Lottotech Ltd

CRAF assigns CARE MAU AA- Stable and CARE MAU A1+ rating to the proposed bank facilities of Lottotech Ltd.
23 June 2021

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Loan	90	CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]	Assigned
Overdraft Facility	37	CARE MAU A1+ [A One Plus]	Assigned
Total	**127**		

Rating Rationale

The rating assigned to the proposed long-term loan of MUR 90 million and bank overdraft facility of MUR 37 million for Lottotech Ltd ("Lottotech") derives strength from established track record of the Gamma group, experienced and resourceful promoters, professional and experienced management team at Lottotech, sole operator of the national lotterie business in Mauritius on behalf of the Government of Mauritius (GoM), reasonably priced ticket and high participation rate - more than 65% of the adult population in Mauritius plays Lotto annually. The rating also draws comfort from the renewal of operating license by Govt of Mauritius for next 10 years, covering the tenure of loan, and strong financial performance with comfortable debt coverage indicators.

The rating is, however, constrained by mandatory contribution (47.16% of total income) to Consolidated fund, high dividend pay-out ratio, risk associated with execution of proposed capex and exposure to Regulatory risk.

Rating Sensitivities

Positive factors that could, individually or collectively, lead to positive rating action/upgrade:

- Ability to improve profitability and retain excess cash in the company
- New pipeline of games in development
- Successful execution of the project leading to improvement in turnover & margin

Negative factors that could, individually or collectively, lead to positive rating action/upgrade:

- Reduction in Participation rate
- High Contribution to the consolidated fund
- Government intervention to ban services

BACKGROUND

Lottotech Limited ("Lottotech") was incorporated in Mauritius on April 8, 2008, by Gamma-Civic Ltd (Gamma; rated CARE MAU AA-; Stable) for the purpose of operating lotteries and related activities within the gaming industry of Mauritius. In July 2008, the company was chosen as the preferred bidder by the State Investment Corporation Ltd (GOM's investment arm) to implement & operate the Mauritius National Lottery. The activity of the Mauritius National Lottery, also called La Loterie Nationale, is regulated by the Gambling Regulatory Authority ("GRA") ACT 2007.

[1] Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

Lottotech being the exclusive operator of The Mauritius National Lottery on behalf of the Government of Mauritius, was issued a license in April 2009 to operate the Mauritius National Lottery under the GRA ACT 2007. The Company operates in a highly regulated environment.

Lottotech is a member of the World Lottery Association ("WLA"), the global authority on lottery business. The Company has received the WLA Responsible Gaming certification Level 4, which is the highest international standard Certification.

In October 2009, Lottotech successfully launched La Loterie Nationale in Mauritius and Rodrigues with the sale of lottery games through a network of retailers. The company's license to operate the Mauritius National Lottery was extended for a period of 10 years to April 2029.

Currently, Lottotech offers loto game (two weekly drawings on Wednesday and Saturday) and Loterie Vert (weekly draw on Friday) through a network of 740 retailers, comprising mainly small family-owned businesses.

Lotterie engine software, main software application running the core business of Lotterie system, is more than 10 years old. In order to improve the speed of the servers and increase the customers reach, through online platform & apps, the company has decided to set up a new software at an aggregate cost of MUR 90 million. This apart the company has plans for implementation of new games over next 5 years. Aggregate cost of the projects is MUR 192 million to be funded by term loan (MUR 90 million) and balance from internal accruals.

In FY21, Lottotech has posted a revenue of MUR 959 million (MUR 1,355 million in FY19) and PAT of MUR 60 million (MUR 172 million in FY19). Interest coverage, Total debt/EBITDA and overall gearing was very comfortable.

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CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)
Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
Phone: +230 59553060/58626551 • www.careratingsafrica.com
BRN: C14127054 • FSC License No.: CR14000001

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.

Contact us

Chief Executive Officer
Name : Mr. Saurav Chatterjee
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact
Chief Rating Officer
Name : Mr. Vidhyasagar Lingesan
Phone : +230 5273 1406
E-mail : Vidhya.sagar@careratingsafrica.com

Senior Rating Analyst
Name : Ms. Pooja Appadoo
Phone : +230 5955 3060
E-mail : pooja.appadoo@careratingsafrica.com

About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

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CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.