Flour Mills of Nigeria Plc.

2020 Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Flour Mills of Nigeria Plc.

Entity Rating:

A-

This is a company with good financial condition and strong capacity to repay obligations on a timely basis.

Outlook: Stable
Issue Date: 10 September 2020
Expiry Date: 30 September 2021
Previous Rating: Bbb

Industry: Food & Agro-Allied

Inside the Report

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Rating Rationale

- Agusto & Co. hereby reviews the rating assigned to Flour Mills of Nigeria Plc. ("Flour Mills", "FMN" or "the Company") to an '**A-**', on account of the significant improvement in leverage metrics, good cash flow, satisfactory working capital, good profitability compared to industry average and qualified and experienced management team. The assigned rating also takes into consideration FMN's market leadership in the flour milling industry, wide and diversified product portfolio, extensive distribution channels, strong brands in the Nigerian fast-moving consumer goods (FMCG) sector as well as significant investment in backward integration programmes. Nonetheless, the rating is tempered by its long-term funding mismatch, which is being addressed, negative macroeconomic headwinds, shrinking consumer wallets, worsened by the adverse impact of the coronavirus pandemic (Covid-19) on businesses and households.
- Flour Mills' is a fully integrated food company and the largest flour milling business listed on the Nigerian Stock Exchange, with a milling capacity of *circa* 3 million metric tonnes per annum. The Company has made notable gains and consolidated its investments in backward integration initiatives in the agro-allied space to source raw materials locally in a bid to lower input costs and moderate the impact of volatility in foreign exchange on the business. Flour Mills has an extensive product portfolio which caters to diverse consumer segments and a robust distribution network of over 300 distributors spread across the country.
- During the financial year ended 31 March 2020 (FYE 2020), Flour Mills' topline trended upwards by 7% to ₦394.8 billion, with food business segment accounting for 94% of turnover, largely due to growth in demand. Pre-tax profit margin stood at 4.4%, higher than the five-year average of 3.8%, on account of the significant reduction in finance costs due to the deleveraging of the Company's balance sheet with injection of long-term bonds to replace short term borrowings. FMN's pre-tax return on average assets (ROA) remained unchanged at 12.3% (2019: 12.3%), while the pre-tax return on average equity of 12.3% (2019: 14%) was above the above return on 364-day treasury certificate of 11.3%.
- Flour Mills' operating cash flow (OCF) rose by 21% to ₦65.5 billion, mainly due to a significant decline in amounts due from related parties and an increase in other creditors and accruals. The Company's OCF was adequate to meet returns to providers

of finance of ₦17.3 billion (comprising interest: ₦12.7 billion and dividend: ₦4.7 billion), estimated mandatory capital expenditure of ₦15.9 billion and current portion of long-term borrowings of ₦10.3 billion. The Company's OCF to sales ratio inched up to 17%, from 15% the prior year, and was within our expectation. Agusto & Co. is of the view that FMN has a sustainable cash-generating capacity supported by its favourable terms of trade with suppliers and customers.

- As at FYE 2020, Flour Mills' spontaneous financing was more than its working assets resulting in a short-term financing surplus of ₦7.8 billion. As at 31 March 2020, the Company's long-term funds were inadequate to cover its long-term assets, leading to a long-term financing need of ₦3.6 billion which was covered by the short-term financing surplus.
- As at 31 March 2020, FMN's total interest-bearing liabilities stood at ₦57 billion, down from ₦77.2 billion the prior year, as some expensive bank loans were repaid following the issuance of Series 3 ₦12.5 billion 3-Year 10% Fixed Rate Senior Unsecured Bond Due 2023 and ₦7.5 billion 5-Year 11.1% Fixed Rate Senior Unsecured Bond Due 2025. As a result, Flour Mills recorded a marked improvement in its leverage metrics, mainly attributable to its enhanced funding mix and favourable interest rate regime. The Company's debt to earnings before interest, taxes, depreciation, and amortisation (EBITDA) of 1.39 times, is better than its five-year average of 2.35 times, and the interest expense to sales ratio of 3.2% is the lowest recorded in the last five years. Furthermore, net debt as a percentage of total assets improved to 50% (2019: 54%) while interest coverage ratio stood at 5.2 times above our benchmark of 3 times.
- Going forward, Management expects FMN's profitability indicators to improve in the near to medium term, driven by the introduction of new value brands in its product portfolio. As a result, Flour Mills is optimising its route-to-market strategy and improving its distribution channels to enhance its market position. Nonetheless, we believe that increasing competition in the market, weak consumer spending, the adverse impact of Covid-19 pandemic on consumption levels, as well as foreign exchange volatility remain major challenges for the food industry in the near term.
- Overall, Agusto & Co. believes that Nigeria's large and growing population, favourable demographics, and FMN's wide product offerings, most of which are food staples in Nigerian households are growth drivers for the Company in the medium term. Based on the aforementioned, we hereby attach a **stable** outlook to the rating of Flour Mills of Nigeria Plc.

Figure 1: Strengths, Weaknesses, Opportunities and Threats

Strengths

- Market leadership in the flour milling industry
- Strategic investment in backward integration programmes
- Strong brand name in the food industry
- Well diversified product offering
- Low leverage
- Good cash flow
- Qualified and experienced management team

Weaknesses

- Shrinking margins
- Long term financing need

Opportunities

- Nigeria's large and growing population
- High consumption of staple foods in Nigeria
- Export potentials to neighbouring African countries following Nigeria's participation in the African Continental Free Trade Agreement (AfCFTA)

Threats

- Shrinking consumer wallets
- Weak macroeconomic climate
- Intense competition in its products markets
- Susceptible to foreign exchange risks given the importation of its key input

COMPANY PROFILE

Overview

Flour Mills of Nigeria Plc. was incorporated as a private limited liability company in September 1960. The Company commissioned Nigeria's first flour mill in Apapa, Lagos with a grinding capacity of 500 metric tonnes of wheat per day in 1962. In 1978, FMN became a public limited liability company and listed its shares on the Nigerian Stock Exchange. The Company has grown to become Nigeria's largest flour milling company, with an installed milling capacity of circa (*c.*) 3 million metric tonnes per annum.

In the Company's 60-year-history, Flour Mills' has remained the market leader in grain-based food ingredients, as Nigerians have a strong affinity for FMN products. Flour Mills' is a fully integrated food company which utilises its investments in the agro-allied space to source its raw materials locally. The Company's principal business activities include flour milling, production of pasta, noodles, semolina and wheat meal. Flour Mills' is also engaged in the manufacturing & marketing of laminated woven polypropylene and flexible packaging as well as bagging. FMN's subsidiaries are also engaged in primary agricultural ventures such as cassava farming, oil palm and other agro-allied activities.

As part of backward integration initiatives, Flour Mills' commissioned a ₦50 billion Sunti Golden Sugar Estate located on the banks of River Niger, in Mokwa, Niger State in March 2018. The Sugar Estate is owned by Sunti Golden Sugar Estates (SGSE) Ltd., a subsidiary of Flour Mills of Nigeria Plc. The Sugar Estate has over 15,000 hectares of irrigable farmland and a sugar milling capacity of 4,500 metric tons of sugarcane per day. At full capacity, the estate is expected to produce 1 million tons of sugarcane which translate into 100,000 metric tons of sugar yearly. The Sugar Estate has a production facility area of 15,100 hectares and a sugar cane cultivated area of 10,000 hectares. Sunti Golden Sugar Estate is enclosed within a 35-kilometer dyke which protects it from the River Niger and enables efficient cultivation of sugar cane, with infrastructure that includes drain pumps, pump stations and a power grid. In June 2018, FMN entered a strategic partnership with Corteva Agriscience™, Agriculture Division of DowDuPont for the development of hybrid maize seeds in Nigeria. The collaboration will allow the Company and Corteva Agriscience™ work together on key aspects of the maize value chain in Nigeria, with a focus on promoting modern farming techniques and practices, capacity development and knowledge transfer for the local production and use of improved and quality inputs, including seeds and crop protection. This partnership is expected to improve maize cultivation for use across FMN's products.

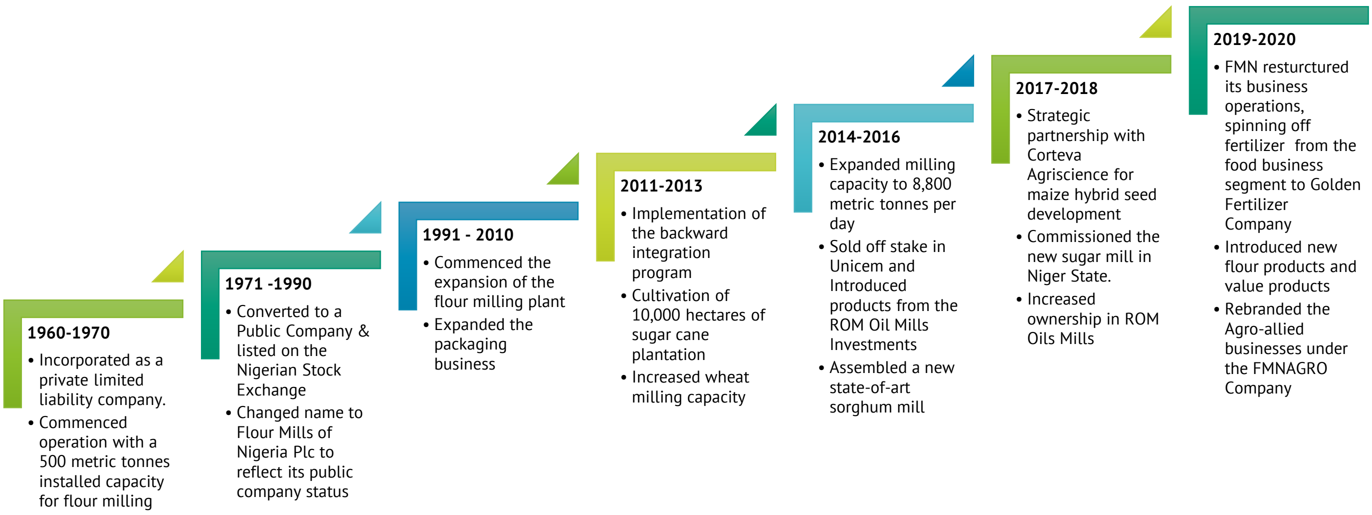
During the year under review, the Company consolidated its investments in farms and rebranded the agro-allied companies. As a result, FMN changed the names of these agro-allied subsidiaries to compete favourably in the Nigerian Agri-business space, with a more enhanced route-to-market strategy, improved packaging, and renewed marketing campaigns. This is in line with Flour Mills' backward integration strategy to source raw materials locally while investing across the food value chain.

Table 1: Agro-Allied Companies

New Name	Old Name
Sunflag Farm Limited	Agro-Allied Farms Sunti Limited
Premium Edible Oil Products Limited	ROM Oils Mills Limited
Premium Cassava Products Limited	Thai Farms International Limited

New Name	Old Name
Shao Golden Farms Limited	Agro-Allied Syrups Limited

Figure 2: Timeline of Flour Mills of Nigeria Plc.

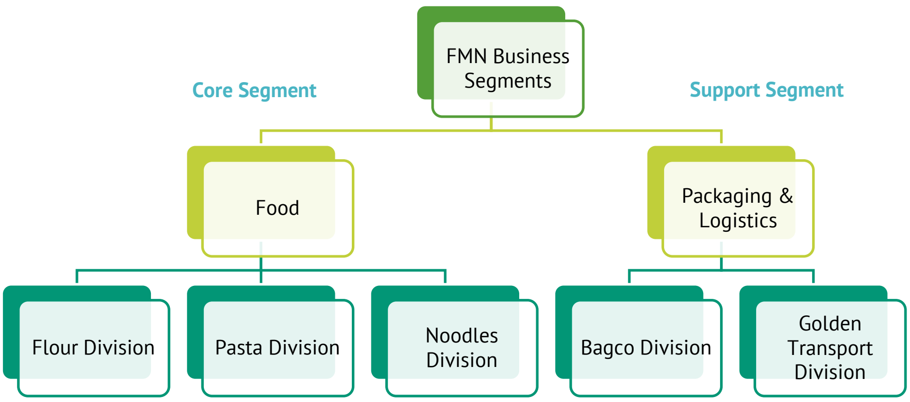


Ownership Structure

Flour Mills of Nigeria Plc. has 80,639 individual and institutional shareholders, with Excelsior Shipping Company Limited holding the largest equity stake of 62.95%. No other single shareholder owns more than 5% of the Company's equity stake as at 31 March 2020.

Legal & Operational Structure

Figure 3: FMN's Operating Structure



Source: FMN

The Company operates through two business segments, with the food business segment as the core while packaging and logistics are the support services segment of the Company.

Flour Mills of Nigeria Plc. has a well-diversified product portfolio. The Company's range of flour and associated products include its flagship *Golden Penny Flour*, *Soft Biscuit Flour*, *Semovita*, *Goldenvita*, *Pasta Semolina* and

Noodle Flour. The Golden Penny brand has grown to include *Golden Penny Pure Soya Oil*, *Golden Penny Pure Vegetable Oil*, *Golden Penny Margarine* and *Golden Penny Spread*. Other products include offals and pellets for animal feeds. FMN utilises a wide network of distributors spread across the Country. The Company has a strong brand equity and enjoys good patronage among Nigerian consumers.

Table 2: Product Portfolio

Product Category	Variants
Flour	Golden penny flour, Soft biscuit flour, Noodle flour
Food	Noodles, spaghetti, macaroni
Ball food	Semovita, Goldenvita, Pasta Semolina, Masavita
Others	Packaging, port operations, transportation and logistics

Source: Flour Mills'

The Company maintains technical partnerships with Buhler Company (Switzerland), Prado Company (Spain) and Kemin Industries (United States of America) for supplies, installation, maintenance and support of its equipment and machinery. FMN's major competitors for flour and associated products are Crown Flour Mills Limited, Dangote Flour Mills Plc, Dufil Prima Foods Plc. and Honeywell Flour Mills Plc.

Board Composition and Structure

A 14-member Board of Directors, comprising two executive directors and 12 non-executive directors, governs Flour Mills. The Board is chaired by Mr. John G. Coumantaros – a position he has held since September 2014, while the management team is led by the Group Managing Director, Mr. Paul Gbededo. During the year under review, Mr. Atedo Peterside resigned from the Board as a Non-Executive Director to serve his not-for-profit organisation. Subsequent to the year-end, Mr. Omoboyede Olusanya was appointed Executive Director and Group Chief Operating Officer in March 2020.

Table 3: Current Board of Directors

Name	Position
Mr. John G. Coumantaros	Chairman
Dr. Emmanuel A. Ukpabi	Vice Chairman
Mr. Paul M. Gbededo	Group Managing Director
Mr. Omoboyede Olusanya*	Executive Director / Group Chief Operating Officer
Alhaji Olalekan Saliu	Non-executive Director
Alhaji Abdullahi A. Abba	Non-executive Director
Dr. Mrs. Salamatu Hussaini Suleman	Non-executive Director
Prof. Jerry Gana	Non-executive Director
Alhaji Rabiu M. Gwarzo	Non-executive Director
Mr. Ioannis Katsaounis	Non-executive Director
Mr. Thanassis Mazarakis	Non-executive Director
Mr. Foluso Phillips	Non-executive Director
Mr. Folarin R. A. Williams	Non-executive Director
Mr. Alfonso Garate	Non-executive Director

*Source: Flour Mills' Financial Statements *Appointed in July 2020*

The Company's Board of Directors operates mainly through three principal board committees, comprising Remuneration/Governance Committee, Audit & Risk Management Committee and the Statutory Audit Committee. Mr. Foluso Phillips is the chairman of the Remuneration/Governance Committee and is supported by three non-executive directors. Mr. T. Mazarakis chairs the Audit & Risk Management Committee, supported by four other directors. The Statutory Audit Committee consists of three non-executive directors, three shareholders' representatives and the company secretary.

Subsidiaries

As at 31 March 2020, Flour Mills of Nigeria Plc had seven operating subsidiaries with activities ranging from agriculture to port operations, real estate, shipping, sugar manufacturing, farming, flour milling and production of livestock feeds.

Table 4: List of Subsidiaries as at 31 March 2020

Subsidiaries	FMN's Equity Stake (%)	Principal Activity
Apapa Bulk Terminal Limited	100%	Port operations
Crestview Tower Limited	100%	Real Estate
Golden Fertiliser Company Limited	100%	Fertiliser and Agriculture
Golden Shipping Company Nigeria Limited	100%	Shipping Agency
Golden Sugar Company Limited	100%	Manufacturing and Refining of Sugar
Northern Nigeria Flour Mills Plc.	53%	Flour Milling
Nigerian Eagle Flour Mills Limited	51%	Flour Milling

Source: Flour Mills' Financial Statements

Other Information

As at 31 March 2020, Flour Mills' total assets stood at ₦314.3 billion (2019: ₦314 billion) and recorded total liabilities of ₦167.9 billion. FMN generated turnover of ₦394.8 billion and recorded a profit after tax of ₦12.6 billion during the financial year ended 31 March 2020. FMN had an average staff strength of 3,680 employees (2019: 3,566 persons) in the period under review.

Table 5: Flour Mills as at 31 March 2020

Authorised Share Capital:	₦2.5 billion
Paid-up Capital:	₦2.05 billion
Shareholders' Funds:	₦146.3 billion
Registered Office:	1, Golden Penny Place, Wharf Road, Apapa, Lagos
Principal Business:	Flour Milling
Auditors:	KPMG Professional Services

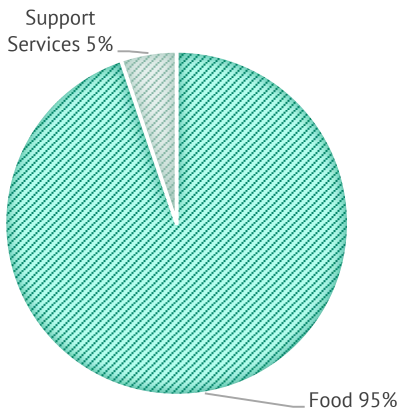
Source: Flour Mills' Financial Statements

FINANCIAL CONDITION

Analysts' Comments

Profitability

Figure 4: Breakdown of revenue by business segments



The 2020 financial year was marred with negative macroeconomic headwinds, particularly as inflation stood at 12.3% in March 2020, up from 11.3% the prior year, gross domestic product (GDP) growth rate in the first quarter (Q1) slowed at 1.9% (2019: 2.1%)[1], while the domestic currency depreciated owing to the slump in crude oil prices. Despite the challenging macroeconomic landscape, Flour Mills' topline rose by 7% to ₦394.8 billion in the financial year ended 31 March 2020, on account of volume growth due to expanded product portfolio and positive effect of border closure on demand for FMN's products. Breakdown of revenue revealed that the food business segment comprising flour milling, pasta, noodles and ball foods remained the dominant driver of topline, accounting for 94% of revenue (2019: 88%). While the support services (comprising packaging, logistics transportation) represented 5% of turnover and agro-allied business segments (includes edible oils and garri) accounted for the balance.

During the financial year ended 31 March 2020, the Company installed a new pasta and semolina line as well as engaged in some maintenance and plant optimisation exercise which saw capacity utilisation inched up to 86% from 80% the prior year, thus ramping up production efficiency and volumes across its plants. Thus, cost of sales as a percentage of turnover dipped to 89.9% (2019: 91.1%). Management is optimistic that the increased capacity will aid production output while enhancing market share to remain competitive. In the same period under review, Flour Mills tailored its marketing and distribution strategy more towards business-to-consumer (B2C) channels to better understand consumers' preference and meet their requirements faster. As a result, the Company commenced direct distribution of products, thus translating to higher selling and distribution expenses, which partly caused operating expenses to increase by 32% to ₦25.3 billion, accounting for 6.4% of revenue. In addition, FMN incurred one-off expenses of ₦2 billion following its donation to the coalition against Covid-19 comprising cash[2], personal protective equipment and relief materials to the Federal and some state governments in a bid to curb the spread of Coronavirus in the country.

Nonetheless, operating profit margin remained relatively unchanged at 3.7% (2019: 3.8%) while earnings before interest, taxation, depreciation and amortisation (EBITDA) margin dipped to 11%, just below its three-year average of 12%. Going forward, management has disclosed that operating expenses should inch up, on the back of the improving route-to-market strategy and deployment of regional depots to aid timely delivery of products in line with the Company's B2C strategy. As a result, management has a target EBITDA margin of *c.* 10%, supported by moderate price increase subsequent to the year end. Agusto & Co. believes that this

[1] Nigerian Bureau of Statistics Q1 2020 GDP Report

[2] Flour Mills made a cash donation of ₦1 billion to Coalition against Covid-19

target is achievable, on the back of the Company's ability to drive volumes due to its wide product offering, sustained market leadership and strong brand affinity.

In the review period, FMN reported other income, comprising investment income, fair value gains on derivatives[3] and rental income on investment property of ₦15.6 billion (2019: ₦22.4 billion). A breakdown of investment income revealed that interest income from loans to related parties accounted for 59%. We note that this is in line with the Company's financing strategy of advancing surplus funds to its subsidiaries who are unable to source funds directly due to limited track record and inability to obtain loan at favourable rate. Furthermore, dividend income from subsidiaries and interest income from short term investments such as bank placements represented the balance. Consequently, Flour Mills of Nigeria Plc. recorded a profit before interest & tax of ₦30.3 billion (2019: ₦36.3 billion), representing 7.7% of revenue in the year (2019: 9.8%).

Figure 5: Operating Profit & EBITDA Margin

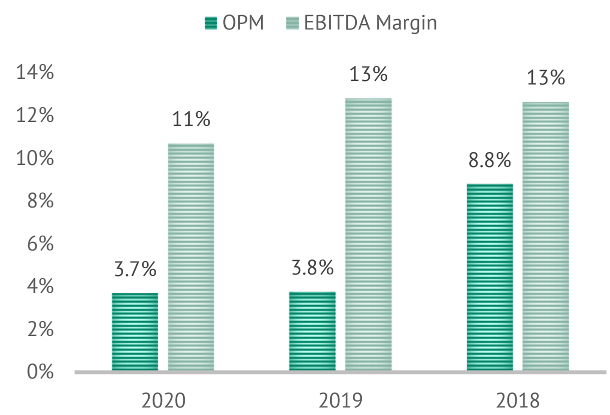
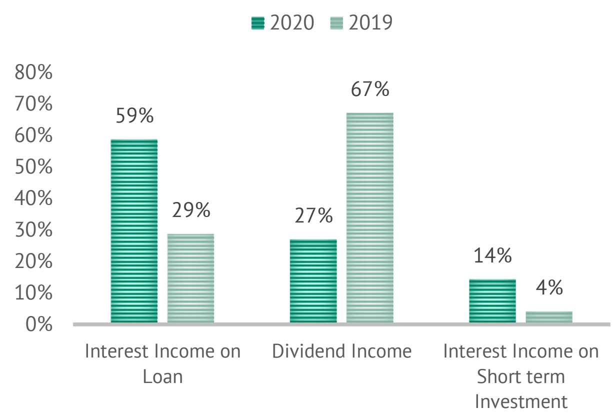
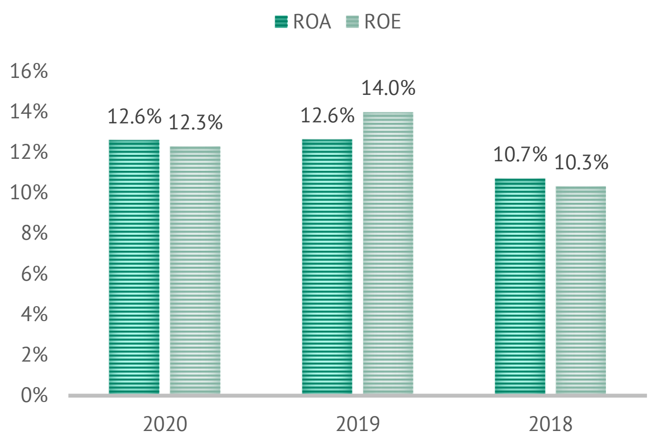


Figure 6: Breakdown of Investment Income



During the FYE 2020, the Company recorded a marked improvement in its funding costs, recording interest expense of ₦11.9 billion, accounting for 3% of sales better than its five average of 5.2%. This is due to the repayment of expensive commercial bank borrowings from the net proceeds of ₦20 billion Bond[4]. In the FYE 2020, Flour Mills' recorded a pre-tax profit of ₦17.5 billion, down from ₦20.3 billion, accounting for 4.4% of turnover in line with our benchmark for the food industry in Nigeria. FMN's pre-tax return on average assets (ROA) remained unchanged at 12.6% in FY 2020, above our expectation. In FYE 2020, the Company's pre-tax return on average equity though dipped to 12.3% (2019: 14%) was above the industry average of *c.* 7%[5] and the average return on 364-day T-Bills of 11.3%[6], which we consider to be good.

Figure 7: Profitability Indicators- ROA & ROE



[3] Derivatives are used to hedge its foreign exchange position with its suppliers
[4] The Bond comprises ₦12.5 billion 3-Year Series 3a Fixed Rate Senior Unsecured Bond Due 2021 and ₦7.5 billion 5-Year Series 3b Fixed Rate Senior Unsecured Bond Due 2023.
[5] Agusto & Co. Research
[6] Central Bank of Nigeria

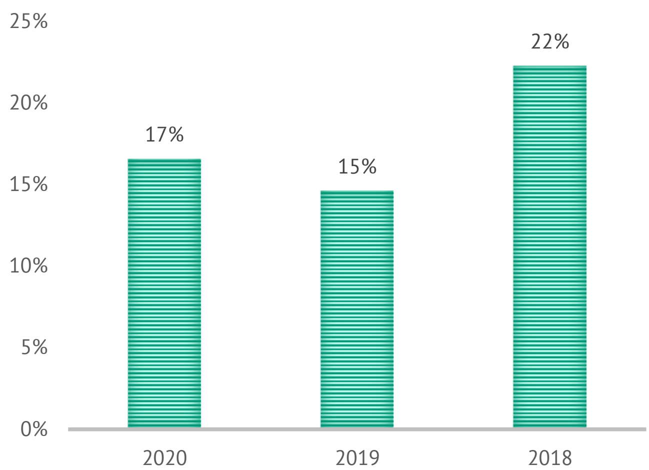
Unaudited figures for the three months ended 30 June 2020 (Q1 2020/2021) revealed improved performance, with topline growth of 11% to ₦98.7 billion compared to the corresponding period the prior year, despite the lockdown and restriction of movement occasioned by the Covid-19 pandemic. Management disclosed that the revenue growth was fuelled by an enhanced route-to-market strategy under its B2C drive bolstered by the *stay-at-home* policy implemented in a bid to curb the spread of Coronavirus in the country. In addition, the introduction of value brands and some price adjustments complemented the improved topline performance in Q1 2020/2021. Noteworthy is the positive impact of border closure which drove pasta sales volume by 15%, to account for 20% of topline. Agusto & Co. notes that supply chain disruptions during the lockdown period were moderated due to Flour Mills stockpiling strategy and raw material holding period of *c.* six weeks. However, we note that the Company recorded a foreign exchange loss of ₦5.9 billion from its trade-related activities on its key input (wheat), on account of the devaluation of the domestic currency. As a result, operating profit margin stood at 4.5% from 5.3% in Q1 2019/2020 and profitability ratios dipped, with annualised ROA of 7% and ROE of 8.5%.

We believe that rising input costs fuelled by continuous devaluation could impair profit going forward. However, we expect profitability to remain within acceptable levels in the medium term, supported by the introduction of new products which provides a good mix of innovative and value offerings to serve key consumer segments of the market, improving its route-to-market strategy, enhanced distribution system to propel business growth and increase market share in the near to medium term.

CASH FLOW

Flour Mills of Nigeria Plc.'s ability to generate cash flow from operations is hinged on its favourable terms of trade with its customers, particularly as sales are largely on cash basis. Nonetheless, the Company also engages in credit sales to its large distributors and well-established corporate customers for up to 30 days subject to provision of bank guarantees. As at 31 March 2020, Flour Mills' average trade receivables days stood at 7 days which is better than the maximum stipulated credit period and below 9 days recorded in the previous year. The Company has continued to enjoy favourable trade terms with its raw materials suppliers, on the back of the length of relationship. Consequently, trade creditors' days remained unchanged at 52 days, same with the prior year.

Figure 8: Operating cash flow to sales ratio



In the financial year ended 31 March 2020, Flour Mills' operating cash flow (OCF) grew by 21% to ₦65.5 billion, mainly due to a significant decline in amounts due from related parties and the increase in other creditors and accruals. The Company's OCF was adequate to meet payment of returns to providers of finance of ₦17.3 billion, comprising interest (₦12.7 billion) and dividend (₦4.7 billion). During the same period, net operating cash flow of ₦48.1 billion was sufficient to cover mandatory capital expenditure estimated at ₦15.9 billion and current portion of long-term borrowings of ₦10.3 billion.

During the year ended 31 March 2020, Flour Mills' operating cash flow as a percentage of sales inched up to 17%, from 15% the prior year end was in line with our expectation. Furthermore, the Company's OCF as a percentage of returns to providers of finance of 377% as at year-end and three-year average of 312%, are both better than our expectation. In our opinion, Flour Mills of Nigeria Plc's cash flow is good.

LIQUIDITY PROFILE

As at 31 March 2020, Flour Mills' liquidity position comprised cash and equivalents of ₦16 billion (2019: ₦9.98 billion) and committed undrawn bank lines amounting to ₦403.8 billion (2019: ₦416 billion) which fully covered total short-term borrowings[7]. The Company's undrawn lines are sourced from four banks and have maturities between 12 months and 18 months and have negative pledge clauses as part of the agreements. During the year under review, we note that Flour Mills changed its funding source to utilise more commercial papers and long-term bonds rather than mid-term commercial bank borrowings due to the prevailing low interest rate environment.

Agusto & Co. considers the Company's liquidity profile to be good, underpinned by its sizeable cash balance, and committed undrawn lines. Overall, we note that this demonstrates Flour Mills' strong market reputation, good track-record as well as proven ability to raise finance at short notices to meet maturing obligations as the need arises.

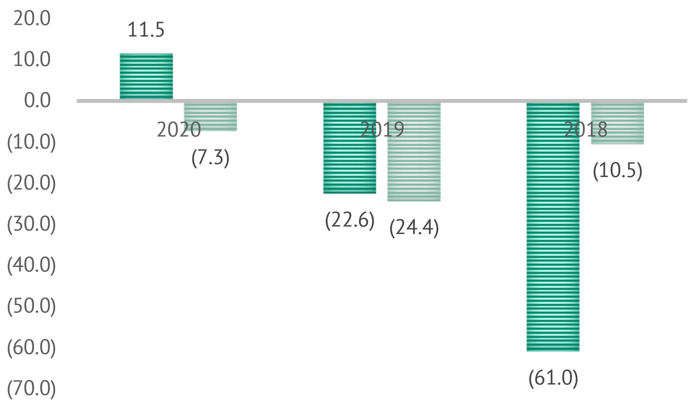
FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at the financial year ended 31 March 2020, the Company's working assets stood at ₦97.8 billion, representing a 15% decline from the prior year, mainly on account of the significant decline in amounts due from related parties (relating to Golden Sugar Company Limited) and trade debtors and inventory. As at year-end, working assets comprised inventory (50%), other debtors & prepayments (16%), FX purchased for imports (11%), amounts due from related parties (10%), trade debtors (7%) and advance payments and deposits to suppliers (6%).

As at year-end, Flour Mills' spontaneous financing rose to ₦109.4 billion, from ₦96.4 billion the previous year. This was largely due to the increase in trade creditors, advance payments & deposits from customers and other creditors & accruals. The Company's spontaneous financing consists of trade creditors (47%), advance payments & deposits from customers (13%), other creditors & accruals (12%), deferred taxation (10%), obligations under unfunded pension schemes (7%) and amounts due to related parties (7%). As at FYE 2020, FMN's spontaneous financing was more than sufficient to cover working assets resulting in a short-term financing surplus of ₦11.5 billion. This is the first time in the last decade that FMN will record a short-term financing surplus and we attribute this to the significant reduction in amounts due from Golden Sugar Limited (which is principally trade related) as well as the Company's B2C distribution strategy.

[7] Short term borrowing comprises short term and current portion of long-term borrowings.

Figure 9: Short term financing surplus and Long-term financing need (₦' Billion)



As at 31 March 2020, Flour Mills' long-term assets stood at ₦196.7 billion, representing a 6% increase from the prior year, due to the growth in long term loan receivables (intercompany loan) to its wholly-owned subsidiary – Golden Sugar Company Limited. Agusto & Co. notes that the Company recorded an impairment of long-term receivables of ₦7.2 billion and a write off on intercompany loan receivable of ₦16.8 billion. While we recognise that the Company's strategy seeks to provide financing support to its subsidiaries, however some of these subsidiaries are loss-making, which could potentially cause a strain on the Company's performance. As at year-end, long term funds of ₦193.1 billion, comprising equity (86%) and long-term borrowings (14%) were insufficient to finance FMN's long term assets resulting in a long-term financing need of ₦7.3 billion. Notwithstanding, the short-term financing surplus was adequate to cover the long-term financing need. In our opinion, FMN's working capital is adequate, however its financing structure requires improvement Subsequent to the year-end, Management has commenced the process of raising up to ₦30 billion (split into five and seven-year tenors) from the debt capital market to close the long-term funding gap and finance working capital needs. Should this issuance be successful, we expect further improvement in FMN's working capital in the near term.

LEVERAGE

As at 31 March 2020, Flour Mills' total liabilities stood at ₦167.9 billion (2019: ₦175.1 billion), comprising non-interest-bearing liabilities (NIBL) 65% and interest-bearing liabilities (IBL) 35%. As at FYE 2020, NIBL inched up by 13% to ₦109.4 billion, mainly due to the increase in other trade creditors & accruals, taxation payable advance payments & deposits from customers, and trade creditors. As at 31 March 2020, non-interest-bearing liabilities largely consisted of trade creditors (47%), advance payments and deposit from customers (13%), other creditors & accruals (12%), deferred taxation (10%), amounts due to related parties (7%) and obligations under unfunded pension schemes (7%) amongst others.

As at 31 March 2020, Flour Mills' foreign currency (FCY) liabilities dipped to ₦96.6 billion, from ₦134 billion, largely from its trade payables to its raw material suppliers. Similar to other players in the Industry, we note that the Company faces heightened foreign exchange risks, owing to the importation of its major raw material – wheat, which is cultivated in limited quantity in Nigeria[8]. Therefore, Agusto & Co. believes that further depreciation of domestic currency could elevate the value of the FCY exposure, resulting in additional FX loss in the near term.

[8] Agusto & Co. Research estimates domestic cultivation of wheat at less than 400,000 tonnes, mainly due to the weather conditions, seedlings and lack of farming mechanisation in the country.

As at FYE 2020, Flour Mills of Nigeria Plc.'s IBL stood at ₦57 billion, down from ₦77.2 billion, due to repayment of some outstanding bank loans in the year under review. As at year-end, IBL consisted of long-term borrowings (80%), current portion of long-term borrowings (18%) and short-term borrowings (3%). During the year under review, the Company issued its series 3 bond in two tranches - ₦12.5 billion 3-Year 10% Series 3a Fixed Rate Senior Unsecured Bond Due 2023 and ₦7.5 billion 5-Year 11.1% Series 3b Fixed Rate Senior Unsecured Bond Due 2025 under the ₦70 billion Bond Issuance Program. The net proceeds of the Series 3 (a&b) Bond were used to refinance FMN's expensive bank borrowings and translated to a savings of *c.* 300 basis points in interest costs.

In the year under review, Flour Mills' issued five commercial paper series amounting to ₦21.73 billion under its ₦100 billion commercial paper programme with maturities of between 90 and 270 days and yields in the range of 8.5% and 14.4% to fund working capital requirements. Subsequent to the year-end, the Company issued Series 13 ₦10 billion 6.75% 182-day and Series 14 ₦20 billion 7.75% 269-day commercial papers to augment its funding needs. We note that of the commercial papers in issue as at 30 June 2020, ₦7 billion is due in September 2020, while ₦10 billion will mature in October 2020. Agusto & Co. notes that the Company's financing strategy leverages its market size, strong reputation in the money market and track record to source for funds at lower rates and lend some to its subsidiaries to moderate the funding costs from a group perspective.

Following the decline in interest-bearing liabilities, Flour Mills' interest expense to sales ratio reduced to 3.2% during the FYE- the lowest in the last five years and in line with our expectation. As at 31 March 2020, FMN's total assets were funded by shareholders equity (47%) and total liabilities (53%), with 65% of these liabilities non-interest bearing. Thus, we believe the Company's funding structure depicts a satisfactory equity cushion. As at year-end, net debt as a percentage of average total assets stood at 50%, down from 54% in the prior year. In the FYE 2020, Flour Mills' net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) improved to 1.39 times, better than its five-year average of 2.35 times. As at 31 March 2020, FMN's operating cash flow was sufficient to cover its finance costs 5.2 times – the highest in the last five years and above our benchmark of 3 times. Agusto & Co. notes the significant improvement in the Company's leverage metrics, on account of its funding mix which utilises more long-term borrowings than short term. In our opinion, Flour Mills of Nigeria Plc's leverage is low

Management has disclosed its intention to optimise its funding costs even further in the near to medium term. As a result, the Company plans to issue series IV ₦30 billion 5- and 7-year Bond which will be used to cover the long-term financing need and augment working capital requirements while benefitting from the prevailing low interest rate environment in the country. Overall, Agusto & Co. expects FMN's average funding costs by FYE 2021 to moderate by about 200 basis points and result in further improvement in the leverage metrics.

Figure 10: IBL to Equity and Net Debt to Avg. Total Assets

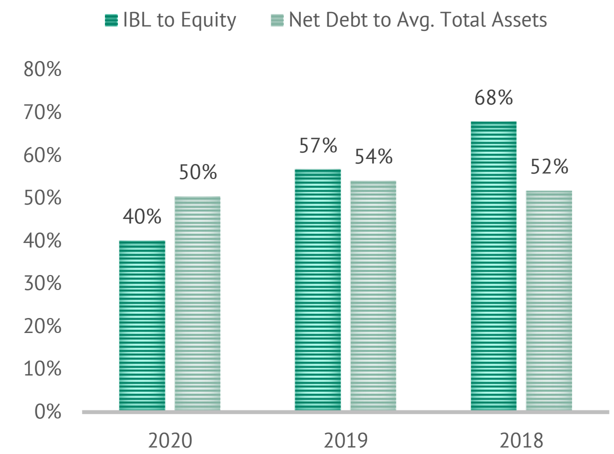
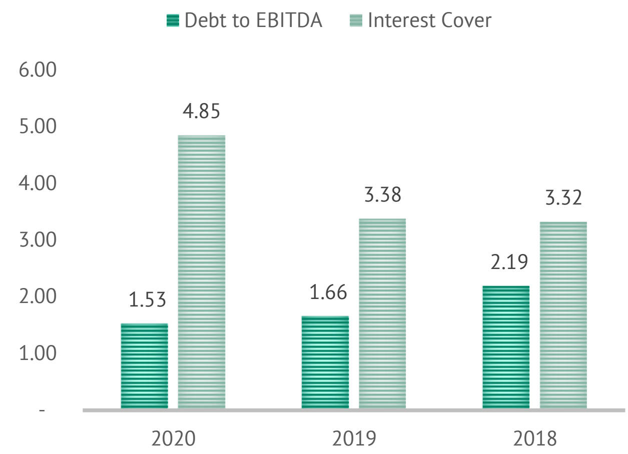


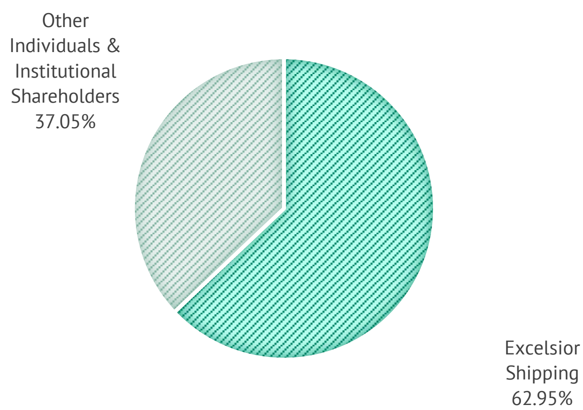
Figure 11: Debt to EBITDA & Interest Cover



OWNERSHIP, GOVERNANCE, MANAGEMENT & STAFF

As at 31 March 2020, the Company's authorised share capital stood at ₦2.5 billion, of which ₦2.05 billion were issued and fully paid up. Flour Mills of Nigeria Plc. is one of the largest food business listed on the Nigerian Stock Exchange and has 80,639 shareholders comprising both foreign and domestic investors. During the financial year ended, Excelsior Shipping Company Limited[9] remained the largest single shareholder, accounting for 62.95% of the Company's equity stake while other individuals and institutional shareholders represented the balance of 37.05%.

Figure 12: Shareholding Structure



As at 31 March 2020, Flour Mills had a 14-member Board of Directors who jointly control less than 1% directly of the Company's equity. The Board comprises one executive director and 13 non-executive directors (two of which are independent). Mr. John G. Coumantaros is the Chairman of the Board of Directors, while Mr. Paul Gbededo is the Group Managing Director. During the year under review, Mr. Atedo Peterside resigned from the Board in March 2020. Subsequent to the year-end, Mr. Omoboyede Olusanya was appointed an Executive Director and the Group Chief Operating Officer of Flour Mills in July 2020. Agusto & Co. notes that the Board's supervisory function is supported by three principal committees. The Board committees include the Board

[9] Excelsior Shipping is indirectly owned by the Coumantaros family

Remuneration/Governance Committee, Board Risk Management Committee, and Board Audit Committee. Agusto & Co. is of the view that the members of the Board of Directors have rich and diverse experience.

The Group Managing Director is supported by 11 senior management staff, comprising an Executive Director & Chief Operating Officer, Divisional Managing Director, Divisional General Managers, Divisional Directors, a Group Chief Financial Officer, Heads of Departments and a Company Secretary. The members of the Company's senior management team have vast local and international experience in the Food & Beverage Industry as well as the manufacturing sector. Most of the members of the senior management team have been with the Company for more than 15 years. In our opinion, Flour Mills has a qualified and experienced management team.

As at 31 March 2020, the Company had 3,680 employees, up from 3,566 in the prior year. In the year under review, FMN's average staff cost per employee amounted to ₦5.5 million, while net earnings contribution per staff[10] stood at ₦9.5 million. Overall, we consider Flour Mills' staff productivity level to be satisfactory, given that net earnings contribution per staff was able to cover average staff costs 1.72 times.

Management Team

Mr. Paul Gbededo is the Group Managing Director and the Chief Executive Officer of Flour Mills of Nigeria Plc., a position he has held since April 2013. Prior to joining FMN, Mr. Gbededo was from 1993 to 1998, the first Nigerian Production Director of the Nigerian Bag Manufacturing (BAGCO), a subsidiary of the Company. He joined Flour Mills in 1998 as the General Manager/Director in charge of fertiliser operations. Mr. Gbededo later served as General Manager/Director of Golden Pasta (now a division of the Company) and was elevated to the position of Managing Director, Flour Mills Agro-Allied business in July 2012. He is a fellow of the Polymer Institute of Nigeria. Mr. Gbededo attended the University of North London (formerly Polytechnic of North London UK) where he obtained a degree in Plastic and Rubber Institute and Associateship of National College of Rubber Technology in 1980. He obtained a master's degree in Polymer Technology in 1981 from Loughborough University of Technology, UK. Mr. Gbededo is an alumnus of Lagos Business School's Advanced Management Programme 3 and he attended Pasta Machinery Use, Maintenance and Operation at FAVA, Italy in 2005.

Mr. Omoboyede Olusanya is the Executive Director and Group Chief Operating Officer following his appointment in July 2020. Mr. Olusanya has over 30 years' experience and has held leadership positions spanning across several sectors including telecommunications, financial services, energy and manufacturing sectors. Prior to joining Flour Mills, he was the Operating Partner at Helios Investment Partners until March 2020. Mr. Olusanya was the immediate past Managing Director/ CEO of Emerging Market Telecommunications Service (9Mobile) between 2017 and 2018. Prior to this, he was the Chief Business Transformation Officer at Dangote Group between 2013 and 2016 and was the Managing Director of Dancom Technologies Limited (a member of Dangote Industries) in 2009 until 2013. Mr. Olusanya serves on the Board of Axxela, Starsight and OVH Energy. He holds a Bachelor's degree in Civil Engineering from the University of Lagos and two Masters degrees in Environmental Engineering and Computer Science from the University of Liverpool and the University of Manchester respectively.

[10] Operating profit before staff costs

Mr. Anders Kristiansson, Group Chief Financial Officer joined the Company in September 2018. Prior to joining Flour Mills, he had spent circa 24 years in finance and general management positions in the consumer goods and telecommunications sector. Mr. Kristiansson began his career in the finance department of Procter & Gamble Nordic in 1994 where he rose to become the Group Manager Finance in 1999 and subsequently seconded to Procter & Gamble South Africa. In 2001, he joined Eaton Corporation as a Divisional Controller, Specialty Controls Division until 2005 when he joined Defunct Celtel International Limited and served as the Director of Financial Operations in Africa until 2008. Subsequent to this, Mr. Kristiansson was the Chief Financial Officer at PZ Cussons Nigeria, a position he held until 2012 when he moved to Coca-Cola Hellenic Bottling Company's operations in Nigeria as the Chief Financial Officer until 2014. Mr. Kristiansson was the Group Finance Director and Chief Financial Officer at Lafarge Africa Plc. until 2016. He attended the University of Gothenburg where he obtained a Bachelor's degree and a Master of Science degree in Business Administration and Economics in 1993 and 1994.

Table 6: Other Members of Senior Management Team

Name	Position
Mr. Devlin Hainsworth	MD, Foods Division
Mr. Nassib Raffoul	Chief Operating Officer, Agro-Allied
Captain Marvin Abe	MD, ABTL
Mr. Wale Adediran	Human Resources Director
Mr. Jack Cwach	Flour Operations Director
Mr. Yiannis Katsichtis	General Manager, Supply Chain Director
Mr. Vlassis Liakouris	Group Business Transformation Director
Mr. Russell Prior	General Manager, Bagco Packaging Division
Mr. Waltonio Percival-Deigh	Director, Business Assurance
Mr. Maniatis John	Deputy Director, Golden Sugar
Mr. Sadiq Usman	Deputy Chief Operating Officer, Agro-Allied
Mr. Narhari Prasad Tripathi	Director of Manufacturing & Technical Services
Mr. Joseph Umolu	Company Secretary/ Director, Legal Services

Source: FMN's Company Profile

OUTLOOK

Over the last five years, the food industry has increasingly become fragmented with heightening competition and thinning margins, owing to the entry of some fringe players attempting to make in-roads to the market. As a result, there is a noticeable shift in product pricing, while attractive and colourful product packaging and marketing campaigns remain at the fore of the industry. We, however, note that shrinking consumer wallets coupled with the negative macroeconomic headwinds remain major challenges in the food industry.

During the period under review, Flour Mills of Nigeria Plc. recorded 7% growth in topline, mostly due to volume growth, on the back of its wide and diversified product portfolio. The Company introduced new product variants in the market such as Jollof noodles, Maikwabo pasta (spaghetti and macaroni) and Eliche macaroni to further enhance its position as the market leader in the industry.

Flour Mills' strategic focus is to continue to feed the nation while improving product quality and service delivery. The Company's growth plan is hinged on accelerating its B2C segment by investing in its marketing reach, while ensuring the product offerings are targeted at the key consumer segments. Management is strategically expanding its product offerings in the value consumer segment to gain traction and aid business growth in the near term. To this end, FMN launched pasta and semolina under the '*Auntie B*' brand name in March 2020 targeted at price-sensitive consumers. Agusto & Co. believes that this move should help to cushion the effect of the contraction in consumer disposable income on the Company's performance.

The Company has commenced a route-to-market optimisation strategy that deploys an effective distribution model utilising regional depots to drive product penetration in both urban and rural areas, as well as improve delivery time. FMN also expanded its distribution channels to aggressively drive volumes across its product lines. Whilst we note that the impact of Covid-19 pandemic on the food industry is somewhat mild, Agusto & Co. is of the view that operators with wide product portfolio, diversified investments and increasing financial flexibility as well as access to the capital market provides headroom for growth in the near term.

During the year under review, Flour Mills' issued Series 3 bond in two tranches of ₦12.5 billion 3-Year 10% Fixed Rate Senior Unsecured Bond Due 2023 and ₦7.5 billion 5-Year 11.1% Fixed Rate Senior Unsecured Bond Due 2025 under the ₦70 billion Bond Issuance Program. The net proceeds of the Series 3 Bond were used to refinance its bank borrowings, as a result, funding costs declined, leading to a significant improvement in leverage metrics. Subsequent to the year end, the Company has disclosed plans to issue ₦30 billion Series 4 bond split into 5-year and 7-year tenors to refinance its existing borrowings while benefitting from the prevailing low interest rate regime. Therefore, we expect leverage costs to taper downwards by about 200 basis points in the near term.

Overall, Agusto & Co. expects Flour Mills' to maintain its market leadership by deepening volume growth across its product markets, while aggressively pushing its new value brands to garner market acceptance. Despite the weakening consumer wallet, we believe consumption will remain strong, particularly as FMN's products remain staple food in most households. Therefore, we expect profitability to remain acceptable although FX pressures in its trade activities is a threat to profit margins. However, FMN's significant investment in backward integration initiatives should moderate the impact of FCY risks in the medium term. Furthermore, the Company's cash flow is expected to remain good, on the back of its strong cash generating capacity f while working capital should remain adequate, supported by favourable terms of trade. We note that the Company's leverage and liquidity profile are driven by its strong market reputation, good credit history and access to low cost funds in the financial market. Going forward, Agusto & Co. expects Flour Mills' financial condition to remain stable underpinned by its strong business fundamentals and diversified product offerings. Based on the aforementioned, we have attached a **stable** outlook to the rating of Flour Mills of Nigeria Plc.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Mar-20		31-Mar-19		31-Mar-18	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	16,032,397	5.1%	9,978,297	3.2%	16,300,426	5.1%
MARKETABLE SECURITIES & TIME DEPOSITS						
CASH & EQUIVALENTS	16,032,397	5.1%	9,978,297	3.2%	16,300,426	5.1%
FX PURCHASED FOR IMPORTS	11,563,084	3.7%	7,010,242	2.2%	6,974,145	2.2%
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	5,979,860	1.9%	5,180,351	1.6%	5,054,944	1.6%
STOCKS	50,348,034	16.0%	52,482,577	16.7%	61,409,280	19.0%
TRADE DEBTORS	7,091,166	2.3%	9,269,399	3.0%	5,682,887	1.8%
DUE FROM RELATED PARTIES	9,917,318	3.2%	31,317,103	10.0%	42,085,498	13.0%
OTHER DEBTORS & PREPAYMENTS	12,975,360	4.1%	13,688,988	4.4%	8,166,083	2.5%
TOTAL TRADING ASSETS	97,874,822	31.1%	118,948,660	37.9%	129,372,837	40.1%
INVESTMENT PROPERTIES	56,844	0.0%	58,899	0.0%	60,954	0.0%
OTHER NON-CURRENT INVESTMENTS	44,666,634	14.2%	44,005,134	14.0%	35,280,134	10.9%
PROPERTY, PLANT & EQUIPMENT	89,144,006	28.4%	88,803,208	28.3%	83,837,249	26.0%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	11,345,872	3.6%	15,747,437	5.0%	10,345,958	3.2%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	55,146,485	17.5%	36,516,552	11.6%	47,407,024	14.7%
TOTAL LONG-TERM ASSETS	200,359,841	63.8%	185,131,230	58.9%	176,931,319	54.8%
TOTAL ASSETS	**314,267,060**	**100.0%**	**314,058,187**	**100.0%**	**322,604,582**	**100.0%**
Growth	*0.1%*		*-2.6%*		*-6.2%*	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	1,553,349	0.5%	1,519,149	0.5%	16,466,200	5.1%
CURRENT PORTION OF LONG-TERM BORROWINGS	10,275,267	3.3%	55,425,053	17.6%	71,382,864	22.1%
LONG-TERM BORROWINGS	46,741,771	14.9%	21,795,459	6.9%	14,984,392	4.6%
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	58,570,387	18.6%	78,739,661	25.1%	102,833,456	31.9%
TRADE CREDITORS	50,866,921	16.2%	49,112,957	15.6%	34,580,478	10.7%
DUE TO RELATED PARTIES	7,962,168	2.5%	11,530,500	3.7%	581,345	0.2%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	13,790,645	4.4%	12,036,155	3.8%	8,873,032	2.8%
OTHER CREDITORS AND ACCRUALS	13,231,546	4.2%	5,925,169	1.9%	5,391,876	1.7%
TAXATION PAYABLE	2,566,482	0.8%	775,960	0.2%	1,097,052	0.3%
DIVIDEND PAYABLE	2,370,330	0.8%	2,177,173	0.7%	1,981,752	0.6%
DEFERRED TAXATION	10,665,100	3.4%	8,150,526	2.6%	9,805,335	3.0%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	7,926,591	2.5%	6,680,813	2.1%	6,013,960	1.9%
MINORITY INTEREST						
REDEEMABLE PREFERENCE SHARES						
TOTAL NON-INTEREST-BEARING LIABILITIES	109,379,783	34.8%	96,389,253	30.7%	68,324,830	21.2%
TOTAL LIABILITIES	**167,950,170**	**53.4%**	**175,128,914**	**55.8%**	**171,158,286**	**53.1%**
SHARE CAPITAL	2,050,197	0.7%	2,050,197	0.7%	2,050,197	0.6%
SHARE PREMIUM	75,377,444	24.0%	75,377,444	24.0%	75,377,444	23.4%
IRREDEEMABLE DEBENTURES						
REVALUATION SURPLUS						
OTHER NON-DISTRIBUTABLE RESERVES	(113,016)	0.0%	(94,316)	0.0%	(72,556)	0.0%
REVENUE RESERVE	69,002,265	22.0%	61,595,948	19.6%	74,091,211	23.0%
SHAREHOLDERS' EQUITY	146,316,890	46.6%	138,929,273	44.2%	151,446,296	46.9%
TOTAL LIABILITIES & EQUITY	**314,267,060**	**100.0%**	**314,058,187**	**100.0%**	**322,604,582**	**100.0%**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Mar-20		31-Mar-19		31-Mar-18	
	₦'000		₦'000		₦'000	
TURNOVER	394,884,217	100.0%	370,205,529	100.0%	371,370,740	100.0%
COST OF SALES	(354,952,741)	-89.9%	(337,073,874)	-91.1%	(321,920,291)	-86.7%
GROSS PROFIT	39,931,476	10.1%	33,131,655	8.9%	49,450,449	13.3%
OTHER OPERATING EXPENSES	(25,327,395)	-6.4%	(19,203,128)	-5.2%	(16,810,123)	-4.5%
OPERATING PROFIT	14,604,081	3.7%	13,928,527	3.8%	32,640,326	8.8%
OTHER INCOME/(EXPENSES)	14,837,358	3.8%	22,401,709	6.1%	5,718,021	1.5%
PROFIT BEFORE INTEREST & TAXATION	29,441,439	7.5%	36,330,236	9.8%	38,358,347	10.3%
INTEREST EXPENSE	(11,903,754)	-3.0%	(16,025,840)	-4.3%	(24,941,948)	-6.7%
PROFIT BEFORE TAXATION	17,537,685	4.4%	20,304,396	5.5%	13,416,399	3.6%
TAX (EXPENSE) BENEFIT	(4,955,114)	-1.3%	(986,742)	-0.3%	(4,171,670)	-1.1%
PROFIT AFTER TAXATION	12,582,571	3.2%	19,317,654	5.2%	9,244,729	2.5%
NON-RECURRING ITEMS (NET OF TAX)	(313,458)	-0.1%	241,868	0.1%	(2,631,614)	-0.7%
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	12,269,113	3.1%	19,559,522	5.3%	6,613,115	1.8%
DIVIDEND	(4,862,796)	-1.2%	(4,100,396)	-1.1%	(2,624,253)	-0.7%
PROFIT RETAINED FOR THE YEAR	7,406,317	1.9%	15,459,126	4.2%	3,988,862	1.1%
SCRIP ISSUES						
OTHER APPROPRIATIONS/ ADJUSTMENTS			(27,954,389)			
PROFIT RETAINED B/FWD	61,595,948		74,091,211		70,102,349	
PROFIT RETAINED C/FWD	69,002,265		61,595,948		74,091,211	
ADDITIONAL INFORMATION	**31-Mar-20**		**31-Mar-19**		**31-Mar-18**	
Staff costs (₦'000)	20,357,166		17,493,506		15,033,526	
Average number of staff	3,680		3,566		3,520	
Staff costs per employee (₦'000)	5,532		4,906		4,271	
Staff costs/Turnover	5%		5%		4%	
Capital expenditure (₦'000)	10,760,439		14,223,147		8,607,250	
Depreciation expense - current year (₦'000)	10,048,791		8,513,230		7,631,450	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	4,100,394		4,100,394		4,100,394	
Market value per share of 50 kobo (year-end)	2,125		1,800		3,730	
Market capitalization (₦'000)	87,133,373		73,807,092		152,944,696	
Market/Book value multiple	1		1		1	
Auditors	**KPMG**		**KPMG**		**KPMG**	
Opinion	CLEAN		CLEAN		CLEAN	

CASH FLOW STATEMENT FOR Y/E	31-Mar-20	31-Mar-19	31-Mar-18
	₦'000	**₦'000**	**₦'000**
OPERATING ACTIVITIES			
Profit after tax	12,582,571	19,317,654	9,244,729
ADJUSTMENTS			
Interest expense	12,682,800	16,025,840	24,941,948
Minority interests in Group PAT	-	-	-
Depreciation	10,048,791	8,513,230	7,631,450
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items	-18,700	-27,976,149	38,760
Potential operating cash flow	35,295,462	15,880,575	41,856,887
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	1,753,964	14,532,479	(14,184,793)
Due to related parties	(3,568,332)	10,949,155	(8,236,969)
Advance payments and deposits from customers	1,754,490	3,163,123	(2,055,694)
Other creditors & accruals	7,306,377	533,293	(1,148,116)
Taxation payable	1,790,522	(321,092)	(831,470)
Deferred taxation	2,514,574	(1,654,809)	3,901,065
Obligations under unfunded pension schemes	1,245,778	666,853	1,525,697
Minority interest	-	-	-
Cash from (used by) spontaneous financing	12,797,373	27,869,002	-21,030,280
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	(4,552,842)	(36,097)	19,273,096
Advance payments and deposits to suppliers	(795,509)	(125,407)	(3,951,530)
Stocks	2,134,543	8,926,703	(7,026,675)
Trade debtors	2,178,233	(3,586,512)	666,414
Due from related parties	21,399,785	10,768,395	54,150,978
Other debtors & prepayments	(2,961,466)	(5,522,905)	(1,113,049)
Cash from (used by) working assets	17,402,744	10,424,177	61,999,234
CASH FROM (USED IN) OPERATING ACTIVITIES	**65,495,579**	**54,173,754**	**82,825,841**
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(12,682,800)	(16,025,840)	(24,941,948)
Dividend paid	-4,669,639	-3,904,975	-2,674,599
CASH USED IN PROVIDING RETURNS ON FINANCING	(17,352,439)	(19,930,815)	(27,616,547)
OPERATING CASH FLOW AFTER PAYMENTS TO			
PROVIDERS OF FINANCING	**48,143,140**	**34,242,939**	**55,209,294**
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)	(313,458)	241,868	(2,631,614)
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	**(313,458)**	**241,868**	**(2,631,614)**
INVESTING ACTIVITIES			
Capital expenditure	(10,760,439)	(14,223,147)	(8,607,250)
Sale of assets	370,850	743,958	2,532,537
Purchase of other long term assets (net)	-11,216,719	-3,233,952	-77,484,072
Sale of other long term assets (net)	-	-	-
CASH FROM (USED IN) INVESTING ACTIVITIES	**(21,606,308)**	**(16,713,141)**	**(83,558,785)**
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	34,200	(14,947,051)	(17,883,236)
Increase/(Decrease) in long term borrowings	(20,203,474)	(9,146,744)	(25,695,310)
Proceeds of shares issued	-	-	39,302,975
CASH FROM (USED IN) FINANCING ACTIVITIES	**(20,169,274)**	**(24,093,795)**	**(4,275,571)**
CHANGE IN CASH INC/(DEC)	6,054,100	(6,322,129)	(35,256,676)
OPENING CASH & MARKETABLE SECURITIES	9,978,297	16,300,426	51,557,102
CLOSING CASH & MARKETABLE SECURITIES	**16,032,397**	**9,978,297**	**16,300,426**

STATEMENT OF CASH FLOW			
FOR THE YEAR ENDED	**Mar-20**	**Mar-19**	**Mar-18**
	₦'000	₦'000	₦'000
Operating cash flow (OCF)	65,495,579	54,173,754	82,825,841
Less: Returns to providers of finance	(17,352,439)	(19,930,815)	(27,616,547)
OCF after returns to providers of finance	48,143,140	34,242,939	55,209,294
Non-recurring items		242	(2,631,614)
Free cash flow	48,143,140	34,243,181	52,577,680
Investing activities	(21,606,308)	(16,713,141)	(83,558,785)
Financing activities	(20,169,274)	(24,093,795)	(4,275,571)
Change in cash	6,367,558	(6,563,755)	(35,256,676)
PROFITABILITY	**Mar-20**	**Mar-19**	**Mar-18**
PBT as % of Turnover	4%	5%	4%
Return on equity	12%	14%	10%
Sales growth	6.7%	-0.3%	-1.0%
CASH FLOW			
Interest cover (times)	5.2	3.4	3.3
Principal payback (years)	0.9	1.45	1.24
WORKING CAPITAL			
Working capital need (days)	-	22	60
Working capital deficiency (days)	-	46	70
LEVERAGE			
Interest bearing debt to Equity	49%	57%	68%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	50%	54%	51%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers
A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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