



DataPro



CORPORATE RATING REPORT

NOSAK DISTILLERIES LIMITED

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By Marina Water Front
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June, 2022

NOSAK DISTILLERIES LIMITED

Long-Term Rating:

A⁻

Short Term Rating: A1

Rating Outlook: Stable

Trend: Up

Currency: Naira

Date issued: 8 Jun, 2022

Valid Till: 7 Jun., 2023

Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

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EXECUTIVE SUMMARY

	2021 N'000	2020 N'000	2019 N'000	2018 N'000
Turnover	18,324,035	21,878,847	17,912,405	11,990,316
Pre-tax-Profit	4,532,601	1,636,993	1,149,831	896,401
Equity	5,825,286	1,555,106	12,890	(1,047,380)
Non-Current Assets	3,214,286	3,447,913	2,995,327	3,317,576
Total Assets	20,706,341	9,683,983	8,123,584	5,772,387
Total Liabilities	14,881,055	8,128,877	8,110,694	6,819,767

Rating Explanation

The Short-term Rating of **A1** indicates *Good Credit Quality* and satisfactory capacity for timely payment of financial commitments.

The Long-Term Rating of **A⁻** indicates *Low Risk*. It shows Very Good Financial Strength, Operating Performance and Business Profile when compared to the standard established by **DataPro**. This Company, in our opinion, has strong ability to meet its ongoing obligations.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information was obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

Strengths:

- Experienced Management Team
- Very Good Market Share
- Good Liquidity

Weakness:

- Supply Concentration Risk

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BACKGROUND

Nosak Distilleries Limited ("The Company") is a Private Limited Liability Company incorporated on the 15th of January 2001 and commenced operations in the same year. The *Company* was formerly known as *Alconi Limited*.

It is principally engaged in the production of food-grade ethanol. The Company produces from agricultural produce such as sugarcane molasses, grains, cassava or food rich in starch and sugar.

The Company accounted for the substantial part of the Nigerian food-grade ethanol market. It is arguably one of the market leaders accounting for 35% of the total market share. The balance of the market share is shared among other players within the market.

The Company operates from its headoffice and factory located in Lagos, Nigeria. It also has a foreign branch located in Tema, Ghana. The size of its workforce as at year ended 2021 was 90 personnel. The *Company* serves about 268 customers categorized under Beverage, Pharmaceutical and Cosmetics sectors.

The major shareholder of the company is *Grand Union Ltd* with 90% of the shareholding. *Tradhol SA* holds the remaining 10%.

DIRECTORS PROFILE

The following served as Directors during the year under review; *Dr. Toni Ogunbor*–Chairman; *Mr Juan Antonio Rodriguez*; *Mr. Osaheni Samuel Ogunbor*; *Engr. Osariemen Simon Owieadolor Omogiade*; *Mr. Thomas Oloriegbe*; *Osaro Monday*; *Mr. Raymond Ugboh* and *Mr. Gabriel Idahosa*.

The Directors profiles are as follows:

1. **Name:** Dr. Toni Ogunbor
Position: Chairman
Profession: Entrepreneur
Years of Experience: 46 years
Education:
 - Hussey College, Warri, Delta State
 - University of Ibadan, Oyo State
 - Ahmadu Bello University, Zaria, Kaduna State**Job Experience:**
 - Unilever Nig, Ltd, Lagos
 - Union Carbide Nigeria Ltd, Kano
 - Nosak Agencies Nig Ltd**Board Membership:** 22 Years
2. **Name:** Mr. Juan Antonio Rodriguez
Position: Executive Director
Profession: Accountant
Years of Experience: 25 years
Education:
 - University of Complutense, Madrid, Spain

- Esic Business
- Marketing School, Spain
- Job Experience:**
 - Mercedes Benz Cellular Phone Services
 - Professional Mountain Bike and Ironman Distance Athlete
 - President, Tradhol International Limited SA

Board Membership: 22 Years

3. **Name:** Mr. Osaheni Samuel Ogunbor

Position: Executive Director

Profession: Entrepreneur

Years of Experience: 20 years

Education:

- Bolton University
- University of Portsmouth
- Lagos Business School, Lagos

Job Experience:

- Santa Monica College
- Excel Communications, Beverly Hills
- DHL-LAX Division
- Nosak Agencies Nig Ltd
- Leisure Guard Security
- Nosak Group

Board Membership: 22 Years

4. **Name:** Engr. Osariemen Simon Owieador

Position: Non-Executive Director

Profession: Petroleum Engineer

Years of Experience: 29 years

Education:

- Harvard Business School, Boston
- Pan-Atlantic University, Lagos Business School
- University of Benin

Job Experience:

- Texaco Oversea Pet Co. Warri
- Oil Data Wireline Services, Port-Harcourt
- Quintte springs Limited, Lagos Operations Engineer
- Shell Petroleum Development Company (SPDC), Port-Harcourt
- Well Analyst/Production Engineer
- Platform Petroleum Limited, Lagos
- Trustrock Energy Limited, Lagos

Board Membership: Newly Appointed

5. **Name:** Mr. Thomas Oloriegbe

Position: Group Managing Director

Profession: Management Consultant

Years of Experience: 25 years

Education:

- ND - Federal Polytechnic, Ida, Kogi
- HND - Federal Polytechnic, Auchi, Edo
- Diploma in Computer Science, Amecon Computers, Lagos
- PGD - University of Calabar

- MBA - University of Calabar
 - Lagos Business School, Senior Management Programme
 - Fellow, Chartered Institute of Cost Management of Nigeria
 - Iesi University of Navara, Barcelona, Spain – Certificate of Advanced Management
 - Lagos Business School
 - Centre for Management Development, Advanced Management Trainer's Development Certification – Certified Management
- Job Experience:**
- Bende L.G.A., Abia State
 - Rohi Consulting Limite
 - Tunde Bello & Co
 - Coronc Properties Limited
 - Coronc Investment Limited
 - Grand Villas Limited
 - Nosak Group
- Board Membership:** Newly Appointed
6. **Name:** Omogiade Osaro Monday
Position: Managing Director
Profession: Processing Engineer
Years of Experience: 27 years
Education:
- BSc - University of Nigeria, Nsukka
 - Nigerian Health, Safety and Environment Certificate
 - Certificate in Team Building and Management, Netherlands Business School
 - Master of Process Engineering, University of Lagos
- Job Experience:**
- Miccom Engineering Limited, Ojokoro, Lagos
 - Amsadex Industries Agege
 - Henley & Drury Industries & Chemicals, Agbara
 - Nosak Distilleries Limited
- Board Membership:** Newly Appointed
7. **Name:** Mr. Raymond Ugboh
Position: Non-Executive Director
Profession: Entrepreneur
Years of Experience: 30 years
Education:
- University of Nigeria, Nsukka
 - Cranfield University, United Kingdom
- Job Experience:**
- Guinness Brewery
 - Nosak Distilleries Limited
 - Hettmond International Limited
- Board Membership:** Newly Appointed
8. **Name:** Mr. Gabriel Idahosa
Position: Non-Executive Director

Profession: Chartered Accountant

Years of Experience: 48 years

Education:

- University of Ife, Ile-Ife, Osun State
- Association of Chattered Accountants (ACCA), London
- Institute of Chartered Accountants, Nigeria

Job Experience:

- Pannell Kerr Froster and Co Chartered Accountants
- UHY Maaji Group, Nigeria
- Junior Chamber International (JCI) Nigeria
- Institute of Chartered Accountant, Kano
- Nosak Distilleries Limited
- The Lagos Chamber of Commerce and Industry (LCCI)
- The Chamber's Trade Promotion Board (Organizer of Lagos Intern'l Trade Fair)

Board Membership: Newly Appointed

THE ETHANOL SECTOR REVIEW

The Ethanol Industry is a very large sector with great potential for development. Ethanol belongs to the second position in the homologous series of alcohol. It is the second most widely used solvent after water. It serves as a raw material for the production of many chemicals: Ethyl chloride, Ethyl dibromides, Acetic acids, Ethyl acetates, Ethyl esters, Glycols and many others.

In Nigeria, cassava and molasses are the main sources of ethanol. Nigeria is the largest producer of cassava in the world with about 40million tons/year but the nation's annual local demand is between 300- 400million litres.

The ethanol market is growing rapidly, particularly due to the governments mandate for renewable fuels. Concerns over global climatic change have also contributed to the renewed interest in biofuel, as an alternative to fossil fuels, as a way of reducing greenhouse gas emission.

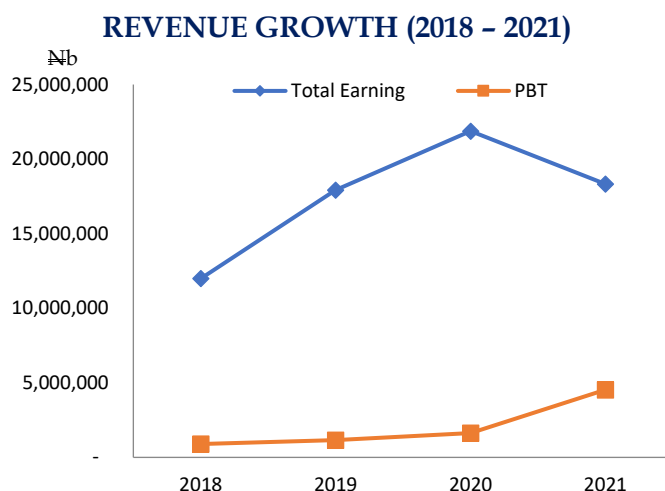
The lack of adequate raw material to produce ethanol has been a major challenge in the sector. About 7% of national demand is satisfied locally, while the balance of 93% is on imports. To satisfy production needs, operators rely largely on import.

The *Central Bank of Nigeria (CBN)* has been managing its Foreign Exchange Reserves tightly because of lower Oil receipts. The official Exchange Rate to the dollar as at June 03, 2022 was ₦415.63 while the exchange rate at the parallel market stood at ₦610.

Therefore, operators in the ethanol market will need to deal with issue of Foreign Exchange scarcity. This is in addition to other challenges such as rising energy cost and epileptic power supply. In view of the potential huge demand for ethanol, operators could pass the cost to the consumers.

FINANCIAL PERFORMANCE

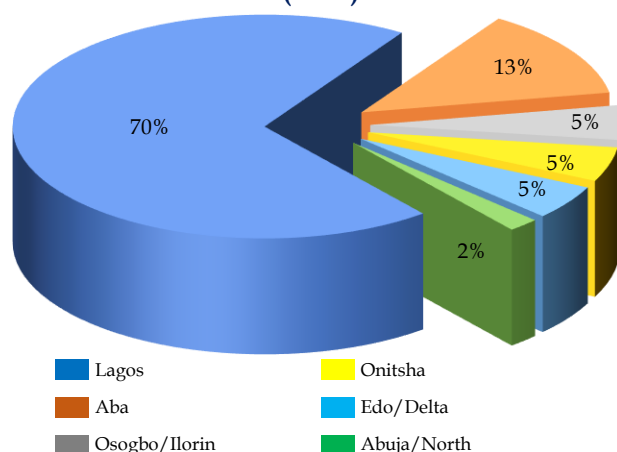
• EARNING PROFILE



Source: Nosak Distilleries Ltd

In the year 2021 *"The Company"* expanded its trading activities with the sales of *Crude Ethanol* in addition *Rectified Ethanol* traded in previous years. However, Revenue earned reduced in the year 2021 compared with the previous year. It decreased by 16% from ₦21.8b (Yr.20) to ₦18.3b (Yr.21). The decrease in sales of *Rectified Ethanol* which shrank by 46% was a contributory factor to this change.

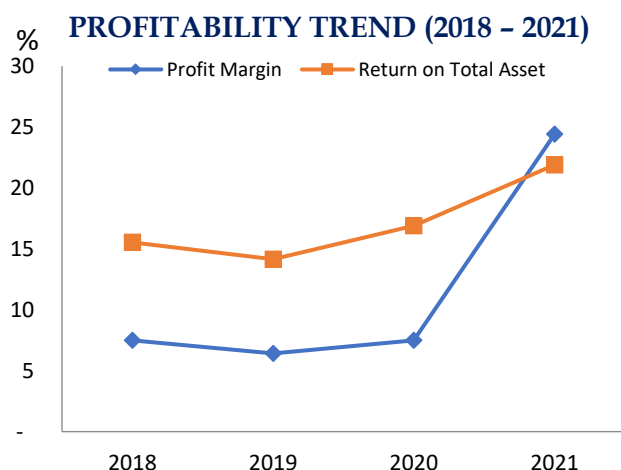
BREAKDOWN OF REVENUE BY LOCATION (2021)



Source: Nosak Distilleries Ltd

The Company imported about 90% percent of its raw materials. However, it derives Revenue locally in Nigeria. Sales from Lagos State accounted for 70% of its Total Revenue as at December, 2021.

• PROFITABILITY

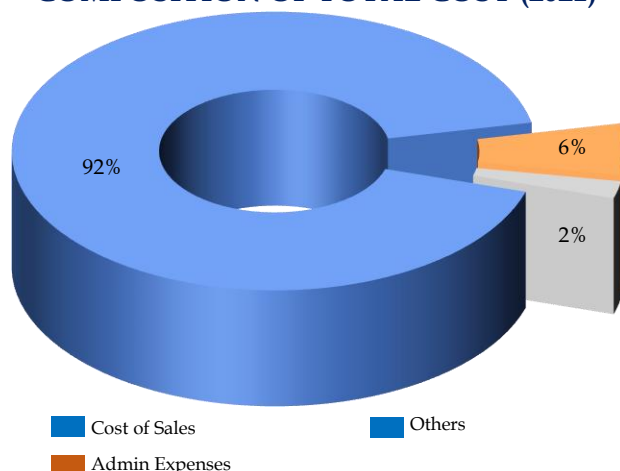


Source: Nosak Distilleries Ltd

The components of the Total Cost of the Company were; Cost of Sales, Administrative and Finance Cost as well as Loss on Foreign Exchange. In the year 2021, Total Cost was ₦13.7b decreasing significantly from ₦20.2b recorded in 2020. The most significant component of the Cost structure was Direct Cost of Production. It represented 92% of the Company's Total Expenditure.

All components of Costs, except Administrative Expenses reduced during the year under review. However, Cost of Sales recorded the most significant decrease

COMPOSITION OF TOTAL COST (2021)



Source: Nosak Distilleries Ltd

compared with other categories of expenditure. It receded by 32% from ₦18.8b (Yr. 20) to ₦12.6b (Yr. 21).

The brunt of reduction in Revenue was moderated by the decrease in Total Costs. Therefore, Profit Before Tax surged by over 100% from ₦1.6b (Yr.20) to ₦4.5b (Yr.21). Net Profit Margin also grew from 7.48% to 24.74%.

CAPITALIZATION

The Share Capital was ₦300m in the year 2020 and 2021. However, Revenue Reserve growth was significant due to high profit retention in the year under Review.

BREAKDOWN OF TOTAL ASSETS

Item	2021	%
Current Assets	₦ 16,916,048,000	82
Non-Current Assets	₦ 3,214,286,000	15
Intangible Assets	₦ 576,007,000	3
Total Assets	₦ 20,706,341,000	100

Source: Nosak Distilleries Ltd

Consequently, Total Equity increased from ₦1.5b in year 2020 to ₦5.8b (Yr.21).

Total Assets grew tremendously from ₦9.6b (Yr. 20) to ₦20.7b (Yr. 21). This was driven by the significant increase in Current Assets

from ₦5.6b (Yr. 20) to ₦16.9b (Yr. 21).

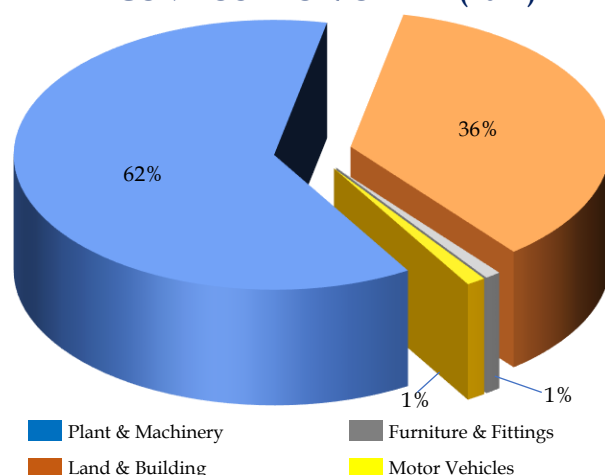
The Company improved its funding mix during the year 2021. This was due to the growth of Equity which outpaced the increase in Total Assets. Equity as a proportion of Total Assets improved from 16% (Yr.20) to 28% in the year 2021.

ASSET UTILITY

The operation of the Company is both land and machinery intensive. The distillation process of the Company is supported by Steam Boilers, water treatment systems, Cooling Towers and Tank Farms. Others include power generators, fire hydrant systems and laboratory. The installed capacity of the factory is 400,000 litres per day. The factory capacity utilization is currently 83.4%.

Total Non- Current Assets utilized for the Company's operation in the year 2021 was ~~₦~~3.2b as against ~~₦~~3.4b in 2020. This accounted for only 15% of Total Assets. The value of the Non-Current Assets decreased marginally by 6% in the year 2021. This was due to the depreciation charge during the year 2021.

COMPOSITION OF PEE (2021)



Source: Nosak Distilleries Ltd

The components of Current Assets are; Inventory, Trade & Other Receivables, Prepayments, and Cash. Inventory formed the largest part of the Company's Current Assets. It amounted to ~~₦~~15.8b and accounted for 94% of Total Current Assets in the year 2021. Prepayments accounted for only 14% of the total Current Assets.

The significant stockholding and expansion in Total Assets by the Company in the year 2021 could not

impact Revenue generation. Consequently, effective use of Assets to generate sales dropped significantly from 226% (Yr.20) to 88% (Yr.21). Although this has grown to 98% by the period ended April 2022, it is still below the bench mark of 100%. However, cost containment allowed for effective use of Assets to generate profit during the year 2021. The efficiency level was strengthened from 16.9% (Yr. 20) to 21.9% (Yr. 21).

• LIQUIDITY

The Company's Total Liabilities significantly increased by 83% from ~~₦~~8.1b (Yr. 20) to ~~₦~~14.8b (Yr. 21). This was due to the increase in all its components except for Non-Current obligations. Deposit for shares remained the same, while long term facilities recorded a 24% reduction.

The Company's Liabilities were largely current in nature. The short-term component accounted for 78% of the Total Liabilities.

Current Liabilities recorded a significant increase from ~~₦~~3.9b (Yr. 20) to ~~₦~~11.5b (Yr. 21). The growth was supported by increase in all its components. However, the major component of short-term obligation was Trade and other payables, which summed up to ~~₦~~6.5b in the 2021 as against ~~₦~~3.8b (Yr.20). The short-term Borrowings of the company represented term loans from Fidelity Bank.

BREAKDOWN OF THE SHORT TERM LOAN PORTFOLIO

Institution	Amount ₦	Maturity date
Fidelity Bank	2,500,000,000	14-June-2022
Fidelity Bank	500,000,000	8-June-2022
Fidelity Bank	1,012,500,000	10-May-2022

The Company generated a positive Cash-Flow from its operating activities in the year ended 2021. This trend was also reflected in the

period ended April, 2022 as presented in the Management Account. Operating Cash Balance as at the year ended 2021 amounted to ₦1b. This grew to ₦2.1 as at the period ended April, 2022. Similarly, its ability to settle Short Term obligations using its Current Assets increased from 144% (Yr. 20) to 147% (Yr. 21).

CORPORATE GOVERNANCE & RISK MANAGEMENT

The Company's affairs are directed by its Board of Directors which comprised of four (4) Executives and four (4) Non-Executives.

The Company recognizes that it has Operational Risk, Financial Risk, Foreign Exchange Risk, Legal & Compliance Risk, and Environmental Risk.

The Company's risk management process is structured in such a way that measures are put in place to deal with its various risks.

RISK FACTORS

In the course of our review, we considered the following significant risks:

- FOREIGN EXCHANGE RISK**

Foreign Exchange Risk is the risk arising from adverse movement in Exchange Rate between naira and other currencies of the Company's operations.

Based on our review, it is observed that 90% of the Company's raw material are imported. Therefore, adverse movement in Foreign Exchange Rate may likely affect the company's productivity and profitability.

- OPERATIONAL RISK**

This is the risk to production and profitability arising from failure of process, systems, control and people.

Based on our review, the Company operation is capital intensive. This requires functional plants and laboratory for required quality. Therefore, the Company is exposed to risk arising from lack of training for its personnel to handle maintenance, lack of gas supply for boiler and generator as well as inefficient stock ordering system.

Based on our review, the Company maintained a schedule maintenance period of its plant. This is in addition to gas supply arrangement with a major supplier. Therefore, operational risk is expected to be minimal.

- LIQUIDITY RISK**

This is the risk arising from the inability of the Company to pay obligations as and when due.

Based on our review, the Company maintained a healthy current ratio of 147% in the year 2021.

- **LEGAL RISK**

This is the risk of the company involving in litigation which might result into payment of significant penalties or loss of business.

Based on our review, the Company is involved in seven (7) cases arising from the same subject matter. The amount involved is ₦2.9b excluding possible interests and charges. Adverse judgement arising from these cases will affect the Company's cashflow.

However, we observed that the Company is of the opinion that possible judgement arising from these cases will be in its favour based on legal advice received from its solicitors.

FUTURE OUTLOOK

Nosak Distilleries Ltd has a five-year expansion plan of developing a 150,000 litres per day cassava-to-ethanol plant in order to take advantage of the local ethanol supply gap in Nigeria and the West African Sub-region.

In view of this, the Company intends to leverage its strength in the refining and distribution of ethanol to establish a cassava plantation which will provide the quality raw material for its ethanol refining plant. The process involves two phases, which are cultivation of cassava for fermentation and the conversion of the cassava into ethanol through the process of fermentation.

The Company has already commenced the process of backward integration by acquiring some hectares of land in Edo and Ekiti States. The nursery for implementation is to commence in 2022.

The Company's market expansion plan is targeted towards expanding its market share in Nigeria and other West African countries. The development of these markets would generate more income for the Company and grant it access to Foreign Exchange.

CONCLUSION


The Rating of the Company is supported by its Experienced Management Team, Market Share and Very Good Liquidity.

Consequently, we assigned a Rating of "A~"

FINANCES

Financial Position as at

	Dec, 2021 N'000	Δ%	Dec, 2020 N'000	Δ%	Dec, 2019 N'000
ASSETS					
Non-current Assets	3,214,286	(6.78)	3,447,913	15.11	2,995,327
Intangible Asset	576,007		576,007		576,007.00
Current assets	16,916,048	198.87	5,660,063	24.34	4,552,250
	20,706,341	113.82	9,683,983	19.21	8,123,584
EQUITY AND LIABILITIES					
Current liabilities	11,525,429	192.95	3,934,226	(0.44)	3,951,450
Non-current liabilities	3,355,626	(20.00)	4,194,651	0.85	4,159,244
Equity	5,825,286	274.59	1,555,106	11,964.44	12,890
	20,706,341	113.82	9,683,983	19.21	8,123,584
REVENUE AND PROFITS					
Revenue	18,324,035	(16.25)	21,878,847	22.14	17,912,405
Profit Before Taxation	4,532,601	176.89	1,636,993	42.37	1,149,831
Profit for the year	4,270,180	176.89	1,542,217	45.46	1,060,269
	—		—		—

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 8th June, 2022

For and on behalf of:
DataPro Limited
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By Marina Water Front
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long-term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	(<i>Superior</i>) Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	(<i>Excellent</i>) Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	(<i>Very Good</i>) Assigned to companies which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	(<i>Fair</i>) Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have an ability to meet their

current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator Meaning Explanation

BB	Moderate Risk	<i>(Marginal)</i> Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	<i>(Weak)</i> Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	<i>(Poor)</i> Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	<i>(Very Poor)</i> Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non investment grade.
B	Speculative	Minimal capacity for timely payment offinancialcommitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meetingfinancial commitments is solely reliant upon a sustained, favorable business and economic environment.Indicates an entity that has defaulted on all its financial obligations.