estimated at 9.44 M mt in February 2020. Since then, the prices have started improving in the world market. In the EU market, beet sugar production already decreased to 17.63 M mt in 2018 from 21.32 M mt in 2017 mainly due to unfavourable weather conditions and stock supplies became less abundant. A second consecutive year of subdued production, estimated at

Crop Years	Sugar Price (MUR/tons)
2007-08	18,620.15
2008-09	17,427.30
2009-10	14,612.03
2010-11	13,535.72
2011-12	16,020.16
2012-13	17,573.32
2013-14	15,829.86
2014-15	12,693.50
2015-16	13,166.37
2016-17	15,571.50
2017-18	10,716.64
2018-19	8,685.60
2019-20	11,383.65
2020-21	14,062.00

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

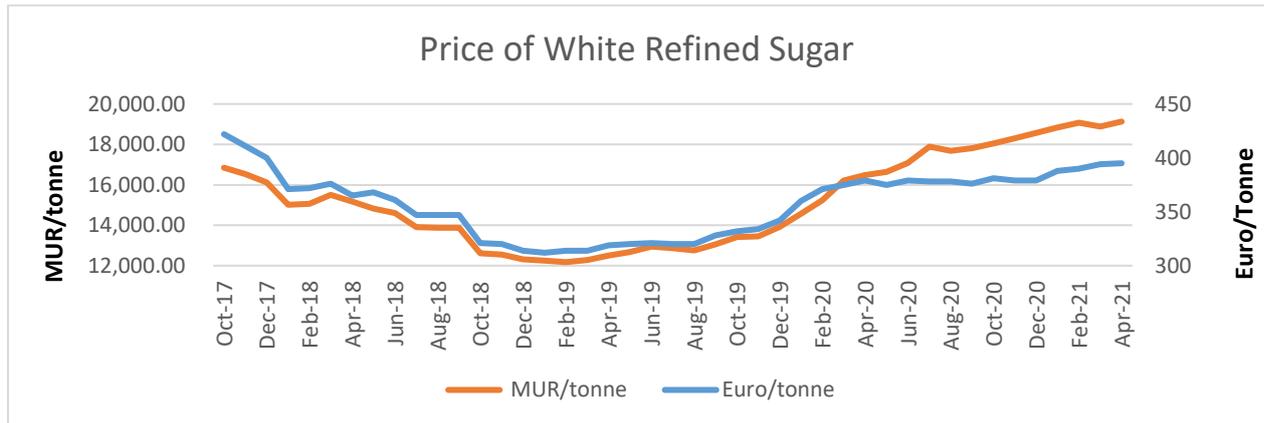
BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com

17.36 M mt in 2019, because of weather and 9% overall decline in acreage under beet cultivation, increased pressure on stocks, and consequently market prices. This pushed up the average price of white sugar prevailing in the EU market compared to the global prices in 2019-20. Accordingly, Sugar prices for the 2019-20 crop was higher as compared to the last two years. The final sugar price communicated by the MSS for 2019-20 crop in June 2020 was MUR 11,383.65 per ton (i.e. an increase of 31% compared to the previous year – MUR 8,685.60 per ton) which increased to Mur 14,062 per ton for FY21. Sugar Price in E.U. for last 3 years till April 2021



International Sugar Industry

Sugar producers: -The major sugar producers in the world are Brazil, India, Europe, Thailand, China, United States, Mexico, Australia, Pakistan and Russia.

Sugar Importers: - The main importers of sugar are the European Union, United States, Russia, UAE, Indonesia, Iran, South Korea, Japan, Malaysia, Canada and China (which are all potential/existing clients for Mauritius sugar producers).

Cane Industry: - The cane industry is cyclical in nature and a typically a cycle normally lasts 3-5 years. There will be years of surpluses and years of shortages and the cane industry is fully supply-driven. During the years of excessive sugar on the market, price falls leading to a decrease in profitability for sugar producers. The producers in turn resort to cultivation of other crops until level of stock of sugar stabilizes in the market and the price of sugar increases again. This cycle continues. These fluctuations and fall in prices of sugar on the international market result from the abolition of sugar quotas. This has badly affected performance and operation of sugar producers for the past years.

Many countries including Brazil, the leader in sugar production has reduced its production capacity and shifted towards ethanol production. Brazil has faced financial problems for several years and the government has been providing support to ethanol production rather than sugarcane. As such, sugarcane production decreased by around 50% from the switch to ethanol production. Decrease in cane production in Thailand is due to the Thai government who has banned burning of sugar cane field and a weak monsoon rainfall while India was impacted by floods. Production in Australia decreased due to the bushfires destroying the cane

fields. US (Central and North America) witnessed bad weather conditions which impacted sugarcane production (leading to decrease in production).

Beet Sugar Industry: -An alternative to cane sugar is beet sugar (due to high sucrose content in beet plants). Cane sugar accounts for 86% of the world sugar market and the remaining 14% is beet sugar. Beet sugar gained popularity since it is considered as a healthier alternative as compared to cane sugar (it contains a number of nutrients and vitamins) and it is also used in ethanol production. The European Union is the largest producer of beet sugar in the world due to the suitability of the climate. They produce 50% of the beet sugar consumed in the world. The cane industry is still advantageous compared to the beet industry for a number of reasons:

- ✓ European sugar market is subject to production quotas and fixing of minimum price for beet. After the abolition of production quotas in October 2017, there was an over-stock of beet sugar on the market which contributed to the decrease in demand for cane sugar (impacting Mauritius sugar industry). However, with the current decrease (actual production of 17 million tonnes compared to expected production of 18 million tonnes) in beet sugar production for year 2019-2020 due to heavy rainfall and lower sugar yield, this will lead to an increase in demand for cane sugar.
- ✓ Beet industry has limited length of their processing season which impacts the cost competitiveness of beet factories. The production costs of beet sugar are also higher than that of cane sugar.
- ✓ Flavor and caramelization of cane sugar is superior to beet sugar. Producers of chocolate and champagne prefer cane sugar to beet sugar. The use of beet sugar is limited.

Thus, beet sugar is regarded as less competitive and costlier than cane sugar. The current market size of beet sugar is USD 4.31 billion and it is expected to reach USD 6.34 billion by 2025 growing at a rate of 5.7% to 6.2% CAGR (Compound Annual Growth Rate) between 2020 and 2025 (source: Marketdata forecast). The global cane sugar market is expected to grow at a CAGR of 6.7% (Source: marketsandresearch.biz) during the forecast period (2020-2025).

Prospects

MSS's prospects depends on its ability to sale entire sugar procured from the producers in the export market at the maximum price and timely collection of receivables from its open account customers.

Financial Performance (Standalone)
(Mur Million)

For the year ended as on	Jun-17	Jun-18	Jun-19	Jun-20
	Audited			
Total Income	10,714	7,194	6,171	7,468
<i>Revenue from sale of sugar</i>	<i>10,663</i>	<i>7,178</i>	<i>6,140</i>	<i>7,422</i>
<i>Other Income – Insurance claim & Interest Income</i>	<i>52</i>	<i>16</i>	<i>31</i>	<i>46</i>
EBIDTA	5,758	4,176	2,966	4,069
Depreciation	4	6	6	6
EBIT	5,753	4,170	2,960	4,063
Interest	98	206	182	211
PAT	6,056	3,833	2,831	3,793
Equity share capital	-	-	-	-
Tangible net worth	46	(136)	12	(67)
Total debt	3,768	3,963	3,150	2,331
- <i>Long term debt (Sugar Insurance Fund Board)</i>	<i>-</i>	<i>200</i>	<i>240</i>	<i>180</i>
- <i>Short term debt</i>	<i>3,768</i>	<i>3,763</i>	<i>2,910</i>	<i>2,151</i>
Trade and other receivables	3,883	3,434	3,051	3,452
- <i>Export proceeds</i>	<i>1,740</i>	<i>979</i>	<i>892</i>	<i>1,351</i>
- <i>Unshipped sugar</i>	<i>1,965</i>	<i>2,293</i>	<i>2,027</i>	<i>2,025</i>
Inventories	464	426	219	83
Cash & Bank balances	247	117	258	283
Key Ratios				
EBIDTA / Total operating income	53.74	58.05	48.07	54.48
PAT / Total income	56.53	53.29	45.90	50.79
Interest coverage (times)	58.75	20.24	16.33	19.25
Current ratio	1.02	0.95	0.98	0.98
Avg. Collection Period (days)		68	55	54
Avg. Inventory (days)		53	36	16
Avg. Creditors (days)		4	12	57
Op. cycle (days)		117	79	13

Adjustments

1. Tangible net worth is calculated by netting off intangible assets from total equity.

Details of Instrument

1. Details of proposed Bond Issue

Instrument	Amount (MUR Million)
Proposed Money Market Instrument (Short Term)	1,200*
Money Market Instrument (Short Term)	1,500*

**“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.*

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

CARE Ratings (Africa) Private Limited (“CRAF”)’s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument 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.

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

www.careratingsafrica.com