



Credit Rating Announcement

GCR affirms Dufil Prima Foods Plc's national scale Issuer ratings of A_(NG) / A2_(NG), Outlook Stable.

Rating Action

Lagos, Nigeria, 31 August 2022 – GCR Ratings ("GCR") has affirmed the national scale long-term and short-term Issuer ratings of A_(NG) and A2_(NG) respectively assigned to Dufil Prima Foods Plc, with the Outlook accorded as Stable. Concurrently, GCR has affirmed the long-term Issue rating of A_(NG) accorded to Dufil Prima Foods Plc's Series 1 Bond. The Outlook on the ratings is Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Dufil Prima Foods Plc	Long Term Issuer	National	A _(NG)	Stable
	Short Term Issuer	National	A2 _(NG)	
N10bn Series 1 Bond	Long Term Issue	National	A _(NG)	Stable

Rating Rationale

The ratings accorded to Dufil Prima Foods Plc ("Dufil" or "the Company" or "the Issuer") reflect its leading position in the Nigerian noodles industry, with a long operational track records and strong earnings growth. However, this is counterbalanced by weak leverage and capital structure due to rising debt amidst weak cashflows.

Dufil's strong competitive position is a key rating support factor. The long operational track record and dominant market share of over 80% in the noodles category is balanced against product concentration. However, the backward integration into cassava and palm oil plantations, as well as the expansion of the soya oil plant have provided increasing product diversification. Moreover, they support Dufil's import substitution strategy aimed at reducing the pressure from lingering foreign exchange shortages.

GCR takes cognisance of significant revenue growth in FY21, to a high of N306.8bn. This was underpinned by upward price adjustments and higher traded volumes, demonstrating the essential nature of its products. Despite having three upwards price reviews during the five-month period to May 2022 ("5M FY22") on account of heightened inflationary pressure, revenue only increased by 7.6% on an annualised basis as volumes remained relatively stable. Furthermore, the ongoing disruption in the global wheat supply chain induced by Russian-Ukraine war and depreciation in Naira resulted into rising input cost pressure, curtailing the EBITDA margin to 10.6% and 10.2% in FY21 and 5M FY22 respectively (FY20: 12.6%). However, GCR expects the backward integration initiatives to cushion rising input cost pressure over the outlook period, which should see the EBITDA margin improve slightly to around 11% over the outlook period.

High leverage remains a key rating constraint. Gross debt escalated to N148bn in FY21 (FY20: N100bn) to finance its working capital requirements and capex spend, before reducing slightly to N141bn in 5M FY22. Dufil has reported large working capital absorptions over the last two years due to elevated inventory levels to support its expanding operation and because of the high trade receivables which relates to sister company, Multipro Consumer Product Limited ("Multipro"). Accordingly, despite the stronger EBITDA, net debt to EBITDA deteriorated to 3.2x in FY21 (FY20: 2.7x) and 3.3x in 5M FY22. Similarly, at 2.4x in FY21 and 2x in 5M FY22, net interest coverage is around its historical low of 2.7x given an increase in finance costs, whilst operating cash flow coverage of debt has remained negative over the period.

GCR negatively views the refinancing risk associated with the large proportion of short-term debt, but the fact that the facilities can be rolled-over upon maturity provides some level of comfort.

Dufil's liquidity profile has improved slightly, with sources versus uses liquidity coverage estimated at 1.7x over the 7-month period to December 2022 and slightly above 1x over the 19-months period to December 2023. This is underpinned by cash holding of N30bn and committed revolving facilities of N112bn which would be utilised to meet working capital requirements and capex of c.N15.8bn, over the outlook period. GCR has also factored in a portion of inventory holdings (70% of the amount at end-5M FY22) given the short conversion cycle, as this could be utilised to meet its maturing debt obligations.

The N10bn Series 1 Bonds are direct, unconditional, senior, unsecured obligations of Dufil and therefore bear the same default risk as the Issuer. As such, the national scale long term Issue rating of the Bonds is equalized with the national scale long term Issuer rating of Dufil.

Outlook Statement

The Stable Outlook reflects GCR's opinion that Dufil's dominant position within the noodles market and backward integration initiatives will support strong earnings growth over the medium term and provide sufficient cash flows to meet maturing short term debt obligations.

Rating Triggers

Upward rating migration is dependent upon demonstrated improvement in earnings (either through tighter cost control or better product pricing) such that operating cash flows coverage of debt strengthens to 20% to 30% and net debt to EBITDA reduces below 2.5x.

Conversely, slow revenue growth or earnings underperformance, as a result of which the EBITDA margin decline below the historical average of 10% and continuous pressure on operating cashflow would be negatively considered. Similarly, a further deterioration in net debt to EBITDA above 3.5x and weaker interest coverage below 2x could result in a downgrade.

Analytical Contacts

Primary analyst Lagos, Nigeria	Biyi Baruwa Biyi@GCRratings.com	Analyst +234 1 904 9462
Committee chair Johannesburg, ZA	Eyal Shevel Shevel@GCRratings.com	Sector Head: Corporates and Public Entities +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Corporate Entities, January 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Nigeria Country Risk Scores, August 2022
GCR Nigeria Corporate Sector Risk Scores, April 2022
Dufil Prima Foods Plc's Rating Report, August 2021

Ratings History

Dufil Prima Foods Plc

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A-(NG)	Stable	June 2016
Short Term Issuer	Initial		A2(NG)		
N10bn Series1 Bond	Initial	National	A-(NG)	Positive	October 2017
Long Term Issuer	Last	National	A-(NG)	Stable	August 2021
Short Term Issuer	Last		A2(NG)		
N10bn Series1 Bond	Last	National	A-(NG)	Stable	August 2021

RISK SCORE SUMMARY

Risk score	
Operating environment	6.75
Country risk score	3.75
Sector risk score	3.00
Business profile	1.00
Competitive position	1.00
Management and governance	0.00
Financial profile	(0.75)
Earnings	1.00
Leverage & capital structure	(1.50)
Liquidity	(0.25)
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Risk Score	7.00

Glossary

Credit Rating	See GCR Rating Scales, Symbols and Definitions.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

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 ratings have been disclosed to Dufil Prima Foods Plc. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Dufil Prima Foods Plc participated in the rating process via tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Dufil Prima Foods Plc and other reliable third parties to accord the credit ratings included:

- 2021 audited annual financial statement, and prior four years annual financial statements;
- management accounts for the period to 31 May 2022;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties; and
- Information specific to the rated entity and/or industry was also received.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2021 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.