GCR RATINGS

Credit Rating Announcement

GCR accords initial national scale long term and short-term Issuer ratings of BBB-$_{(NG)}$ / A3$_{(NG)}$ to Johnvents Industries Limited, Evolving Outlook.

Rating Action

Lagos, 08 December 2021 - GCR Ratings ("GCR") has assigned national scale long-term and short-term Issuer ratings of BBB-$_{(NG)}$ and A3$_{(NG)}$ respectively to Johnvents Industries Limited, with the Outlook accorded as Evolving.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Johnvents Industries Limited	Long Term Issuer	National	BBB-$_{(NG)}$	Evolving
	Short Term Issuer	National	A3$_{(NG)}$	--

Rating Rationale

The ratings of Johnvents Industries Limited ("Johnvents" or "the Company") balances its currently strong financial profile with an expectation of aggressive debt-led business expansion, modest competitive position, limited track record as well as moderate liquidity assessment.

Johnvents is an integrated agribusiness with operations across the agricultural value chain spanning production, processing, manufacturing, and distribution which has supported steady revenue growth over the review period. However, its competitive position is moderately low, given its modest market share within the Nigerian commercial agricultural sector as well as its limited track record, having operated for barely three years. To diversify its operations, the Company acquired a cocoa processing plant from Odua Cooperative Conglomirate Limited in September 2021, which has 15,000 tonnes processing capacity with expected utilisation of 80% in the short-term. The outputs of the processing plant include cocoa butter, cake, liquor, and powder. GCR expects the acquisition and the enlarged product offering to make a material change to the competitive position in the near term and have already factored this into the rating.

Earnings is a neutral factor to the rating. While Johnvents has historically reported steady growth in revenue, the quantum of earnings is relatively low given its size, and stability is yet to be fully tested on a larger scale. However, GCR expects the recent diversification into cocoa processing to enhance the Company's ability to scale up. In this regard, significant revenue growths of around 40% and 170% are anticipated in by FY21 and FY22 respectively on the back of the expanding operation. Conversely, GCR expects the earnings margin to moderate slightly, albeit still strong around 30% over the outlook period, due to high exposure to the volatility within the commodity market as well as persistent inflationary pressure on operating expenses. Nevertheless, this should somewhat be offset by the benefits of economies of scale.

Johnvents has maintained a net ungeared position over the years, as operation and expansionary capex have been mainly financed through internally generated cashflow. However, the planned expansion has necessitated debt funding, and Johnvents is in the process of raising fund from external sources to support the substantial working capital requirement and little capex spend for the enlarged business. Even if debt is eventually raised, leverage metrics and EBITDA coverage of interest are expected to remain a relative credit strength. Our ratings scenario currently envisages a net debt to EBITDA range of between 10% and 50% and EBITDA to financing cost of around 19x over the next 12-18 months.

Conversely, we anticipate that operating cash flow coverage of debt will be negatively impacted due to the huge working capital absorption, which will be driven by substantial inventory procurements. As a result, we expect OCF to net debt to be less than 1% over the next year and improve materially in 2023 as earnings improve. As such, leverage and capital structure are considered as positive rating factor.

Liquidity is currently a negative rating factor, reflected in a uses vs. sources liquidity coverage of 1.5x over the 12-month period in FY22 and 2x in FY23. This is predicated on the anticipated operating cash outflow of N2.3bn in view of the sizeable working capital requirements around N6bn, and the moderate capex spend of N1.6bn to meet up with the enlarged scale. However, liquidity should be supported by the proposed credit facilities of N5bn from Nigerian Export-Import Bank and Grant from the Central Bank of Nigeria. Furthermore, the Company does have the flexibility to shore-up liquidity from lowering capex spending, as this is largely dependent on the success of the proposed debt issuances.

Outlook Statement

The Evolving Outlook reflects the potential for a material change in the gearing and earnings level of the Issuer. Should the Issuer raise material debt, without commensurate increase in the earnings and cash flow, there will be material ratings pressure. Conversely, should earnings outperform, improving cash flow and liquidity beyond our base case scenario we could improve the ratings.

Rating Triggers

An upward rating movement could arise if Johnvents maintains EBITDA margin above 30% over the next 12-18months, with operating cash flow coverage of debt above 60%, interest coverage at an intermediate range of 16x to 20x and net debt to EBITDA at less than 1x.

Conversely, a downward rating movement could emanate from delay in project rollout which results in earnings underperformance amidst rising cash flow pressures, and / or if this follows a sharp rise in gross debt beyond expected level, translating into a deterioration in credit protection metrics.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, October 2021
GCR Nigeria Corporate Sector Risk Scores, November 2021

Ratings History

Johnvents Industries Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial/Last	National	BBB-(NG)	Evolving	December 2021
Short Term issuer	Initial/Last	National	A3(NG)	--	

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**6.00**
Country risk score	3.75
Sector risk score	2.25
Business profile	**(0.50)**
Competitive position	(0.50)
Management and governance	0.00
Financial profile	**0.25**
Earnings profile	0.00
Leverage and capital structure	1.50
Liquidity	(1.25)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**5.75**

Glossary

Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Johnvents Industries Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Johnvents Industries Limited participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Johnvents Industries Limited and other reliable third parties to accord the credit ratings included:

- 2020 audited annual financial statement, and prior two years annual financial statements;
- Nine-month management accounts to 30 September 2021;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;