Lottotech Ltd

CRAF reaffirm ratings of CARE MAU AA- Stable and CARE MAU A1+ rating to the proposed bank facilities of Lottotech Ltd.

08 June 2022

Ratings

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

Rating Rationale

The rating assigned to the bank facilities of Lottotech Ltd ("Lottotech") derives strength from established and strong market position of the company in National Lottery segment, track record of successful varied business operations of the Gamma group, experienced and resourceful promoters, professional and experienced management team at Lottotech, reasonably priced ticket and high participation rate of more than 65% of the adult population in Mauritius. The rating also draws comfort from the renewal of operating license by Govt of Mauritius for next 10 years which is 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 negative rating action/downgrade:

- 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.

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.

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

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. Currently, Lottotech offers Loto game (two weekly drawings on Wednesday and Saturday) and Loterie Vert (weekly draw on Friday) through a network of 694 retailers, comprising mainly of small family-owned businesses.

The Lotterie engine software, the main software application running the core business of the Loterie system, was upgraded to the latest engine (Aurora) released by International Game Technology (IGT) in FY21 at a total cost of MUR 88 million to improve the speed of the servers and increase the customers reach, through online platform & apps. This apart the company has plans for implementation of new games over next 5 years. Aggregate cost of the projects is MUR 192 million (MUR 90 million funded by the term loan) and balance from internal accruals.

Revenue and PAT increased by 10% and 22% respectively in FY21 resulting from higher sale of lottery tickets, innovative communications, technological development, and cost management. Interest coverage, Total debt/EBITDA and overall gearing was very comfortable.

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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.

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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.
CRAF’s Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.
CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.