

Brief Rationale
CRAF assigns CARE MAU BBB+ Stable rating to the proposed Bond issue of
Omnicanne Milling Operations Limited

Ratings

Facilities/Instruments*	Amount (MUR Million) *	Ratings	Rating Action
Bond (MUR denominated)	1,318	CARE MAU BBB+; Stable	Assigned
Bond (EURO denominated)– Euro 8 million	382\$	CARE MAU BBB+; Stable	Assigned

* Details in Annexure I * MUR Million = Mauritian Rupee Million \$ (1Euro = MUR 47)

Rating Rationale

The rating assigned to the proposed bond issue of MUR 1,700 million for Omnicane Milling Operations Limited (OMOL) derives strength from the experienced promoters and long track record of Omnicane Group in the sugar industry, the location of the plant in sufficient cane availability zone, satisfactory recovery rate (around 9.5%-10.3%), strong profile of the offtakers, sole refiner of the island with a refining capacity of 260,000 tons per annum, in-house logistics and energy support and increase in sugar prices in the European Union during last 12 months due to lower beet sugar production in Europe.

The rating is however constrained by OMOL’s exposure to regulatory risk, operational risk impacting revenue in case of any breakdown in the mill and refinery, dependency on sugar price in European Union and African Market, forex risk as sale of sugar is denominated in Euro, interest rate risk and climatic risk from Mauritius being a tropical island. This apart the rating is also constrained by significant losses incurred by OMOL during last 3-4 years due to low sugar prices and high debt vis-à-vis profitability at Omnicane Limited consolidated level.

CRAF expects OMOL to post better financial performance during the tenure of the Bond repayment due to higher sugar prices in the E.U. and higher usage of the refinery capacity as per the New Agreement.

The rating is sensitive to the volatility in the prices of white refined sugar in the E.U. - where Mauritius sells 70% of its sugar, lower utilization of refining capacity, higher operational cost as envisaged, lower extraction rate, production of beet sugar in E.U., ability to sell land conversion rights as envisaged (50 arpents annually) and volatility of MUR vis-à-vis Euro. The rating is also dependent on the company’s ability to maintain its Networth (including shareholders loan) above MUR 1,000 million and gearing below 1.80x during the tenure of the Bond and payment of management fees subject to meeting annual debt servicing obligation.

Background

Omnicanne Milling Operations Ltd (OMOL) was incorporated in November 2008 by the Omnicane Group, to take over the sugar milling factory of the Omnicane group at La Baraque. The sugar milling factory was initially founded in 1850 by Mon Tresor & Mon Desert Limited. Over the years the factory was renovated along-with capacity expansion and it currently has an annual crushing capacity of 1.4 million tons of sugarcane. OMOL features among the three main sugar players (Omnicane, Alteo and Terra) in Mauritius. It has been dominating the sugar sector in Mauritius for more than 100 years.

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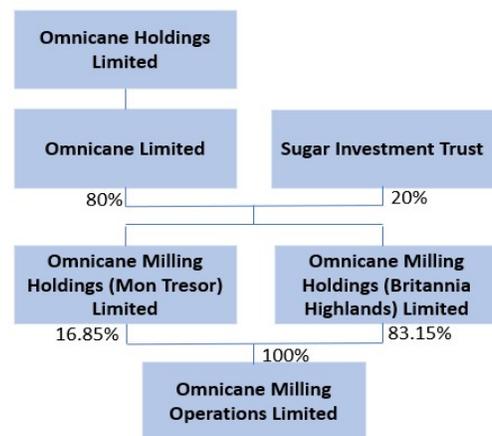
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Upon the demise of the Sugar Protocol in 2009 and subsequent abolition of guaranteed prices, the Mauritian sugar industry (under the guidance of Govt. of Mauritius and Mauritius Sugar Syndicate -MSS) decided to evolve from a manufacturer of an unfinished product (raw sugar) to an exporter of Special Sugars and White Refined Sugar (“WRS”) in order to derive higher sugar prices. Accordingly, the millers were invited by the MSS to invest in sugar refineries (refining of raw sugar into special sugar or WRS which commands higher premium). Alteo and Omnicane set up sugar refineries of 145,000 tons per annum and 200,000 tons per annum respectively. In 2017, Omnicane expanded the capacity of its refinery from 200,000 tpa to 260,000 tpa. In FY20, as per the new agreement in order to bring economies of scale, it was agreed that only Omnicane will be doing refining of sugar whereas Alteo and Terra (other 2 sugar operators of the island) will produce special sugars.

As on date, OMOL’s principal activities involve sugarcane milling (production of raw sugar from crushing of sugarcane) and refining (converting raw sugar to white refined sugar). It also produces by-products such as Bagasse and Molasses which it supplies to associate companies, Omnicane Thermal Energy Operations (La Baraque) Limited (OTEOLB: CARE MAU A- Stable) and Omnicane Ethanol Production Ltd (OEPL). Apart from that, OMOL developed new products namely Dina Life and Kara brand.

Capacity: OMOL’s sugarcane mill uses an energy-saving diffuser technology for juice extraction and has an annual crushing capacity of around 1.4 million tons of sugarcane [own harvest and that of other planters]. It’s milling capacity per day is 8,500 tons (the mill operates for 5-6 months i.e. July-December). It has an annual production capacity of 476,000 tons of bagasse and 50,400 tons of molasses. OMOL also has a refinery which can produce 260,000 tons of white refined sugar. In FY19, OMOL crushed 1,113,383 tons of cane as compared to 914,009 cane crushed in FY18. The increase was mainly due to an additional 155,000 tons of cane supplied by Medine. OMOL also witnessed an increase in production of refined sugar from 80,134 tons in FY18 to 154,706 tons in FY19.

Holding Company: The holding company of OMOL is Omnicane Milling Holdings (Britannia-Highlands) Limited (83.15%) and Omnicane Milling Holdings (Mon Tresor) Limited (16.85%). Omnicane Limited, which holds 80% of both the companies, is a wholly owned subsidiary of Omnicane Holdings Limited. Sugar Investment Trust, holding 20% stake, is a Govt. of Mauritius entity.



Management: OMOL is governed by a 7-member Board of Directors comprising of three executives and four non-executives. Mr. Jacques M d’Unienville, Chairman, is the Chief Executive officer of Omnicane Limited. He sits on the board of various sugar-sector institutions in Mauritius including the MSS. The day to day operations are looked after by Mr. Jean Luc Caboche, the Operation Executive for the milling factory and Mr. Lindsay Davy, the Operation Executive for the Refinery. They are assisted by a team of professionals.

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Proposed Bond Issue: In November 2020, OMOL Ltd proposes to issue a Bond of Euro 8 million (MUR 382 million) and MUR 1,318 million for a period of 9 years. The utilization of the Bond proceeds is as under:

Purpose	Amount (MUR Million)
Repayment of existing loan	460
Repayment of overdraft and MML	200
Repayment of shareholders loan received from Omnicane Limited (outstanding MUR 2,019 million as on December 31, 2019). Omnicane Limited will utilize the same to repay its Bonds due in April 2021	1,026
Bond issuing Fees	14
Total	1,700

Since last one decade, Omnicane Limited has infused funds in OMOL as unsecured loans/equity in order to support its expansion plans and fund the operational losses in OMOL (FY16-18) due to downturn in the sugar industry in line with declining sugar prices. Now with current & projected improvement in sugar prices due to lower production in the world market, decline in beet sugar production in European Union, OMOL getting the contract for refining entire sugar of Mauritius and depreciation of MUR vis-à-vis Euro, OMOL is expected to post higher profitability in future years. Accordingly, the promoters of OMOL has decided to raise Bonds of MUR 1,700 million and utilize the part proceeds to repay the entire debt in OMOL and part debt (shareholders loan) in Omnicane Limited.

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. 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.