

Alteo Limited**19 April 2023****Rating**

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	950	CARE MAU A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]	Revised from CARE MAU A; CWD [Single A; Credit Watch with Developing Implications]

Rating Rationale for Structured Obligation (SO) rating of Alteo Limited

The rating assigned to the bond issue of Alteo Limited ("Alteo") derives strength from the escrow mechanism ring-fencing cashflow proceeds from the promissory notes of Miwa Sugar Limited (rated CARE MAU A; Stable), which will be deposited into the bank account pledged in favor of the noteholder's representative for the notes of Alteo. It shall be noted that the repayment of the promissory notes is in line with the bond repayment schedule of Alteo and other creditors of Alteo have no charge on the pledged account.

Rating Rationale for Miwa Sugar Limited

The rating assigned to the promissory notes issue of Miwa Sugar Limited ("Miwa Sugar") derives strength from the stable performance of the operating companies mainly Tanzanian Operations under TPC Limited ("TPC"), contributing to more than 80% of group profitability, consistent growth in revenue and profitability, maintained healthy profitability margins, comfortable debt coverage, low gearing levels and healthy cash flow position. Improved operating efficiency coupled with better capacity utilization led to a turnaround of Kenyan Operations under Transmara Sugar Company Ltd ("TSCL") with the Company turning profitable for the first time in FY22. The rating also factors in the competitive position held by both TPC Limited and TSCL in their respective markets, the current favorable trend of sugar prices in the international market, government support to the local sugar market in both Tanzania and Kenya, and resourceful promoters of Miwa Sugar Limited with both IBL and CIEL groups being the leading business groups in Mauritius.

The rating is, however, constrained by Miwa Sugar Limited being an investment company and its only source of revenue being dividend from Sucrière des Mascareignes Limited ("SML") which is contingent upon the performance of the two operating companies namely TPC Limited and TSCL, the cyclical nature of sugar industry, risk associated with foreign exchange and competition from larger sugarcane producers such as Brazil and India which benefit from better economies of scale.

Key rating drivers for Alteo Limited

The rating factors in the structured mechanism in place from the proceeds of Promissory notes issue of Miwa Sugar, strong parentage from CIEL and IBL groups, albeit absence of majority shareholding of both the groups in Alteo Limited, professional and qualified management team, established group with investments across diverse business verticals (primarily sugar, energy and property), stable performance and healthy cash position of dividend-paying group companies, availability of sizeable land bank that can be monetized to reduce debt levels, low project execution risk in property development venture and strong financial performance including healthy margins generated and very low levels of gearing.

The rating is, however, constrained by Alteo being an investment company and its only source of revenue being dividend from group companies which are contingent upon the performance of the subsidiaries/associate companies, CARE Ratings (Africa) Private Limited

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the cyclical nature of sugar industry, competition from larger sugarcane producers which benefit from better economies of scale, and risk associated with timing of the sale of land and villas under the property development cluster.

Rating Sensitivities of Miwa Sugar

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

- Sustained improvement in operational & financial performance of the dividend paying companies.
- Higher international sugar prices translating into higher sugar price in Tanzania and Kenya
- Reduction in the gearing level of Transmara Sugar Company Limited and improved liquidity position

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

- Adverse changes in the international sugar market negatively impacting the performance of the TPC and TSCL
- Additional debt taken by both TPC and TSCL Limited which limit the dividend payment ability of both companies

Rating Sensitivities of Alteo Limited

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

- Improvement in operational & financial performance of the dividend paying companies.
- Higher international sugar prices translating into higher sugar price in Mauritius
- Receipt of higher remuneration for bagasse as per the National Biomass framework
- Ability to sell land by Alteo Agri at the envisaged price.

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

- Adverse changes in the international sugar market negatively impacting the performance of the sugar cluster
- Additional debt taken to fund new acquisitions and developments whereby significantly increasing gearing level
- Deterioration in the credit profile of Miwa sugar.

BACKGROUND

Alteo, incorporated on 13 September 2017, is a listed investment & holding company which, with its subsidiaries, form the Alteo Group. Alteo is collectively owned and controlled by IBL Ltd (27.64% shareholding) and CIEL Agro Limited (20.96% shareholding), which is part of the CIEL Group (CIEL Limited is rated CARE MAU AA-; Stable/ CARE MAU A1+). The remaining 51.4% stake in the Company is distributed among insurance & pension funds, investment trusts, other corporate bodies and individuals.

Since its inception, the Alteo Group has been operating across three business sectors namely, (i) the Sugar cluster, engaged in growing and milling sugar cane in Mauritius, Tanzania and Kenya (ii) the Energy cluster involved in electricity production in Mauritius and Tanzania and (iii) the Property cluster which promotes, develops, and sells villas in Mauritius.

The East African businesses in Tanzania and Kenya were being operated through an investment holding company, Sucrière des Mascareignes Limited ("SML"), in which Alteo Limited held a 60% stake.

On 20 October 2021, Alteo announced its intention to split the group into two separate listed entities: Alteo Limited (the existing company) and Miwa Sugar Limited ("Miwa Sugar"). The re-structuring was completed in October 2022 and the current business structure of Alteo Limited, is as follows:

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Post the demerger, Alteo Limited now holds only the sugar, energy and real estate clusters in Mauritius while the East African operations, previously held through SML, have been transferred under Miwa Sugar.

As part of the consideration for the acquisition of SML, Miwa Sugar has issued Promissory Notes aggregating to MUR 950 million which have been fully subscribed by Alteo. The tenor and repayment terms of the promissory notes are similar to those of the existing notes at Alteo level as shown below:

	Instrument	Amount (MUR million)	Repayments (MUR million)	Repayment Date
Alteo Limited	Bond Issue	950	500	27 May 2024
			450	27 May 2026
Miwa Sugar	Promissory Notes	950	500	27 May 2024
			450	27 May 2026



Hence, with the split in operations, Alteo Limited has foregone potential dividends from SML and will instead be receiving interest and principal payments from the promissory notes issued by Miwa Sugar.

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Annexure I**Rating Symbols*****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.

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Disclaimer

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CRAF's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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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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