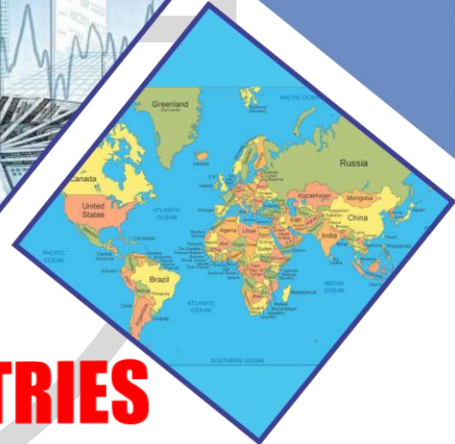




DataPro



CORPORATE RATING REPORT

HILLCREST AGRO-ALLIED INDUSTRIES LIMITED

Ground Floor, Foresight House
163-165 Broad Street,
By Marina Water Front
Lagos, Nigeria.
☎ 234-802 220 5312, 805-530-3677
Email: info@datapronigeria.net
dataprong@gmail.com
Website: www.datapronigeria.com

February, 2024

HILLCREST AGRO-ALLIED INDUSTRIES LTD

Long-Term Rating:

BBB

Short Term Rating: A2

Previous Rating: BBB

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date Issued: 13 Mar., 2024

Valid Till: 12 Mar., 2025

Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

This report is provided by DataPro subject to the Terms & Conditions stipulated in our Terms of Engagement

EXECUTIVE SUMMARY

	2023*	2022	2021	2020	2019
	₦'000	₦'000	₦'000	₦'000	₦'000
Turnover	14,659,671	17,041,965	12,063,052	8,378,517	4,866,118
Pre-Tax Profit	695,997	667,928	313,190	361,128	337,663
Equity	2,381,905	1,685,908	1,131,917	1,599,584	1,335,831
Non-Curr. Assets	7,618,274	7,792,137	6,462,650	5,045,076	1,415,421
Long-term Debt	7,194,824	5,787,170	4,841,744	4,007,978	1,350,000
Total Asset	12,662,456	10,579,097	9,161,949	7,212,671	3,004,606

*Represents 9-month period ended 30th Sept., 2023.

Rating Explanation

The Short-Term Rating of **A2** indicates *Fair Credit Quality* and adequate capacity for timely payment of financial commitments.

The Long-Term Rating of **BBB** indicates *Slight Risk*. It shows Fair Financial Strength, Operating Performance and Business Profile when compared to the standard established by **DataPro**. This Company, in our opinion, has the ability to meet its ongoing obligations, but its financial strength is vulnerable to adverse changes in economic conditions.

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 were 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:

Positive Rating Factors:

- Good Revenue Profile
- Strong Capitalization
- Good Liquidity Profile
- Experienced Management Team

Negative Rating Factor:

- High Debt Constraint

This report does not represent an offer to trade in securities. It is a reference source and not a substitute for your own judgment. As far as we are aware, this report is based on reliable data and information, but we have not verified this or obtained an independent verification to this effect. We provide no guarantee with respect to accuracy or completeness of the data relied upon, and therefore the conclusions derived from the data. This report has been prepared at the request of, and for the purpose of, our client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, DataPro and its employees accept no liability whatsoever for any direct or consequential loss of any kind arising from the use of this document in any way whatsoever.

BACKGROUND

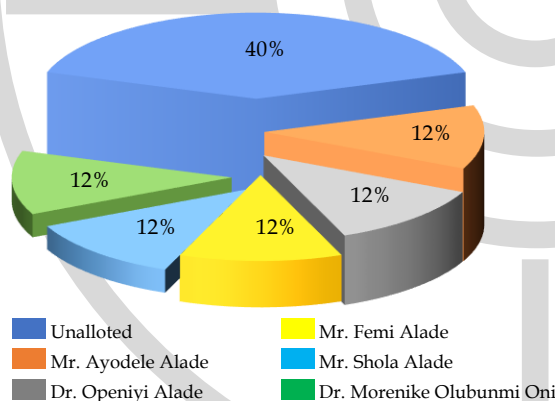
Hillcrest Agro-Allied Industries Limited (“*The Company*”) formally known as *Hillcrest Agro-Allied Limited* began operation in July 2012 as a division under *Dayntee Farms Limited*. It was subsequently incorporated as a separate entity in 2013. This was in line with its vision to assume a major role as a key player in Agro-product processing in Nigeria.

The Company deals majorly in the milling and production of *Sortex parboiled rice*. Its major brand is *Famos Rice*. The Company’s registered and operating head office as well as factory are located in Offa, Kwara State. By the strategic location of its operation, it is able to access its raw material efficiently.

The product of the Company is sold and distributed majorly in the South East and some part of the South West, Nigeria. This is made possible through its seven (7) leased warehouses spread across that part of Nigeria. Its workforce included 240 direct staff. The Company is an active member of the *Rice Processors Association of Nigeria (RIPAN)* and the *Rice Farmers Association of Nigeria (RIFAN)*.

In February 2022, the Company expanded its production capacity to 26 MT per hour with the addition of a 16 MT per hour mill. Given this expansion, the Company currently ranks as one of the top 3 Rice mills in Nigeria in terms of capacity.

ANALYSIS OF SHAREHOLDING STRUCTURE



Source: Hillcrest Agro-Allied Industries Limited

The Shareholders in the Company as at September 30, 2023 were: *Dr. Openiyi Alade, Mr Ayodele Alade, Mr. Femi Alade, Mr. Shola Alade* and *Dr. Morenike Olubunmi Oni*. Each of the shareholders held a stake of 12% as at that date. However, the Company is yet to allot 40% of its shareholding based on the expectation of future dilution in ownership.

DIRECTORS’ PROFILE

The Company is led by a 5-member Board, consisting of four (4) Non-Executive Director (including the Chairman) and an Executive Director who doubles as the CEO. They are: *Olufemi Alade - Chairman, Mr. Ayodele Alade – Managing Director; Openiyi Alade; Olushola Alade and Dr. Morenike Olubunmi Oni*

The Directors profile is as follows.

- 1. Name:** Mr. Olufemi Alade
Position: Chairman
Profession: Business Owner
Experience (Years): 23 years
Education:
 - B.Sc- Ahmadu Bello Univesity, Zaria
 - M.Sc London Business School of Finance**Job Experience:**
 - Founder, Trident Microfinance Bank, Abuja
 - Transnational Corporation of Nigeria Plc
 - Chapel Hill Advisory Partners

- 2. Name:** Dr. Openiyi Alade
Position: Non-Executive Director
Profession: Medical Doctor
Education:
 - Medical University of Warsaw, Warsaw Poland
 - Clark University, Lodz, Poland
 - Bond University, Queensland, Australia
 - RMIT Melbourne, Australia**Job Experience:**
 - Asokoro General Hospital
 - National Assembly Abuja
 - Stonemill Nigeria Limited

- 3. Name:** Mr. Olushola Alade
Position: Non-Executive Director
Profession: Economist
Experience (Years): 11 years in investment management and finance
Education:
 - B.Sc - University of Ilorin
 - M.Sc- Robert Gordon University, Aberdeen Scotland**Job Experience:**
 - Partner, Dane Investments Limited
 - MD/CEO, African Farms Limited
 - Nigerian Deposit Insurance Corporation
 - Corporate Dealer, Stanbic IBTC Bank Plc

- 4. Name:** Dr. Morenike Olubunmi Oni
Position: Non-Executive Director
Profession: Nurse
Education:
 - Deakin University, Melbourne, Australia
 - MBBs - Windsor University School of Medicine, St. Kitts, West Indies
 - BNSc - Ahmadu Bello University, Zaria**Job Experience:**
 - Sydani Group
 - Oxford Policy Management
 - Solina Centre for International Development and Research
 - Kwara State Ministry of Health
 - Maidstone and Turnbridge Wells Hospital (Pembury) UK

- 5. Name:** Mr. Ayodele Alade

Position:	Managing Director/CEO
Profession:	Geologist
Education:	•B. Sc – Monash University, Australia
Job Experience:	•Hillrest Agro-Allied Industries Ltd •Dayntee Farms Ltd

SECTOR REVIEW

Nigeria is the leading economy in Africa with a population in excess of 200 million. In the second quarter of 2023, Nigeria's GDP grew by 2.51% (year-on-year) in real terms. This growth rate is lower than the 3.54% recorded in the second quarter of 2022. According to National Bureau of Statistics (NBS), the decline is attributed to the challenging economic conditions being experienced.

In real terms, the Country's GDP grew by 2.54% in the third quarter of 2023. This is 0.29% higher than the growth rate recorded in Q3 of 2022 and 0.03% more than Q2 2023. The performance was driven mainly by the Services Sector, which recorded a growth of 3.99% and contributed 52.70% to the aggregate GDP.

The non-oil sector grew by 2.75% in real terms in Q3 2023. This rate was lower by 1.52% points compared to the rate recorded in Q3 of 2022 and 0.84% points lower than Q2 of 2023. In the third quarter of 2023, this Sector was driven mainly by Information and Communication (Telecommunication); Financial and Insurance (Financial Institutions); Agriculture (Crop production); Trade; Construction; and Real Estate.

Nigeria has an arable land area of 34 million hectares: 6.5 million hectares for permanent crops, and 30.3 million hectares on meadows and pastures. The country is a leader in various types of agricultural production, such as Palm Oil, Cocoa Beans, Pineapple, and Sorghum.

Four sub-activities make up the Agricultural sector: Crop Production, Livestock, Forestry and Fishing. In the third quarter of 2023, the Sector grew by 1.30% (year-on-year) in real terms. This represents a decrease of 0.04% points from Q3 2022, and a decrease of 0.20% points Q2 2023 which recorded a growth rate of 1.50%.

Notwithstanding, the sector contributed 29.31% to overall GDP in real terms in Q3 2023, lower than the contribution in the third quarter of 2022 and higher than the second quarter of 2023 which stood at 29.67% and 23.01% respectively.

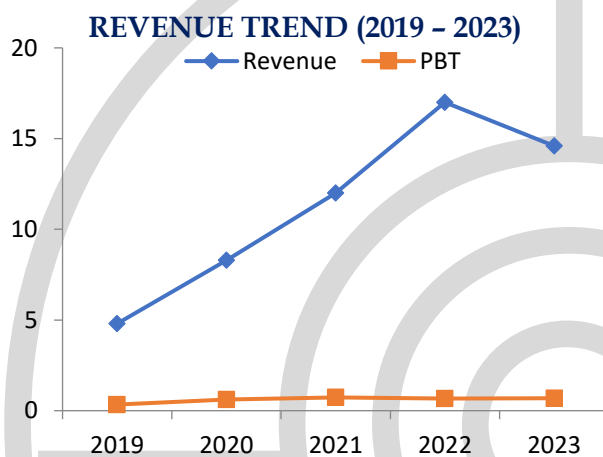
Rice is one of the major staple foods in Nigeria, consumed across all geopolitical zones and socioeconomic classes in Nigeria. Between 2010 to 2023, milled rice production generally increased in the Country. In the year 2023, the quantity of milled rice produced in Nigeria was estimated at 5.2 million metric tons.

The Agriculture Sector is faced with several challenges such as lack of access to finance, resource shortages, insufficient supply, inadequate and outdated system of farming and absence of value addition.

However, growth opportunities abound for operators in the industry on account of availability of arable lands, improving technology, support initiatives from Government and the growing population of the country.

FINANCIAL PERFORMANCE

EARNINGS AND PROFITABILITY PROFILE



Source: Hillcrest Agro-Allied Industries Limited

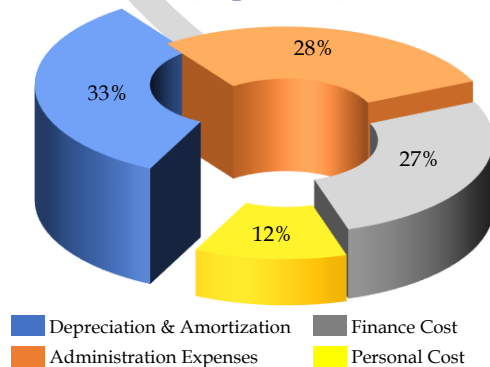
The Financial analysis was based on the review of Audited Financial Statements covering 2019 to 2022. This is in addition to the Management Account for the period ended September 30th 2023.

The Company continued to generate Revenue from its operation of milling and producing rice. Efforts were geared towards increasing production capacity and growing Sales. In the year-ended

31st December 2022, Revenue from principal activities surged by 41%. Revenue reported for the nine-month period ended September, 2023 was ₦14.6b signifying possible higher sales at the year-end.

Sales made from *Head Rice* was the major contributor to Revenue. It amounted to ₦11.9b and constituted 82% of Revenue generated during the period ended September, 2023.

COMPOSITION OF TOTAL EXPENDITURE (Sept., 2023)



Source: Hillcrest Agro-Allied Industries Limited

Asides this, other Revenue sources included *Broken Rice, Reject Rice and Bran Rice*.

Income earned from other sources aggregated to ₦25.9m. These were Income from Weighing, Sale of used sack and Contract Milling.

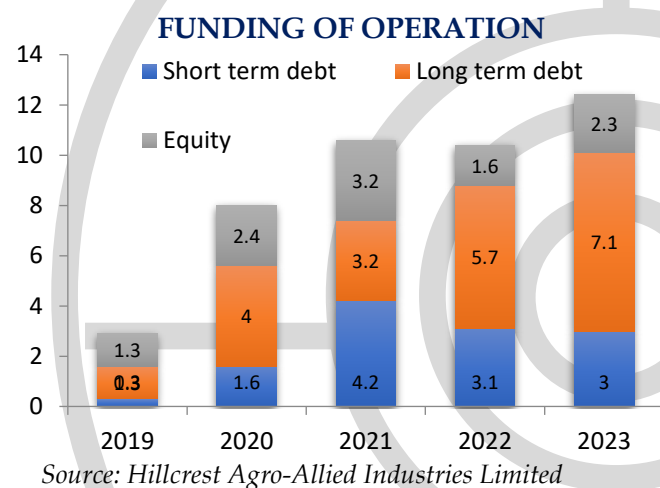
Paddy Rice which is the major input for the Company's production is sourced locally. Within the 9-month operating period in 2023, the Company expended

₦11.6b on direct materials. This accounted for 80% of the revenue generated during the same period and compared favourably with 84% efficiency achieved in the full year of 2022. Consequently, Gross Profit margin recorded in the third quarter of 2023 was 20%.

The Operating Expenditure of the Company including Personnel Cost, Administration Expenses as well as Depreciation and Amortisation totaled ₦1.7b (Sept. 23). The Company also had Interest Expense on Loan and Bank Charges.

Turnover for the period ended September 30th 2023 adequately absorbed the Total Expenditure. Therefore, Profit Before Tax amounted to ₦695.9m in the period ended September, 2023. This is above ₦667.9m Pre-Tax Profit recorded for the full year operation in 2022.

• CAPITALIZATION



Share Capital, Revaluation Reserve and Director's Fund remained the same in the periods under review. Notwithstanding, overall Equity grew by 41%. This was influenced by the growth in Retained Earnings.

Liabilities were both Short-term and Long-term in nature in the reviewed periods. Long-term Obligations grew by 24% and represented 70% of Total Liabilities. This comprised of Loans and

Borrowings as well as Overdraft from Banks at different rates.

BREAKDOWN OF TOTAL LIABILITIES

Item	Q3 2023 ₦'000	%	2022 ₦'000	%
Short-Term Liabilities	3,085,727	30	3,106,018	35
Long-Term Liabilities	7,194,824	70	5,787,170	65
Total Liabilities	10,280,551	100	8,893,189	100

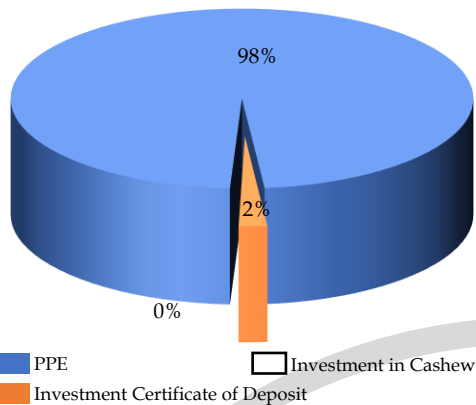
Source: Hillcrest Agro-Allied Industries Limited
 period under review is considered high.

The Funding of operation using equity improved to 19% as at the period ended September 2023. This is an improvement compared with 16% recorded in the year end of 2022. However, debt funding at 81% for the

• ASSET UTILITY

The Company started full operations with a Rice Milling production capacity of 6 MT per hour (36,000 MT per annum) in 2015. Since then, continuous efforts have been

COMPOSITION OF NON-CURRENT ASSET

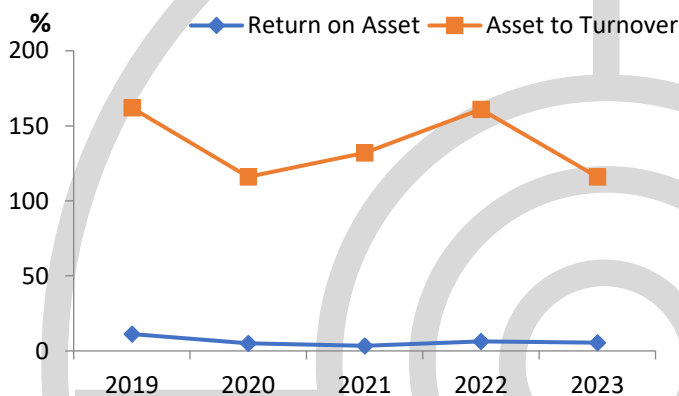


Source: Hillcrest Agro-Allied Industries Limited

deployed towards enhancing production capacity. This was expanded to 26 MT per hour (187,200MT per annum) in the year 2022.

As at 30th September 2023, the value of Total Assets was ₦12.6b, representing a 20% growth compared with the end of year figure in 2022. Non-Current Assets accounted for 60% of the Total Assets. At a value of ₦7.6b Property, Plants and Equipment was a major component of Non-Current Asset representing 98% of its total worth.

ASSET UTILIZATION TREND

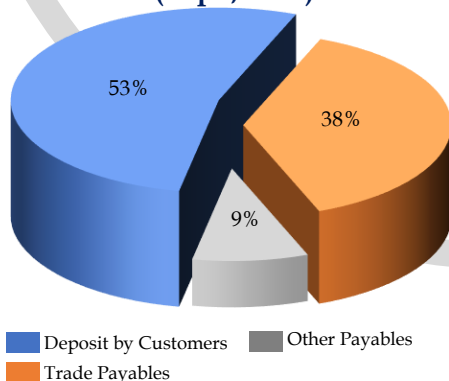


Source: Hillcrest Agro-Allied Industries Limited

The efficient use of Asset to generate Revenue was 116% while the Company earned a Return on Total Asset of approximately 6% in the period under review. These levels of efficiencies fell below the ratios recorded in the full year 2022.

LIQUIDITY

COMPOSITION OF CURRENT LIABILITIES (Sept., 2023)



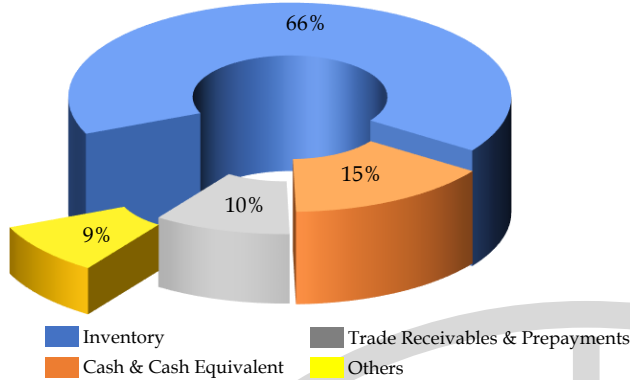
Source: Hillcrest Agro-Allied Industries Limited

The Company held no Interest-Bearing Liabilities in the Short term. Its Current Liabilities comprised of Deposit by Customers, Current Tax obligations as well as Trade and other Payables. These constituted 30% of the total obligations in the period under review.

In absolute term, the Liquid Assets of the Company amounted to ₦5b in the period ended 30th of September, 2023. It included inventory, work in

progress, receivables, deposit with suppliers and cash.

**COMPOSITION OF CURRENT ASSETS
(Sept., 2023)**



Source: Hillcrest Agro-Allied Industries Limited

The major component of the liquid assets were inventory and cash. Inventory included Finished Goods, Consumables as well as Material with total value of ₦3.3b while cash amounted to ₦0.7b.

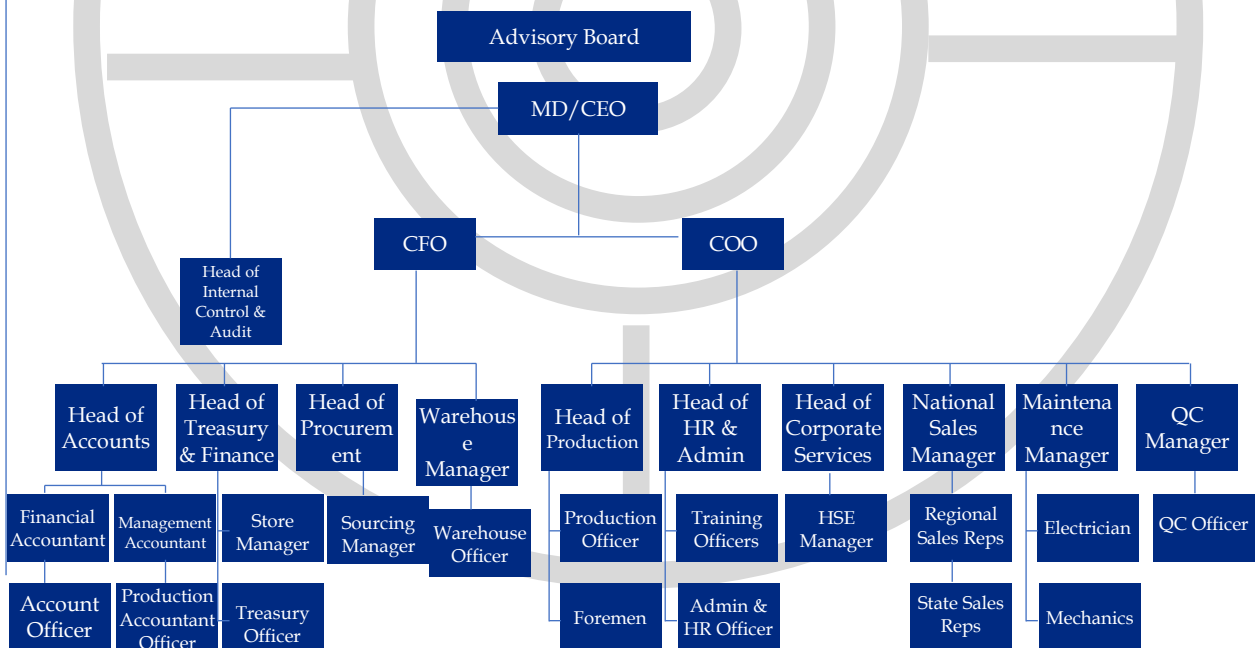
The Company had a networking capital of ₦1.9b as at the period ended September, 2023. However, a negative cashflow of ₦130.9m was recorded from operations. This was due to the concentration of cash in

inventory. The ability to pay its maturing obligation using its liquid assets was at a satisfactory level of 163%.

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by its Board which consists of four (4) Non-Executives Directors including the Chairman and one (1) Executive Director.

THE CORPORATE ORGANOGRAM



Source: Hillcrest Agro-Allied Industries Limited

RISK FACTORS

In the course of our review, we observed the following significant risks.

- **LEGAL RISK**

This is the risk that the Company will be exposed to legal actions that may lead to payment of significant fees.

In the course of our review, we did not come across any action that could lead to payment of such fine.

- **REPUTATIONAL RISK**

This is the risk that the Company may be exposed to reputational damage of its brand which may lead to loss of business.

In the course of our review, there was no negative public information or adverse press report against the Company or its Board of Directors.

- **CREDIT RISK**

This is the risk arising from the inability of counterparties to honor their obligations as at when due.

Based on our review, the Company's Total Receivables accounted for 2% of its Total Assets. Therefore, inability of its trading partners to pay as at when due will have no significant effect on the Company's profitability.

- **INTEREST RATE RISK**

This is the Risk of loss to income arising from adverse movement in Interest Rate.

Based on our review the company held Long-Term Interest-Bearing Liabilities of over ₦5b obtained from Commercial Banks at different Interest Rates. Therefore, adverse movement in Interest Rates may affect the Company's profitability.

- **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 Current Ratio of 163% as at the period ended September 30, 2023.

CONCLUSION

The Rating of the Company is supported by its Good Revenue Profile, Strong Capitalization, Experienced Management Team and Good Liquidity Profile.

Consequently, we assigned a Rating of **"BBB"**

FINANCES

Financial Position as at

	Dec, 2022		Dec, 2021		Dec, 2020
	₦	Δ%	₦	Δ%	₦
ASSETS					
Property and Equipment	7,656,587,224	21.00	6,327,579,859	27.00	4,982,266,705
Unquoted Investment	30,826,670	-	30,826,670	35.15	22,810,020
Investment in property	-	-	-	(100.00)	40,000,000
Investment in Certificate of Deposit	104,723,252	-	104,243,677	-	-
Inventory	2,333,193,975	8.03	2,159,815,414	-	-
Trade Receivables	1,962,130	(98.83)	167,539,883	257.04	46,924,148
Other receivables and Prepayments	102,087,033	427.04	19,369,899	(85.34)	132,139,638
Deposits with Suppliers	300,017,775	-	-	-	-
Cash and cash equivalent	40,510,448	(88.51)	352,574,544	(62.88)	949,702,773
	<u>10,569,908,507</u>	15.37	<u>9,161,949,946</u>	48.40	<u>6,173,843,284</u>
Liabilities					
Noncurrent Liabilities	2,796,350,085	(14.71)	3,278,573,766	2,598.41	121,500,000
Borrowings	2,935,063,149	-	-	-	-
Trade and Other Payables	3,979,905,118	40.58	2,831,026,857	86.76	1,515,848,696
Income Tax	215,184,876	133.80	92,037,607	-	92,037,607
Borrowings/Overdraft	-	(100.00)	1,352,047,356	-	-
Total Liabilities	<u>9,926,503,228</u>	31.41	<u>7,553,685,586</u>	336.78	<u>1,729,386,303</u>
Net Asset	<u>643,405,279</u>	(59.99)	<u>1,608,264,360</u>	(63.81)	<u>4,444,456,981</u>
Share and reserves					
Share capital	10,000,000	-	10,000,000	-	10,000,000
Directors' Fund	286,796,222	(72.99)	1,061,781,938	-	1,061,781,938
Revaluation Reserve	311,703,496	-	311,703,496	-	311,703,496
Retains earning	682,414,164	(62.38)	1,814,186,338	64.57	1,102,353,717
Shareholders funds	<u>1,290,913,882</u>	(59.63)	<u>3,197,671,772</u>	28.64	<u>2,485,839,151</u>
Profit & Loss Account					
Total revenue	17,040,465,434	41.26	12,063,052,783	43.98	8,378,517,700
Profit before income tax	27,321,806	(96.27)	732,909,162	18.61	617,909,148
Profit for the year	18,578,828	(97.39)	711,832,621	17.75	604,510,814
Trasfer to retained earnings	(1,131,772,174)	(258.99)	711,832,621	-	-

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 13th March, 2024

For and on behalf of:
DataPro Limited
Ground Floor, Foresight House
By Marina Water Front
163/165 Broad Street, Lagos Island, Lagos.
Tel: 234-1-4605395, 4605396
Cell: 0805-530-3677
Email: info@datapronigeria.net, dataprong@gmail.com
Website: www.datapronigeria.net

©
DataPro 2024
All right reserved.

*This report is provided for your internal business use only and may not be reproduced or re-distributed in any manner whether mechanical or without the permission of **DataPro**.*

*Whilst **DataPro** attempts to ensure that the information provided is accurate and complete, however due to the immense quantity of detailed matter used in compiling the information and the fact that some of the data are supplied from sources not controlled by **DataPro**, we will not be responsible for any omission therefrom.*

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 of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.