

Mauritius Sugar Syndicate
12 August 2022

Ratings

Instrument	Amount (MUR Million)	Rating ¹	Rating Action
Money Market Instrument (Short Term – 1 year) *	1,500	CARE MAU A1+ [A one Plus]	Reaffirmed
Proposed Money Market Instrument (Short Term – 1 year) *	2,000	CARE MAU A1+ [A one Plus]	Assigned

***"The aggregate of outstanding MMI and working capital facilities shall always be within the overall sanctioned working capital limits (overdraft limit & committed money market line) of MSS of MUR 7,300 million with banks". CRAF will monitor the MMI and working capital utilization on a regular basis.**

Rating Rationale

The rating assigned to the short term Money Market Instruments of Mauritius Sugar Syndicate ("MSS") derives strength from the strategic importance of MSS in the sugar sector of Mauritius, professional and highly qualified management team & committee members, profit sharing arrangement independent of Government intervention, higher premium for White Refined Sugar ("WRS") & Speciality Sugar ("SS"), flexible pricing & forex hedging mechanism, duty free access to E.U. region – resulting in higher premium for refined sugar, reputed client base, comfortable collection period and strong liquidity. The rating also considers the non-profit organisational structure/business model of MSS leading to limitation in building up of the net worth, risk associated with counterparty and price fluctuation of sugar in the global market.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Healthy growth in operational and financial performance

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Inability to sell sugar in the export market
- Significant increase in debtors affecting the cashflow of the company

BACKGROUND

Mauritius Sugar Syndicate ("MSS"), incorporated in 1919, was legally constituted for an indefinite period in pursuance of the Mauritius Sugar Syndicate Act of 1951 (An Act of Parliament).

MSS is the sole organization responsible for the marketing & selling of all sugar produced in Mauritius. It is a 100-year-old organization dealing with marketing and sale of sugars - including a unique range of specialty sugars produced in Mauritius. Its structure aims at providing maximum returns to all sugar producers (growers and millers in Mauritius). All growers (corporate & independent sugarcane planters) and millers (3 Corporate mills producing sugar, ethanol & bagasse from sugar cane) are members of MSS. MSS has 9,712 members in 2021-22 (July 2021 – June 2022 crop season) [10,432 members in 2020-21 (July 2020-June 2021 crop Season)].

MSS's objective is to sell, all sugars received by it from its members, and distribute the proceeds of such sale to its members after deduction of its actual operational (including bad debt, if any) and finance expense. MSS also imports non originating raw sugar (NOS), get it processed in the local mills for sale in the local and international market. The sugars produced in Mauritius are fully exported. MSS sells majority of the sugars in European Union (around 65%) followed by African regional market (through COMESA) (around 25%), USA and others.

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

MSS is managed and administered, as provided by its Articles of Association (1967), by a statutory committee known as the "Committee" which comprises 22 members. The representatives of the corporate sector are appointed by the relevant members while the planters' representatives are appointed by the Minister of Agro-Industry and Food Security upon recommendation of their respective associations.

MSS is the final Authority to fix the indicative (beginning of Crop year - July) & final sugar price (end of Crop year – May-June) for any Crop year in Mauritius. Indicative crop price is fixed on expected sales price and MSS distributes 60-80% as advance of the indicative price (60% to large planters & 80% to small planters) at the beginning of Crop season. Final price is fixed on actual revenue & expenses at the end of crop year. Post fixation of the final price, MSS distributes the balance to the growers & millers. Hence, MSS will never incur a profit or a loss. The final Ex Syndicate price is paid on 78% of the tonnage of sugar to the growers and 22% to the millers.

Govt. of Mauritius does not interfere into the fixation of the final sugar price. However, in case of lower sugar prices worldwide, which in turn translates into a lower sugar price for local growers and millers, the Govt provide subsidies to the growers producing up to 60 tons through MSS.

MSS sells sugar primarily in European Union in Regions (Southern Europe - Greece, Italy and Southern Spain), which pays the highest premium for refined sugar. Mauritius, as a member of the Eastern and Southern African (ESA) trade bloc, continues to benefit from duty-free access to the E.U. market.

MSS has open accounts only with those clients who are reputed and with whom it has had long standing working relationship. These clients can benefit from credit terms ranging from 30-60 days. In case of delay in payment by more than 20 days from delivery of sugar, MSS can halt next shipment (even on transit).

One of such clients is Cristal Union, to whom the MSS has been supplying sugars for more than 20 years. For last 5 years, MSS has entered into a Marketing Agreement with Cristalco, the trading arm of Cristal Union, whereby it sells MSS's sugar in different countries in Europe (Spain, Greece, Germany, France, Netherlands, Italy etc.) and shares the final profit. This agreement benefits MSS in terms of higher sugar price. MSS ships MUR 200-300 million worth of sugar on monthly basis. In case of delay in payment MSS has the option of blocking the next shipment.

None of these clients have ever defaulted in payment during last 15 years and MSS has also never provided any bad debt or provisioning of these clients. MSS has developed strong business partnerships with these clients over the years. In case of any bad debt, the same will be passed on to the growers & millers as cost.

MSS has MUR 7,300 million of sanctioned overdraft and committed money market lines from Banks in Mauritius and MUR 2,505 million of uncommitted money market lines from banks in Mauritius.

MSS exports 100% of sugar produced. Exports are mainly denominated in EUR and USD. The MSS has established practice of hedging its foreign currency receipts to mitigate the risks and volatility inherent in the currency market. The Forex Management Committee manages the foreign exchange risk by monitoring the concentration and timing of trade receivables by type of currencies. To manage its foreign exchange risk arising from future commercial transactions, and recognized assets and liabilities, the MSS use foreign exchange forward contracts and has foreign currency bank accounts which are transacted with commercial banks.

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Annexure I

Rating Symbols 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.

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.

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