**Brief Rationale**

**CRAF reaffirms CARE MAU A- (Stable) rating assigned to the MUR 488 million Bond Issue of Omnicane Holdings (La Baraque) Thermal Energy Limited ("OHLB")**

## Ratings

| Instrument | Amount (MUR Million) | Rating | Rating Action |
|---|---|---|---|
| Long term Bond | 488 (Reduced from 550) | **CARE MAU A-; Stable [Single A Minus; Outlook: Stable]** | **Reaffirmed** |

## Rating Rationale

The rating assigned to the bond issue of MUR 488 million (reduced from MUR 550 million) of Omnicane Holdings (La Baraque) Thermal Energy Limited ("**OHLB**") derives strength from established presence of Omnicane Group and its experienced promoters, consistent receipt of dividend from Omnicane Thermal Energy Operations (La Baraque) Limited ("**OTEOLB**") having strong operational track record of operating a 90MW power plant, satisfactory financial performance of OTEOLB with low business risk due to its regulated operations with 'cost-plus' based tariff, Power Purchase Agreement (PPA) with Central Electricity Board (CEB), payment from CEB being additionally backed by GoM guarantee, experienced power plant operator, increasing demand for power in Mauritius and presence of approval from the Board of Directors of OTEOLB that maximum dividend pay-out shall be made to shareholders subject to OTEOLB being profitable and after meeting its scheduled debt repayment obligations.

The rating is, however, constrained by the weak credit profile of Omnicane Group, OHLB being an investment company with only source of revenue being dividend from OTEOLB **-** contingent upon its performance, OTEOLB's exposure to regulatory risks, event risk associated with operations of single plant and low standalone debt service coverage ratios in OHLB due to repayment structure of the bond.

## Rating Sensitivities

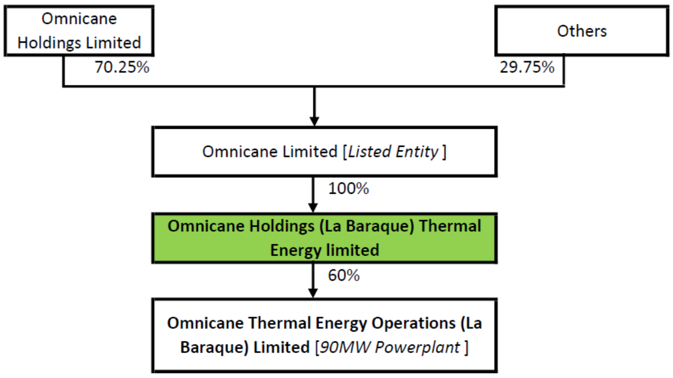
***Negative factors that could, individually or collectively, lead to negative rating action/downgrade***

- No dividend payment or support to be extended in any other form by OHLB & OTEOLB to Omnicane Limited and other group companies, barring on event of special dividend paid by OTEOLB Higher plant availability factor and ability to achieve 8,000 hours
- Any additional debt over and above MUR 550 million in OHLB and MUR 390 million in OTEOLB, affecting OHLB's ability to service debt and OTEOLB's ability to pay dividend to OHLB
- Increase in operating expenses level, above MUR 1.5 million

## BACKGROUND

Incorporated in 2005, Omnicane Holdings (La Baraque) Thermal Energy Limited ("**OHLB**") is the holding company for Omnicane Group's (Omnicane Limited and subsidiaries; "**Omnicane Group**") investment in a 90 MW (45 MW*2) powerplant.

OHLB holds 60% stake in Omnicane Thermal Energy Operations (La Baraque) Limited ("**OTEOLB**") which owns and operates 90 MW (45 MW*2) high-efficiency coal and bagasse-based power plant located in the Southern part of Mauritius (La Baraque, L'Escalier). The power plant is operational since 2007. The other two shareholders of OTEOLB are Albioma (25%) and Sugar Investment Trust (15%). OHLB is a wholly-owned subsidiary of Omnicane Limited. Incorporated in 1926, Omnicane Limited is a public company (SEM) engaged in the cultivation of sugarcane, production of refined sugar, bioethanol and thermal energy.




OTEOLB's 90 MW thermal power plant uses coal and bagasse as fuel to produce power, which is sold to the Central Electricity Board (CEB) as per the Power Purchase Agreement (PPA). ***OTEOLB pays dividend to OHLB and OHLB's sole revenue source is dividend income from OTEOLB. Hence, OHLB indirectly derives its total revenue from sale of electricity to the CEB.***

OHLB is governed by a 3-member Board of Directors comprising of Mr. Jacques M. d'Unienville (CEO and Director of Omnicane Limited), Mr. Nelson (CFO of Omnicane Limited) and Mr. Eddie Ah-Cham (Company Secretary of Omnicane Limited).

**Bond Issue:** OHLB's (owning 60% in OTEOLB) main source of revenue is dividend received/receivable from OTEOLB, which has a stable dividend payment track record for last 10-12 years. OHLB received a dividend of Mur 90 million from OTEOLB and other income (interest income & management fees) of Mur 23 million in FY20. The company utilized the same for interest payment and scheduled principal repayment of Mur 47.4 million. OHLB posted a PAT of MUR 89 million in FY20.

In December 2020, OHLB successfully issued Bonds aggregating to MUR 550 million, repaid its existing high-cost term loan (MUR 534 million) and extended MUR 16 million to Omnicane Limited. Going forward, OHLB will not pay any dividend to Omnicane Limited and utilize the dividend received from OTEOLB for repayment of interest & principal of the bond.

The Bond will be repaid out of the cashflow to be received as dividend from OTEOLB. As per the term sheet, annual repayment will be on $15^{th}$ Oct. every year, since OTEOLB pays dividend on $30^{th}$ Sept. every year, based on the following formula: **90%* (Dividend received from OTEOLB-operational expenses – Interest).** OHLB's annual operating expenses are capped at MUR 1.5 million per annum from FY20 (in line with past track record of operational expenses). The principal repayment amount is not fixed and will vary with the dividend received from OTEOLB. The Board of Directors of OTEOLB has unanimously approved that maximum dividend pay-outs shall be made to the shareholders of OTEOLB subject to OTEOLB being profitable and satisfying the terms and conditions of its existing indebtedness. The cashflows to be utilized for repayment of the bond in OHLB will be in the form of dividend from OTEOLB.

**Performance of OTEOLB:** In FY20, revenue from sale of energy was lower due to lower electricity production (as the plant was unavailable for one month due to delay in repairs and maintenance during the lockdown period). It operated for only 7,693 hours in FY20. Accordingly, the plant was available for less than the minimum hours and OTEOLB received Mur 799 million from CEB (i.e., 96% of the total capacity charge).

During the normal maintenance undertaken in February-March 2020, a team of engineers came from France for overhauling of the turbine and the plant. Due to COVID-19 pandemic they left without completing the full overhauling within the stipulated period of one month. The local team had to complete the work which entailed higher cost and higher no. of days leading to lower availability of the plant and higher maintenance cost. Other expenses also increased due to higher ash related expenses. Accordingly, the company witnessed a dip in EBIT in FY20 vis-à-vis FY19.

Overall gearing has improved to 0.51x times as on Dec 31, 2020, as compared to 0.85x times as on Dec 31, 2019, due to scheduled repayment of the term loan/Bond. Interest coverage was satisfactory. The company generated cashflow of MUR 343 million. There was a release of DSRA of MUR 91 million. The company utilized the same to repay Mur 228 million of term loan and Mur 100 million of Bond.

## Annexure I

***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". A prefix of 'Provisional' may be added to a 'SO' rating indicating that the rating is subject to completion of certain conditions.***

**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.