

Mauritius Sugar Syndicate
11 August 2023

Ratings

Facilities/Instruments	Amount (MUR Million)	Rating ¹	Rating Action
Money Market Instrument (Short Term) *	2,000	CARE MAU A1+ [A one Plus]	Reaffirmed
Proposed Money Market Instrument (Short Term) *	2,000	CARE MAU A1+ [A one Plus]	Assigned
Money Market Instrument (Short Term) *	0 (reduced from 1,500)	-	Withdrawn

****"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 6,200 million with banks". CRAF will monitor the MMI and working capital utilization on a regular basis.***

Rating Rationale**Rating Rationale**

The ratings assigned to the short-term Money Market Instruments of Mauritius Sugar Syndicate ("MSS") continue to derive strength from the strategic importance of MSS in the sugar sector of Mauritius, the professional and highly qualified management team, the profit-sharing arrangement independent of Government intervention and higher premium for White Refined Sugar ("WRS") and Speciality Sugar ("SS"). The rating also factors in the flexible pricing and forex hedging mechanism, duty free access to European Union region – resulting in higher premium for refined sugar, the reputed clientele base, comfortable collection period and strong liquidity.

However, 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**

- Timely collection of receivables from its open account customers

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

- Significant decline in sale to export market and impact of total operating income
- Significant decline in sugar prices
- 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 and selling of all sugar produced in Mauritius. It is a 100-year-old organization dealing with marketing and sale of sugar - including a wide range of specialty sugar produced in Mauritius. Its structure aims at providing maximum returns to all sugar producers (growers and millers in Mauritius). All growers (corporate and independent sugarcane planters) and millers (3 Corporate mills producing sugar, ethanol &

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

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bagasse from sugar cane) are members of the MSS. The Syndicate has 9,712 members in 2022-23 (July 2022-June 2023 crop Season unchanged from 2021-22 crop season).

MSS's objective is to sell all sugar received from its members and distribute the proceeds to them after deducting its actual operational (incl. bad debt, if any) and interest expenses. MSS also imports non originating raw sugar (NOS) from Brazil which is processed in the local mills and then exported. The profit is also distributed among the members. Around 98% of the sugar produced in 2022-23 in Mauritius was exported and sold to the European Union (around 65%) followed by African regional market (through COMESA around 25%), USA and others.

MSS's operations are structured into specialized departments geared to provide support services of direct relevance to its core business, namely marketing and sales, logistics and planning, finance and accounts, service assistance to producers, and ensuring quality and food safety for the sugar supplied.

Business Model with not-for-profit motive

MSS aims at providing maximum return to the growers (cane planters) and millers (producing sugar, ethanol & bagasse from the cane) by way of procuring & selling the entire sugar produced in Mauritius (all growers and millers in Mauritius are members of MSS) and distribution of the proceeds during the year after ensuring deduction of its actual operational (incl. bad debt, if any) and interest expenses. Thus, profit is not a motive of MSS, and build-up of net worth is restricted because of its business model. The sugar producers (growers and millers) are at the base of the Syndicate structure. Cane produced by the growers is supplied to the mills. It is processed by the mills into raw sugar and then special sugar. MSS sells the special sugar in the export market.

Profit is not a motive of MSS. Its motive is to provide maximum return to the growers and millers, by way of final sugar price (determined by the Syndicate) after ensuring retention of actual amount of MSS's debt repayment and operational expenses (incl. bad debt, if any). Furthermore, MSS has a robust cash flow mechanism, wherein MSS releases funds to growers & planters through a two-step price payment mechanism during the year. In the beginning of every crop year (July), MSS fixes an indicative sugar price based on the expected sugar production, demand & prices of sugar in its export markets and after considering all its indicative operational and interest expense. It releases 80% of the indicative price to the growers and millers into 78:22 ratio by borrowing from the Banks. The balance 20% is released at the end of the Crop year (June) once the final sugar price for the crop year is fixed by MSS - after considering the actual sales and expenses. The collection from the debtors is utilized to repay the short-term borrowings to banks (utilized to pay to the growers and millers).

MSS's Net worth should ideally be nil as on all account closing dates since MSS distributes all the excess profit after meeting its expenses. The amount was nil as of June 30, 2022.

MSS's all lenders (all Banks and Financial Institution) are secured by preferential lien over all sugar as conferred by Government Ordinance No.87 of 1951 (Mauritius Sugar Syndicate ACT).

Management: Mauritius Sugar Syndicate is managed and administered, as provided by its Articles of Association (1967), by a statutory committee known as the "Committee" which comprises 22 members (14 representatives of the corporate sector of the industry including corporate growers and 8 representatives of large and small cane planters). The representatives of the corporate sector are appointed by the relevant members while the planters' representatives are appointed by the Ministry of Agro-Industry and Food Security upon recommendation of their respective associations.

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The President of the Syndicate is elected at the organization's annual general meeting held in September. Since 1976, the President's Chair rotates between a planter and a corporate representative yearly. Mr. Roshan Lall Baguant is the current president and Mr. Fabien de Marasse Enouf is the vice-president of MSS. They are assisted by Mr. Devesh Dukhira, CEO of MSS, and a team of experienced professionals. Mr. Dukhira, who joined MSS in 2001 and was appointed as CEO in 2015, holds an MSc in Business Administration and Management from Boston University.

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 6,200 million of sanctioned overdraft and committed money market lines from Banks in Mauritius and MUR 2,745 million of uncommitted money market lines from banks in Mauritius.

MSS exported around 98% 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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