

Brief Rationale

CRAF assigns CARE MAU A- (Stable) rating to the MUR 550 million Proposed Bond Issue of Omnicane Holdings (La Baraque) Thermal Energy Limited (“OHLB”)

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	550	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Assigned

Rating Rationale

The rating assigned to the proposed bond issue of 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. The rating is sensitive to any dividend payment or financial support extended by OHLB to Omnicane Limited & other group companies (barring in the event of any special dividend declared by OTEOLB), increase in debt levels over and above MUR 550 million in OHLB and MUR 1,096 million in OTEOLB which can affect OHLB’s debt-servicing capacity & OTEOLB’s ability to pay dividends and any significant increase in OHLB’s 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%).

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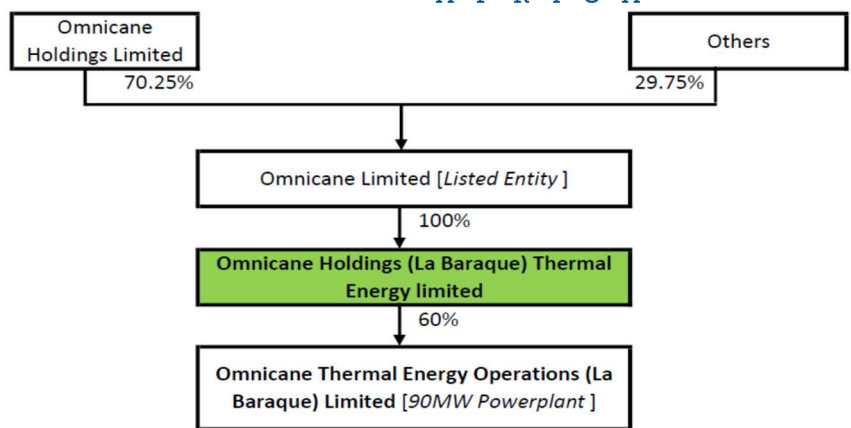
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OHLB is a wholly-owned subsidiary of Omnicane Limited. Incorporated in 1926, Omnicane Limited (with a market capitalisation of MUR 1,800 million as on Oct. 31, 2019) is engaged in the cultivation of sugarcane, production of refined sugar, bioethanol 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’s prospects are closely linked to the performance of OTEOLB.*

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 (Company Secretary of Omnicane Limited).

Proposed 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 10-12years.

OHLB proposes to raise a Bond of MUR 550 million and utilize the proceeds predominantly for pre-payment/re-payment of the term loan availed from MCB and SBM in June 2019 and to make a company loan to Omnicane Limited. Going forward, OHLB will not pay any dividend to Omnicane Limited and instead utilize the dividend received from OTEOLB only for repayment of interest and principal of the proposed bond issue.

As per the Term Sheet, annual repayment will be on 15th Oct. every year, since OTEOLB pays dividend on 30th 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 past and projected dividend flows from OTEOLB and debt repayments are as follows:

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
<i>(MUR Million)</i>	(Already received)					(Projected to be received)							
Total Dividend paid /to be paid by OTEOLB	140	150	200	150	125	125	125	180	180	180	190	190	190
OHLB’s 60% share	84	90	120	90	75	75	75	108	108	108	114	114	114
Interest Repayment						28	25	23	20	16	11	7	2
Principal repayment						42	44	75	78	87	91	95	38

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.

In FY18, (Jan 1-Dec 31), OHLB has received dividend income of MUR 90 million from OTEOLB and posted PAT of MUR 89.1 million.

In FY18, (Jan 1-Dec 31), OTEOLB has achieved a revenue of MUR 1,646 million (MUR 1,845 million in FY18) and PAT of MUR 144 million (MUR 144 million in FY18).

In FY17, OTEOLB's revenue has increased in line with the increase in power procurement by CEB. However, the same declined in FY18, due to closure of one of the units (45MW) for 135 days due to a lightning strike. This impacted the plant availability factor and in turn the company received 79% of the total capital charge for FY18. Accordingly, EBITDA and PAT were lower in FY18. The total cost of the incident (including repair charge and loss of income) was MUR 227 million and the company has received MUR 177 million over and above excess of MUR 40 million). Hence, the incident didn't have much impact on the cashflow of the company. Both the plants are operational since July 2018 and was fully available between Jan-Oct 2019.

Disclaimer

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Annexure I

Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
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.