Mauritius Sugar Syndicate

21 October 2024

Ratings

Facilities/Instruments*	Amount (MUR Million)	Rating[1]	Rating Action
Proposed Money Market Instrument (Short Term) *	**2,000**	**CARE MAU A1+**	Assigned
Bank Facility (Short Term)	**800**	**CARE MAU A1+**	Reaffirmed
Bank Facility (Short Term)	**1,000**	**CARE MAU A1+**	Reaffirmed
Total	**3,800**		

***"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 6,350 million with banks".** MSS has provided an undertaking to CRAF that the aggregate outstanding under MMI and working capital limit shall be within the overall sanctioned working capital limit of MUR 6,350 million. MSS has also agreed to submit the working capital limit utilization on a monthly basis confirming that the bank limits are unutilized at all times to the extent of outstanding MMI.*

Rating Rationale

The ratings assigned to the short-term Money Market Instruments and Bank Facility 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

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

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 & bagasse from sugar cane) are members of the MSS. The Syndicate had 8,206 members in 2023-24 (July 2023-June 2024 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 96% of the sugar produced in 2023-24 in Mauritius was exported and sold to the European Union (around 46%) followed by the African regional market (through COMESA) (around 32%), 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

The MSS aims at providing maximum returns 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 the MSS) and distributing the proceeds during the year after ensuring deduction of its actual operational (including bad debt, if any) and interest expenses. Thus, profit is not a motive of the 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. The 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.

The motive of the MSS is to provide maximum returns 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 (including bad debt, if any). Furthermore, the MSS has a robust cash flow mechanism, wherein it releases funds to growers & planters through a two-step price payment mechanism during the year. In the beginning of every crop year (July), the 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 banks. The remaining balance of 20% is released at the end of the Crop year (June) once the final sugar price for the crop year is fixed by the 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).

The MSS's net worth should ideally be nil as on all account closing dates, since it distributes all the excess profit after meeting its expenses. The amount was nil as of June 30, 2024.

All lenders (all Banks and Financial Institutions) of MSS are secured by preferential lien over all sugar as conferred by Government Ordinance No.87 of 1951. (Point 5 Pg 2 of Mauritius Sugar Syndicate ACT).

Management: The 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.

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. Dhanunjay Kheedoois the current president and Mr. Nicholas Maigrot is the vice-president of the 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.

The MSS has 50-60 days credit term with Cristal Union, one of the largest sugar co-operatives in the French market. All other open Account clients - Czarnikow, British Sugar, Altromercato and Sugar Industry of Singapore, pays within 10 days from receipt of sugar in their warehouse in Europe. For all these clients, the MSS ships MUR 75 million - MUR 100 million worth of sugar on a monthly basis. In case of delay in payment of more than 20 days from delivery of sugar, the MSS can halt next shipment (even on transit).

The MSS has been supplying sugar to Cristal Union for more than 20 years. For last 5 years, the MSS has entered into a marketing Agreement with Cristal Union, whereby Cristal sells the MSS's sugar in different countries in Europe (Spain, Greece, Germany, France, Netherlands, Italy etc.) and shares the final profit. It benefits the MSS in terms of higher sugar price. Accordingly, the payment terms with Cristal Union are for 50-60 days from receipt of sugar in their warehouse in Europe. The MSS ships MUR 200 million-300 million worth of sugar on a monthly basis. In case of delay in payment of more than 20 -30 days from date of receipt, MSS has the option of blocking the next shipment.

During the discussion the MSS, the management articulated that none of these clients have ever defaulted in payment during the last 15 years and the MSS has also never provided any bad debt or provisioning of these clients. They stated that the MSS has developed strong business partnerships with these international clients over the years. They stated that in case of bad debt the same will be passed on to the growers & millers as cost. Additionally, to further minimize loss probability, the MSS has tied up with international insurance companies for credit Insurance on their open Account exposure.

Disclaimer

CARE Ratings (Africa) Private Limited ("CRAF")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRAF's ratings do not convey suitability or price for the investor. CRAF's ratings do not constitute an audit on the rated entity. CRAF has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CRAF does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRAF have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CRAF or its associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CRAF is not responsible for any errors and states that it has no financial liability whatsoever to the users of CRAF's rating. 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.

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.

Modifier ["+" (plus)] can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifier reflects 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.

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

Group Head (Rating)
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.

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.