



DataPro



CORPORATE RATING REPORT

EMZOR PHARMACEUTICAL INDUSTRIES LIMITED

Ground Floor, Foresight House
163-165 Broad Street,
By Marina Water Front
Lagos, Nigeria
☎ 234-802 220 5312, 8055303677
Email: info@datapronigeria.net
dataprong@gmail.com
Website: www.datapronigeria.com

July, 2023

EMZOR PHARMACEUTICAL INDUSTRIES LTD

Long-Term Rating:

A

Short Term Rating: A1

Previous Rating: A

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date Issued: 24 July, 2023

Valid Till: 21 July, 2024

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

	2022 ₦'000	2021 ₦'000	2020 ₦'000	2019 ₦'000	2018 ₦'000
Turnover	35,920,919	32,437,044	25,900,549	23,364,651	21,903,167
Pre Tax Profit	683,288	1,372,470	1,865,914	1,417,336	2,650,623
Equity	13,980,943	13,516,307	12,958,260	12,066,277	11,902,326
Prop. Plant & Equip	27,206,444	15,447,441	13,153	14,155,617	9,322,893
Total Asset	56,644,420	52,939,034	37,767,544	44,327,523	39,708,595
Long-term Debt	20,824,609	20,394,601	12,486,545	10,691,784	9,583,175

Rating Explanation

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

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

RATING SYNOPSIS

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

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

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

Overall, the following were observed:

Positive Rating Factors:

- Stable Management
- Diversified Earning Profile
- Strong Brand Presence

Negative Rating Factors:

- Low Asset Utility
- Declining Profitability

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BACKGROUND

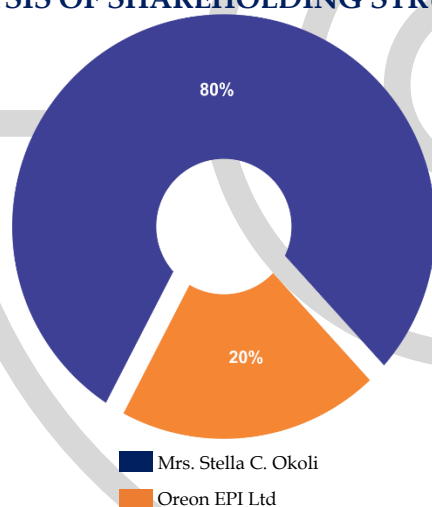
Emzor Pharmaceutical Industries Limited ("The Company") was incorporated on 22nd October, 1984 as a Private Limited Liability Company. The Company commenced business as *Emzor Chemist Limited* in 1977 and started production in 1985.

The Company is into the manufacturing, importation, marketing and distribution of pharmaceutical and healthcare products.

The Company currently manufactures over 140 Pharmaceutical Products and Medical Consumables including *Antitussives, Cardiovasculars, Gastrointestinals, Haemantitics, Anti-malaria, Multivitamins, Hematinic, Anti-helmintic and Antibiotics, Vitamins, Supplements and Nutritional Oils*. Its brand of analgesic (*Emzor Paracetamol*) is reputed to be one of the leading brands in Nigeria.

As at year-end 2022, the Company served its customers across over 25 Countries through 160 distributors, three (3) factories, two (2) warehouses, fourteen (14) distribution outlets and a workforce comprising of 838 staff. The network of the distributors cuts across the Sub-Saharan Africa including *Nigeria, Sierra Leone and Liberia*.

ANALYSIS OF SHAREHOLDING STRUCTURE



Source: Emzor Pharmaceutical Industries Ltd

Emzor Pharmaceutical Industries Limited presently operates from four (4) factory sites, three of which are located in Lagos State.

The Company has a wholly owned subsidiary named *Zolon Healthcare Limited*. The Company also acquired *Emzor Pharma Funding* during the year 2021. The ownership of the company is divided between *Dr. Stella C. Okoli* and *Oreon EPI Limited*.

DIRECTORS' PROFILE

The following served as Directors during the year under review; *Mr. Emeka Okoli – Chairman; Dr. Stella Okoli – GMD/Founder; Mr. Shivakumar Subramani; Mrs. Uzoma Ezeoke; Mr. Adewale Odusanya; Mr. Gabriel Keita and Dr. Shamsuddeen Usman*

The Directors' profile is as follows:

1. **Name:** Mr. Emeka Okoli
Position: Chairman
Education:
 - B.Eng – Loughborough University, England
 - M. Sc - UCL
 - M. Sc Cass Business School**Job Experience:**
 - BMO Global Asset Management
 - Merril Lynch
 - Deutsche Bank
 - Sema Group Telecoms
2. **Name:** Dr. Stella Okoli
Position: GMD/Founder
Years of Experience:40 years
Education:
 - B.Sc – University of Bradford
 - M. Sc- University of London**Job Experience:**
 - Middlesex Hospital London
 - Boots Chemist London
 - Park Davis Nigeria
3. **Name:** Mr. Shivakumar Subramani
Position: Executive Director
Years of Experience:20 years
Education:
 - B.Sc- Bangalore University
 - Indian Business School**Job Experience:**
 - Emzor Pharmaceutical Industries Ltd
4. **Name:** Mrs. Uzoma Ezeoke
Position: Executive Director
Years of Experience:20 years
Education:
 - B. Sc- Nottingham University
 - Lagos Business School**Job Experience:**
 - Boots Chemist, UK
 - Rite Aid Corporation
 - Merck Merdo
 - Emerald Lake Incorporated
5. **Name:** Mr. Adewale Odusanya
Position: Non-Executive Director
Years of Experience:15 years
Education:
 - B.Sc (Accounting)- University of Lagos
 - CFA- Chartered Financial Analyst Institute
 - Institute of Chartered Accountants of Nigeria (ICAN)
 - Chartered Institute of Stockbrokers of Nigeria

Job Experience:

- Verod Capital Management
- Stanbic IBTC Capital Limited
- Standard Bank Plc
- Stanbic IBTC Bank Plc

6. **Name:** Mr. Gabriel Keita
Position: Non-Executive Director
Years of Experience: 20 years
Education:
 - B. Pharm – Montpellier University
 - MBA – Esden Madrid**Job Experience:**
 - Ubipharm Group SA
 - Odypharm LDT
 - Odypharm India Lifescience Ltd
 - Odypharm Lifescience Hong Kong Ltd
 - BDA Pharma
 - Abacus Pharma
7. **Name:** Dr. Shamsuddeen Usman
Position: Non-Executive Director
Years of Experience: 30 years
Education:
 - B. Sc- Ahmadu Bello University
 - M. Sc- University of London
 - Ph.d – University of London**Job Experience:**
 - Nal-Merchant Bank
 - Central Bank of Nigeria
 - Minister of Finance, Nigeria
 - Minister of National Planning, Nigeria

SECTOR REVIEW

Nigeria is the leading economy in Africa. It has a population of over 200 million people. Its economic growth slumps to 3.10% in the year 2022 from 3.40% in 2021. The decline was attributed to the weak performance of the Oil sector. However, it grew by 3.52% year-on-year in real terms in the fourth quarter of 2022 better than the 2.25% recorded in the third quarter of the year. The improvement during the fourth quarter was due largely to the Services sector, which recorded a growth of 5.69% and contributed 56.27% to the aggregate GDP.

The Non-Oil sector grew by 4.44% in real terms in Q4-2022. This rate was lower by 0.29% points compared to the rate recorded same quarter of 2021 and 0.18% points higher than the third quarter of 2022. This growth was driven in the fourth quarter of 2022 mainly by Telecommunication, Trade, Agriculture (Crop Production) and the Financial sectors. This is in addition to growths recorded by Manufacturing (Food, Beverage & Tobacco), Real Estate and Construction.

The Oil sector contributed 4.34% to the total GDP in Q4 2022 as against 5.19% and 5.66% in the year 2021 and the Q3 2022 respectively. This was due to lower volume produced in the year compared with 2021. Nigeria average daily production for Crude Oil in the year 2022 was 1.34million down from 1.5m (Yr. 2021).

The **Central Bank of Nigeria (CBN)** abolished parts of the official FX Market in June 14, 2023, shifting them to the I&E Window. The official rate rose to ₦772.31/\$ and further to ₦774.56/\$ as at 17th July, 2023.

The **CBN** raised the Monetary Policy Rate (MPR) in May, 2023 to 18.5%. This was done to curb the risk of high inflation and support the recovery of output growth and price stability. However, the Inflation Rate accelerated to 22.79% in June 2023 amid the surge in food prices.

The combined effects of inflation, high cost of fund and energy had taken a huge toll on the Manufacturing Sector. This is further compounded by diminishing purchasing power of the buying public on account of the removal of petrol subsidy.

Nigeria's Pharmaceutical market in West Africa shows great promise and rapid growth, boasting of over 150 pharmaceutical formulation manufacturing facilities. The pandemic and the increasing prevalence of non-communicable diseases have created an opportunity for Pharmaceutical companies to establish themselves as long-term partners to the Government.

The industry is projected to reach ₦2.1 trillion, equivalent to 0.9% of GDP and 29.1% of total health expenditure. Generic drugs dominate the Pharmaceutical market, constituting the largest share. Over-the-counter medicines account for 41.3% while patented drugs make up 10.4% of the entire market.

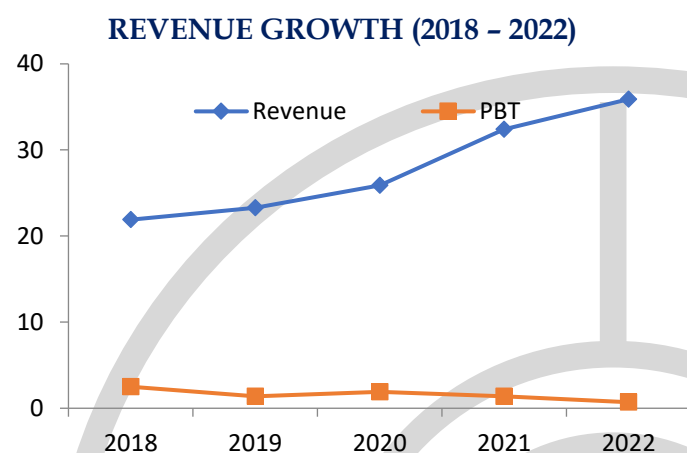
Importation remains high, as the local pharmaceutical industry is only capable of meeting 25% of the domestic demand. Nigeria currently imports 70% of its pharmaceutical needs, including all Active Pharmaceutical Ingredients (APIs), primarily from India and China. Nonetheless, Nigeria plays a crucial role as a major exporter of pharmaceutical products to the **ECOWAS** region, contributing approximately 60% of the health products consumed in the zone.

The **Central Bank of Nigeria (CBN)** launched the Healthcare intervention fund to provide ₦100bn credit to functional health enterprises at a low interest rate. This is in addition to the commercialization of research outputs from Government institution to encourage R&D in healthcare. The on-going efforts of Government through **NAFDAC** are expected to reduce counterfeit medicines which are prevalent in Nigeria. These efforts include the 5+5 Policy which favors the Local Manufacturers and protect the Local Industry. The critical success factor is the ability to provide affordable OTC drugs to stay competitive.

FINANCIAL PERFORMANCE

EARNINGS PROFILE

During the financial year ended 31st December, 2022, the Company's Revenue was primarily from the Sale of Healthcare Products. It grew by 11% from ₦32.4b (Yr. 21) to ₦35.9b (Yr. 22).



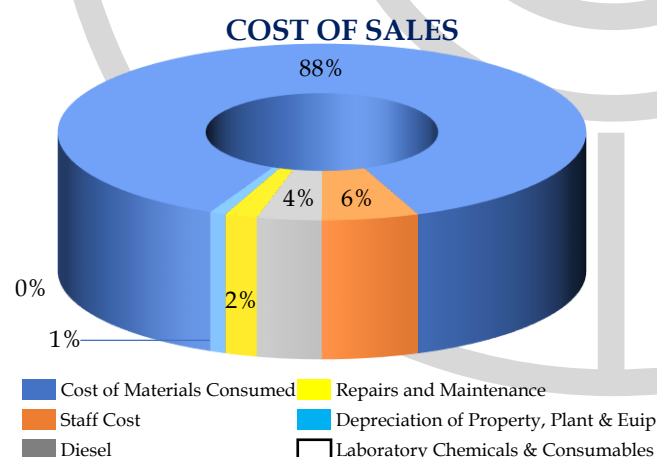
Source: Emzor Pharmaceutical Industries Ltd

Income from other sources include Sale of scraps and Profit on Asset Disposal. This recorded an aggregate of ₦20.4m (Yr. 22). There was no export sale recorded in the year.

The Company incurred Direct Costs from Materials consumed, Depreciation, Diesel, Laboratory chemicals, Repairs and Staff costs. These amounted to ₦25.7b (Yr. 22), up from ₦21.5b recorded in the year 2021. Cost of Materials which were

majorly sourced outside Nigeria accounted for 88% of the input related expenditure and was primarily responsible for the increase during the year.

Direct Costs to Revenue rose marginally from 66% in the year 2021 to 72% (Yr. 22). Consequently, Gross Profit Margin dipped in three consecutive years from 37% (Yr. 20), 34% (Yr. 21) to 28% (Yr. 22).



Source: Emzor Pharmaceutical Industries Ltd

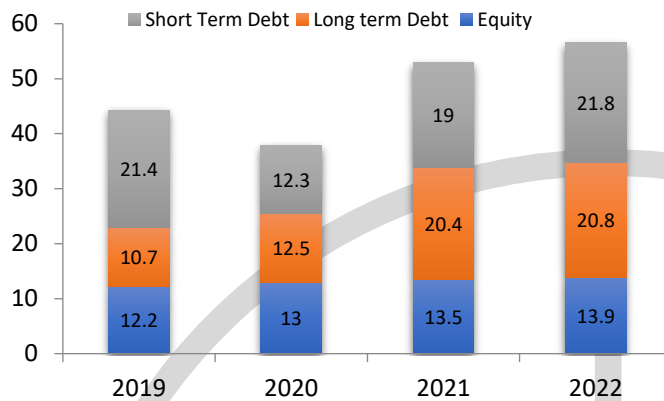
Operating Expenses increased by 21% to ₦8.4b during the year 2022. The growth was influenced by increases in Selling and Distribution, Personnel Cost, Depreciation and other Administrative Expenses. Interest Cost on Borrowings and other facilities amounted to ₦1.1b, down from ₦4.2b recorded in the prior period. This was due to the decrease in borrowing during the year under review.

Profit Before Tax had consistently decline in the immediate past three years from 2020 to 2022. It declined from ₦1.9b (Yr. 20) to ₦1.4b (Yr. 21) and further down to ₦683m in the year 2022. The decrease in profitability stems majorly from the increasing cost to income level of the Company.

Net Profit Margin was 3-year low at 1.9% (Yr. 22), while Return on Asset (ROA) and Return on Equity (ROE) dropped to 3% and 10% respectively.

• CAPITALIZATION

FUNDING OF OPERATIONS (2019 - 2022)

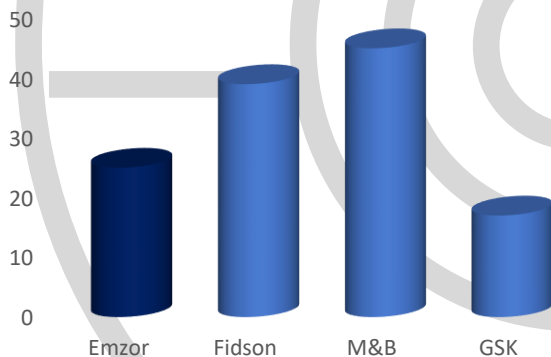


Source: Emzor Pharmaceutical Industries Ltd

The Company grew its Share Capital from ₦1.14b to ₦1.25b in the year 2022. This is attributed to additional shares amounting to ₦111m. Retained Earnings had been the major source of growing Equity in the past five (5) years ending 2022. Other items of Shareholders' Funds included Share Premium, Equity contribution and Asset Revaluation Reserve. All these components remained unchanged during the year.

Shareholders' Funds grew by 3% from ₦13.5b (Yr. 21) to ₦13.9b. The Company's

PEER COMPARISON: EQUITY FUNDING OF OPERATIONS (2022)



Source: Emzor Pharmaceutical Industries Ltd

Liability Funding was majorly from Borrowings sourced from Banks and other Financial Institutions. As at 31st December, 2022, total Borrowings amounted to ₦18.6b as against ₦21.3b (Yr. 21). It also funded 33% of the Asset base, in the year 2022 as against 40% (Yr. 21). The Non-Current portion made up for 85% of the total Borrowings during the year.

Deferred Income, Lease Liabilities and Payables.

BREAKDOWN OF THE TOTAL ASSETS (2022)

ITEM	₦'000	%
Current Assets	24,808,959	44 %
Non-Current Assets	31,835,461	56%
Total Assets	56,644,420	100%

Source: Emzor Pharmaceutical Industries Ltd

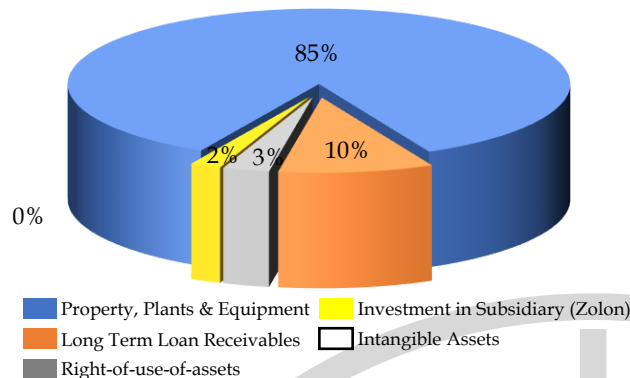
Other sources of debt funding included Convertible Loan Sock,

Total Assets grew significantly in the year 2022 by 40% from ₦52.9b (Yr. 21) to ₦56.6b (Yr. 22). Increases majorly recorded in Property, Plants and Equipment, Loan Receivables were responsible for the growth.

Equity funding of operation declined marginally from 26% (Yr.21) to 25% (Yr.22). This was due to reduction in the amount of profit clawed back into the Company operation in the year 2021.

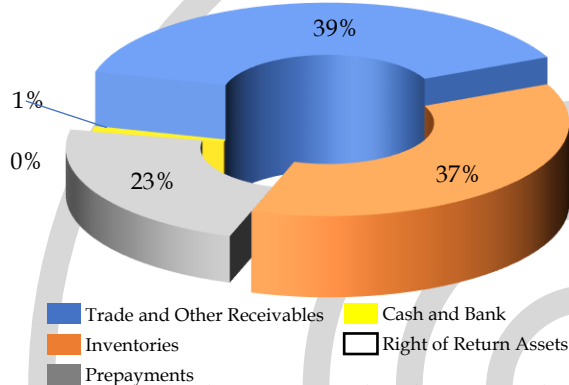
• ASSET UTILITY

DISTRIBUTION OF NON CURRENT ASSETS



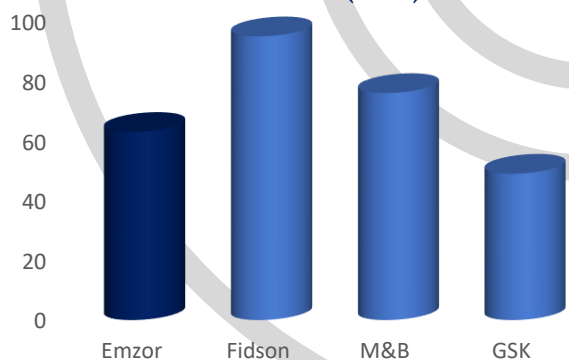
Source: Emzor Pharmaceutical Industries Ltd

COMPOSITION OF CURRENT ASSETS



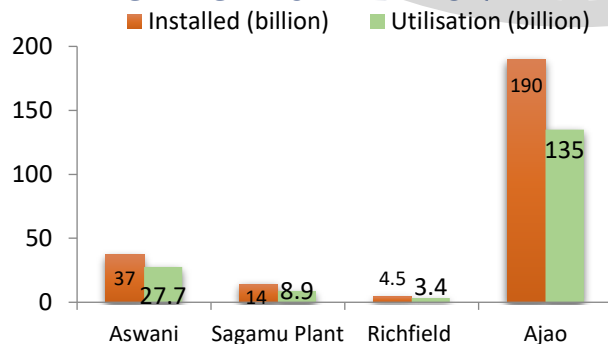
Source: Emzor Pharmaceutical Industries Ltd

PEER COMPARISON: REVENUE TO TOTAL ASSETS (2022)



Source: Emzor Pharmaceutical Industries Ltd

CAPACITY UTILIZATION



Source: Emzor Pharmaceutical Industries Ltd

The Company is yet to fully utilize its installed capacity. It carries out its operation via four (4) manufacturing sites located at *Sagamu, Ajao Estate, Richfield and Aswani* with capacity utilization of 64%, 71%, 76% and 75% respectively. These figures all represented a decline from the levels attained in the prior year.

The Company's held 56% of its Total Assets for the year 2022 in Non-Current items. The Non-Current Assets grew by 58% from ₦20.2b (Yr. 21) to ₦31.8b (Yr. 22). Property, Plants and Equipment amounting to ₦27.2b accounted for the major part of Non-Current Assets and contributed to its increase during the year. Other component of Non-current Assets included: Right-of-use Assets, Intangible Assets and Investment in Subsidiaries.

Current Assets includes Inventories, Right of Return Assets, Prepayments, Receivables and Cash Balances. Advance payment to suppliers utilized during the year brought down prepayment from ₦13.4b (Yr.21) to ₦5.6b. The Company's receivables however, increased by 43% to ₦5.6b during the year 2022.

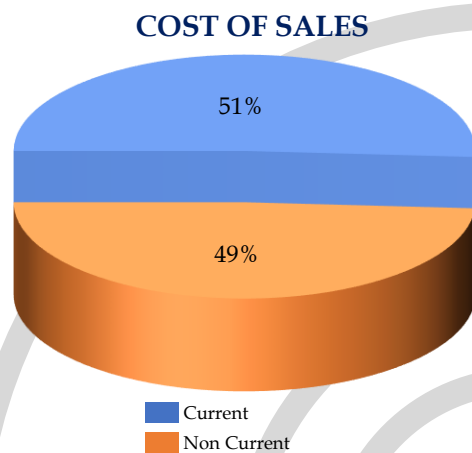
The Company recorded Loan receivables due from its affiliates, *Emzor Hesco Limited* and *Edfel Ventures Limited*.

The ability of the Company to effectively utilize Assets to generate Revenue improved from 61% (Yr. 21)

to 63% (Yr. 22). This compared well with the performance of its closest peers in the year 2022. However, Return on Total Assets was 3-year low at 1% (Yr. 22)

• LIQUIDITY

As at 31st December 2022, Total Liabilities grew significantly from ₦39.4b (Yr. 21) to ₦42.6b (Yr. 22). This was due to the increase in both Current and Non-Current Obligations of the Company. As at the year end 2022, Current Liabilities accounted for 51% of the Company's total obligations.



Source: Emzor Pharmaceutical Industries Ltd

The Company's Short-term Liabilities went up by 54% to ₦21.8b (Yr. 22). It consisted mainly of loan facilities from various sources. Other components included Convertible Loan Stock, Lease Liabilities, Payables, Deferred income and tax.

Non-Current Liabilities were mostly Borrowings. It recorded marginal increase, bringing it up to ₦20.8b during the year 2022.

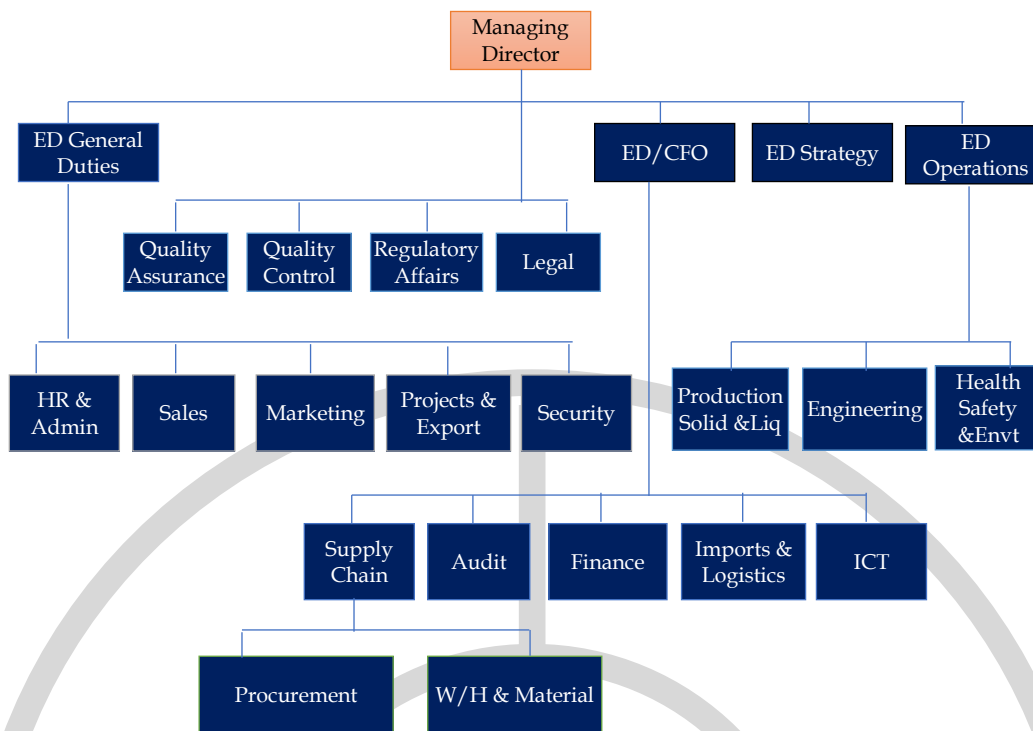
The Company recorded Long and Short Term Interest Bearing Borrowings during the year. The Non-Current portion accounted for 85% of the Total Borrowings and 37% of the Total Liabilities. Ability to meet short term obligations using Liquid Assets was satisfactory at 114% in the year 2021.

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by its Board of Directors which consists of four (4) Executive Directors and three (3) Non-Executive Directors including the Chairman.

The Company's corporate Organogram is as highlighted.

CORPORATE ORGANOGRAM



Source: Emzor Pharmaceutical Industries Ltd

RISK FACTORS

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

- EXCHANGE RATE RISK**

This is the risk of loss to income as a result of adverse movement in the Exchange Rate.

Based on our review, we observed that the Company imports significant part of its raw materials. Therefore, adverse movement in Exchange Rate could impair profitability.

- INTEREST RISK**

This is the risk of loss to income arising from adverse changes in Interest Rates.

Based on our review, the Company has in its books, Interest Bearing Borrowings of ₦18.6b (Yr. 22). Therefore, adverse movement in Interest Rate could impair profitability.

- CREDIT RISK**

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

Based on our review, we observed that Trade and Other Receivables constituted a proportion of 23% of the Company's Total Assets. Therefore, the inability of the counterparties to pay as and when due will impact profitability.

REGULATORY ENVIRONMENT

The products and affairs of the Company are governed by the laws of the *Federal Republic of Nigeria* and subject to the regulations of the *National Agency for Food Drug Administration and Control (NAFDAC)* and *Companies and Allied Matters Act (CAMA)*.

CONCLUSION

The Company is an industry leader with significant market share. The Rating of the Company is supported by its Strong Brand Presence, Experienced Management Team and Good Revenue Profile.

Consequently, we assigned a Rating of "A"

FINANCES

Financial Position as at

	Dec, 2022		Dec, 2021		Dec, 2020
	₦'000	Δ%	₦'000	Δ%	₦'000
Non Current assets					
Property, Plant & Equipment	27,206,444	76.12	15,447,441	17.44	13,153,829
Right-of-use assets	1,022,756	(8.47)	1,117,457	(25.97)	1,509,508
Intangible assets	11,500	-	11,500	-	11,500
Investments in subsidiary	492,909	0.41	490,909	0.41	488,909
Trade and Other receivables	3,101,852	-	3,101,852	-	-
Net current assets/(liabilities)	<u>2,970,091</u>	(78.39)	<u>13,741,749</u>	33.66	<u>10,281,059</u>
	34,805,552	2.64	33,910,908	33.27	25,444,805
Creditors due after one year					
Convertible loan stock	-	-	-	-	(4,343,351)
advances	(15,985,575)	(4.15)	(16,676,989)	318.83	(3,981,797)
Deferred Income	(1,311,165)	250.56	(374,020)	(48.01)	(719,429)
Employee benefit liability	(31,530)	(86.04)	(225,881)	0.07	(225,725)
Provisions	(245,275)	431.40	(46,156)	6.41	(43,374)
Lease liability	(2,132,913)	127.23	(938,642)	(30.80)	(1,356,421)
Deferred tax liabilities	(1,118,151)	(47.58)	(2,132,913)	17.42	(1,816,448)
Total	<u>(20,824,609)</u>	2.11	<u>(20,394,601)</u>	63.33	<u>(12,486,545)</u>
	13,980,943	3.44	13,516,307	4.31	12,958,260
Share capital	1,250,000	-	1,250,000	9.71	1,139,375
Share premium	5,321,138	-	5,321,138	-	5,321,138
Equity contribution	6,683,337	1,266.99	488,909	-	488,909
Retain Earnings	488,909	(92.14)	6,218,701	7.75	5,771,279
Asset revaluation reserve	237,559	-	237,559	-	237,559
Total Shareholders' equity	<u>13,980,943</u>	3.44	<u>13,516,307</u>	4.31	<u>12,958,260</u>
Revenue	35,920,919	1,178	32,437,044	12	25,900,549
Profit before tax	683,288	(50.21)	1,372,470	(26.45)	1,865,914
Taxation	<u>(925,048)</u>		<u>(925,048)</u>		<u>(724,291)</u>
Profit after tax	<u>(241,760)</u>	(154.03)	<u>447,422</u>	(60.81)	<u>1,141,623</u>
Total comprehensive income for the year, net of tax	(241,760)		447,422		1,141,623

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 24th July, 2023

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

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USER GUIDE

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

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

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

LONG-TERM RATING

Investment Grade

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

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

Non-Investment Grade

Indicator Meaning Explanation

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

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non investment grade.
B	Speculative	Minimal capacity for timely payment 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.