



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, 05 August 2021 – 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 accorded a long term Issue rating of A_{-(NG)} to Dufil Prima Foods Plc. 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		A2 _(NG)	
N10bn Series 1 Bond	Long Term Issue	National	A _{-(NG)}	Stable

Rating Rationale

The ratings accorded to Dufil Prima Foods Plc reflects its dominant position in the Nigerian industry, underpinning strong earnings growth. However, this rating strength is counterbalanced by weak liquidity assessment and leverage and capital structure on account of high debt profile against unsustainable cashflows.

The ratings are supported by Dufil's strong competitive position. Limited product diversification is balanced against its dominant (80%) market share in the expanding noodles subsegment. This position is underpinned by continuous capacity expansion, aggressive marketing and wide distribution network. In addition, backward integration initiatives are set to help reduce the Company's exposure to volatility in foreign exchange market and further secure the supply chain. Furthermore, the commencement of operations at the Ghana plants should add some geographic diversification of earnings.

Earnings are a ratings strength. Dufil has reported strong revenue progression over the years, with 8% growth in earnings in FY20 despite COVID 19 pandemic crisis and other related issues. Growth was underpinned by slight increase in price and higher traded volume, reflecting the non-discretionary nature of its products. Impacted by persistent rise in international price of inputs (mainly wheat) and the adverse impact Naira devaluation, the EBITDA margin has generally decreased through the cycle, trending at around 12% in FY18-20, compared to the high of 20% reported in FY17. GCR expects the margin to remain in this range over the rating outlook as economic uncertainties persist.

The ratings are primarily constrained by weak leverage and capital structure due to high debt level, with the gross debt rising from N83.2bn at FY19 to N114bn at 1Q FY21. Debt has been utilised to finance capacity expansion and high working capital requirement, primarily related to high inventory holding and advance payments for supplies. Accordingly, net debt to EBITDA has remained weak, deteriorating to 3.4x in FY18 before moderating to 2.7x and 2.5x in FY20 and 1Q FY21 respectively. Except for FY17 and FY19, operating cash flow coverage of debt has registered at negative level over the cycle, due to weak cash flow amidst rising debt. Furthermore, interest coverage has trended at a very low levels of 2.7x and 2.5x in FY20 and 1Q FY21 respectively, due to high finance costs. GCR expects the metric to trend within historical levels over the outlook period, as working capital requirements are likely to remain elevated, necessitating additional debt.

GCR has taken a negative view of other capital structure elements. Refinancing risk is material, indicated by the high proportion of short-term debt (64% maturing within 3-9 months) amid low levels of net operating cash flows. The Company is also exposed to foreign currency risk, with 48% of debt denominated in USD. These concerns are partially mitigated by Dufil's strong banking relationships, with facilities deriving from 18 different commercial banks and development finance institutions, as well as access to the Nigerian debt capital market.

GCR's liquidity assessment is substantially negatively impacted by the N63.8bn in short term debt facilities. These are only partially covered by available cash holding of N23bn and committed revolving facilities of N23.4bn. However, GCR has also factored in a portion of the high inventory holding (c.N56.2bn in 1Q FY21), which are turned over and converted to cash within a relatively short period, implying that cash can be made available to meet debt obligations as they fall due. GCR has also taken some comfort in the large number of credits providers and assumed that it is unlikely that they will all call their facilities simultaneously. Furthermore, Dufil now intends to consolidate its substantial production capacity to drive volumes growth. As such, capex spending are expected to remain minimal at around N4.6bn, primarily related to asset replacement. Given these assumptions, GCR considers the moderate liquidity coverage of around 1.2x.

The N10bn Series 1 Bonds are direct, unconditional, senior, unsecured obligations of Dufil Prima Foods Plc ("the Issuer"), 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 view that Dufil leading position within the noodles market and completed capacity expansion will support strong earnings growth over the medium term, and therefore support improvement in gearing and liquidity metrics. Liquidity shortfall is supported by the strong access diverse funding sources.

Rating Triggers

Positive rating action could emanate from successful completion of ongoing projects which translates into substantial earnings growth and sustainable higher cash flows. A meaningful reduction in debt and lengthening of the maturity profile could also be positively considered.

Conversely, any escalation in debt, particularly short-term debt could result in a ratings downgrade. Accordingly, any earnings underperformance, or the persistence of working capital pressures will be negatively views. In this regard, the rating could be downgraded if debt to EBITDA rises above 3x, or if interest coverage falls below 2.5x. Further, any perceived weakening in access to capital would also be negatively considered. Accordingly, any change in the Issuer's long term rating would impact the Bond rating.

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, May 2019
Criteria for Rating Corporate Entities, May 2019

GCR Ratings Scales, Symbols & Definitions, May 2019

GCR Nigeria Country Risk Scores, February 2021

GCR Nigeria Corporate Sector Risk Scores, July 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 2020
Short Term Issuer	Last		A2(NG)		
N10bn Series1 Bond	Last	National	A-(NG)	Stable	August 2020

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	(1.25)
Liquidity	(0.50)
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.
Rating horizon	The rating outlook period, typically 18 to 24 months.
Risk Management	The process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
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:

- 2020 audited annual financial statement, and prior four years annual financial statements;
- management accounts for the period to 31 March 2021;
- 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;

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.