



VALENCY AGRO NIGERIA LIMITED



DataPro Limited

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August, 2020

VALENCY AGRO NIGERIA LTD

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

CORPORATE RATING REPORT

References

Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

EVALUATION

VALID TILL: August, 2021

Long-term Rating: **BBB**
Short term Rating: **A2**
Previous Rating: **N/A**
Rating Outlook: **Stable**
Trend: **Up**
Currency: **Naira**

EXECUTIVE SUMMARY

	2020 N	2019 N	2018 N	2017 N	2016 N
Turnover	32,091,882,520	17,966,612,682	4,793,052,465	1,711,027,368	1,158,722,351
Pre-tax-profit	900,034,450	953,161,705	47,208,785	112,473,535	96,377,396
Shareholders' Funds	4,823,529,123	3,375,660,260	2,261,487,690	1,966,133,030	107,858,857
Fixed Asset	5,592,494,929	5,120,217,617	4,595,934,824	3,011,988,310	1,255,002,156
Total Asset	30,099,579,427	12,141,861,079	8,053,401,530	3,012,153,404	1,255,594,079
Long-term Debt	336,587,274	418,886,293	-	-	-

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.

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.

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SUMMARY

- Rating

BBB

- Report Type:
Corporate
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RATING SYNOPSIS

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

The qualitative information used was 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 Risk and Sustainability of subject's current healthy profile in the medium to long term period.

Overall, the following were observed:

Strengths:

- Experienced Management Team
- Very Good Asset Utilization
- Good Profitability

Weaknesses:

- Low Equity Funding
- Weak Liquidity

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BACKGROUND

Valency Agro Nigeria Limited (Formerly Valency Cashew Processing Limited) was incorporated on the 11th of December 2013 and it began operations in 2014.

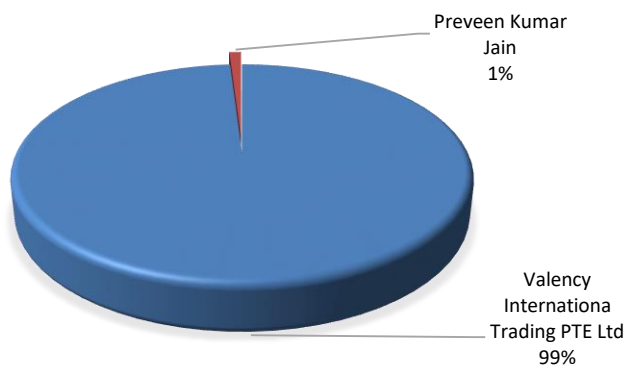
The company has various lines of business. These include the processing of Raw Cashew Nuts, Cocoa Beans, Sesame, Ginger, Black Eye Beans, Pigeons Peas, Soybean and Sheanut. Its **Nutrinutz** brand of edible cashew nut comes in three (3) variants. The products are **Nutrinutz Chilli Pepper**, **Nutrinutz Roasted and Salted** and **Nutrinutz Honey coated**.

The company has a trade and supply chain across Africa and Asia. Through an already established extensive global reach, it developed sourcing networks directly with farm gate suppliers and manufacturing processors. The company has also expanded its presence across the value chain with operations in logistics, warehousing and through its own processing facilities.

Presently, the company has production and processing facilities in **Lagos State, Ogun State, Ogbomosho, Kano State, Keffi, Ankpa and Ayigba**.

The company is owned significantly by **Valency International Trading PTE Ltd**. The shareholding structure is as presented.

ANALYSIS OF SHAREHOLDING STRUCTURE



Source: Valency Agro Nigeria Limited

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DIRECTORS PROFILE

The following served as directors during the year under review; **P. L. Ramesh, Basha Nand Balodi**

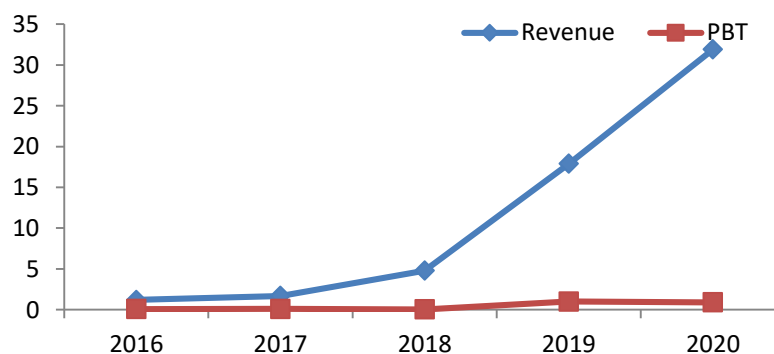
The Directors' profiles are as follow.

1. **Name:** P. L. Ramesh
Position: Executive Director
Years of Experience: 27 years
Job Experience: African Agro Commodities Limited
2. **Name:** Basha Nand Balodi
Position: Director
Years of Experience: 34 years
Job Experience:
 - Swiss Singapore Overseas Enterprises Pte Ltd

FINANCIAL PERFORMANCE

EARNINGS PROFILE

REVENUE GROWTH (2016 – 2020)



Source: Valency Agro Nigeria Limited

Valency grew its revenue consistently on an annual basis. The latest growth rate was 79%. This was due to the company's ability to grow its local and export sales significantly in the year 2020. Aggregate revenue therefore went up from ₦18b (Yr. 19) to ₦32b (Yr. 20).

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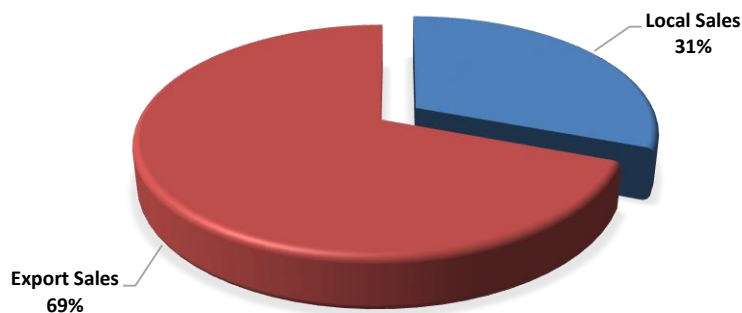
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COMPOSITION OF REVENUE (2020)



Source: Valency Agro Nigeria Limited

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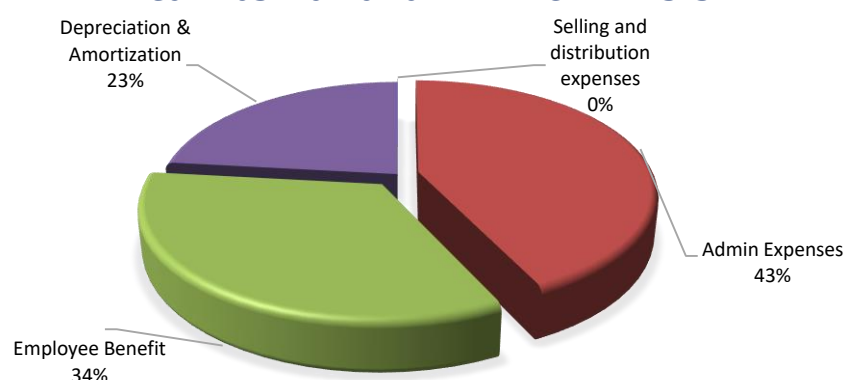
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• PROFITABILITY

Total operating cost comprises of Selling & Distribution expense Administration expenses, Personnel expenses and Depreciation Amortization. The Operating Expense grew by 66% from ₦776m (Yr. 19) to ₦1.3b (Yr. 20). Except for Selling & Distribution Expenses which declined from ₦1.3m (Yr. 19) to ₦0.4m (Yr. 20), all other components of Operating Expenses contributed significantly to the growth. Personnel related expenses accounted for the largest proportion of the company's Total Operating expenses during the year under review. The component of the Operating Expenses is as presented.

COMPOSITION OF OPERATING EXPENSES



Source: Valency Agro Nigeria Ltd

Operating profit declined by 90% from ₦1.1b (Yr. 19) to ₦108m (Yr. 20). This was largely due to significant material cost incurred during the year. Cost of material grew by 84% from ₦18b (Yr. 19) to ₦33b (Yr. 20).

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The company benefited from other sources of income to the tune of ₦169m (Yr. 20) as against ₦38m (Yr. 19). Also, Foreign Exchange Gain impacted Pre-Tax-Profit. Exchange Gain stood at ₦905m (Yr. 20) as against an Exchange Loss of ₦101m (Yr. 19). However, Pre-Tax-Profit still went down to ₦900m (Yr. 20) from ₦953m (Yr. 19).

The decline in Pre-Tax Profit impacted the profitability of the company in the year 2020. Consequently, Return on Shareholders' Funds went down from 28% (Yr. 19) to 19% (Yr. 20).

• CAPITALIZATION

Shareholders' Fund grew significantly in the year under review. This grew by 43% from ₦3.4b (Yr. 19) to ₦5b (Yr. 20). This was driven by increases in revaluation and revenue reserves.

Total Assets amounted to ₦30b in the year 2020. It grew by 148% compared to the previous year balance of ₦12b (Yr. 19).

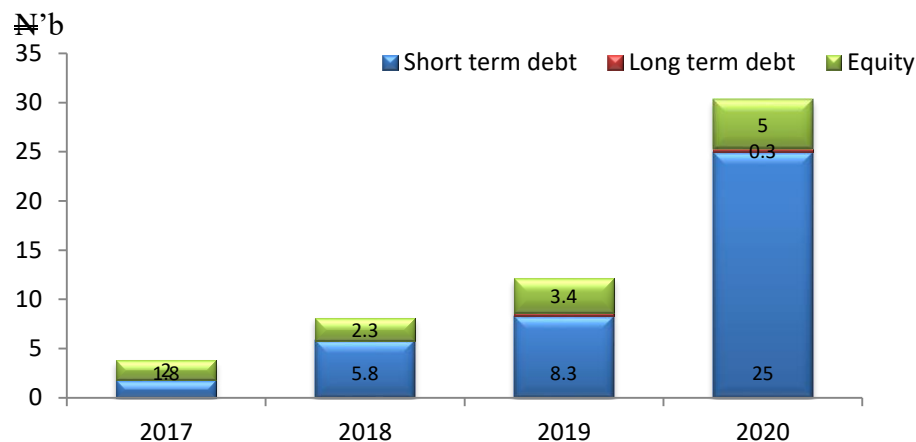
BREAKDOWN OF THE TOTAL ASSET

ITEM	2020 ₦	%
Non Current Assets	5,592,494,929	18.58
Current Assets	24,507,084,498	81.42
Total Asset	30,099,579,427	100

This rise in the value of total assets was largely driven by growth in current assets. Current assets grew by 250% from ₦7b (Yr. 19) to ₦25b (Yr. 20). Current assets increased as a result of significant increment in the value of inventories and receivables from customers. Receivables grew from ₦3b (Yr. 19) to ₦18b (Yr. 20) while inventories grew from ₦3.8b (Yr. 19) to ₦6b (Yr. 20).

Equity as a proportion of total assets was 16% in the year 2020. The funding pattern remain relatively same with the year 2019.

FUNDING OF OPERATION



Source: Valency Agro Nigeria Limited

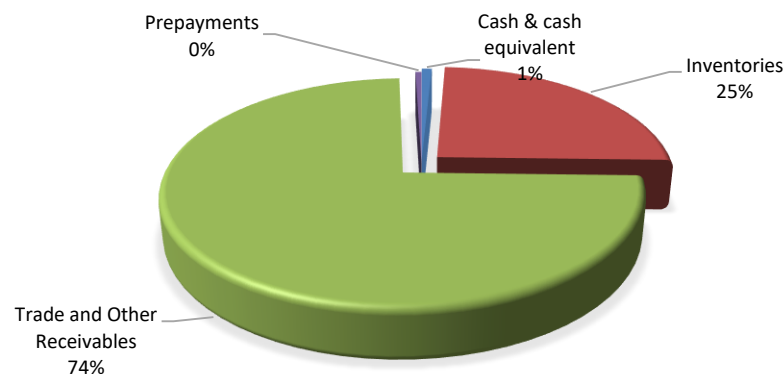
ASSET UTILITY

The company operates the largest cashew processing plant in Nigeria. Its daily production is running at **35MT RCN/Day**. However, there is an ongoing plan to expand this to **100MT RCN/Day** between the year 2020 and 2021.

The company facilities are spread across six (6) states in Nigeria. These are: Lagos, Ogun, Oyo, Ondo, Benue and Kano.

Total asset comprises of fixed assets and current asset. Current assets contributed 81% of total assets in the year review. Non-Current Assets comprised of Property/Plant & Equipment, Right of use assets and capital work-in-progress. The value of Non-Current Assets increased by 9% from ₦5.1b (Yr. 19) to ₦5.6b (Yr. 20).

COMPOSITION OF CURRENT ASSETS



Source: Valency Agro Nigeria Ltd

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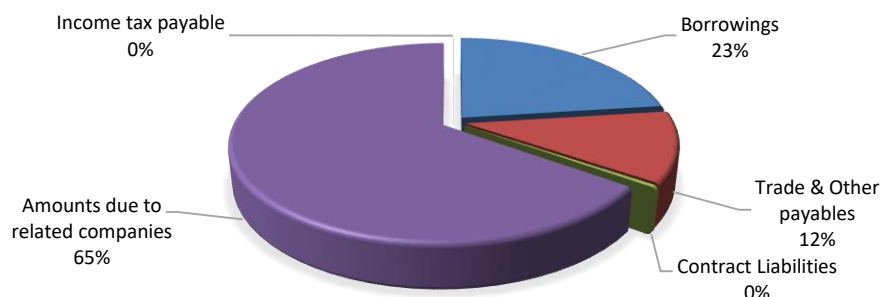
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The ability of the company to use assets to generate revenue declined in the year under review. This was 148% (Yr. 19) and 106% (Yr. 20). Additionally, the ability of the company to utilize assets to generate profit decline from 8% (Yr. 19) to 3% (Yr. 20).

• LIQUIDITY

Total Liabilities grew by 148% from ₦8.7b (Yr. 19) to ₦25b (Yr. 20). The rise in total liabilities was largely due to increase in Amounts Due to Related Companies. This went up by 112% from ₦7.6b (Yr. 19) to ₦16b (Yr. 20). There were also increments in all other components of Total Liabilities.

COMPOSITION OF CURRENT LIABILITIES



Source: Valency Agro Nigeria Limited

The Company has existing short-term facilities with commercial banks in Nigeria. The value of its existing loan obligation as at June 2020 is ₦5.4b.

The detail of existing indebtedness is as presented:

VALENCY LOAN PORTFOLIO AS JUNE 2020

S/N	Bank	Currency	Facility Type	Loan ₦M	Utilization ₦M
1	Zenith Bank	USD	Short Import Finance	6,650	1,299.37
2.	Coronation Bank	Naira	Import and Export Finance	1,100	1,000.00
3.	Fidelity Bank	USD	LC Confirmation Line	2,280	2,280.00
4.	NEXIM Bank	Naira	Working Capital Finance	2,000	Nil
5.	Wema Bank	Naira	Import and Stock Finance	3,800	1,000.00
TOTAL				15,830	5,379.37

Source: Valency Agro Nigeria Limited

The cashflow from operation in the year 2020 was a negative balance of ₦5m. However, ability to settle short-term maturing

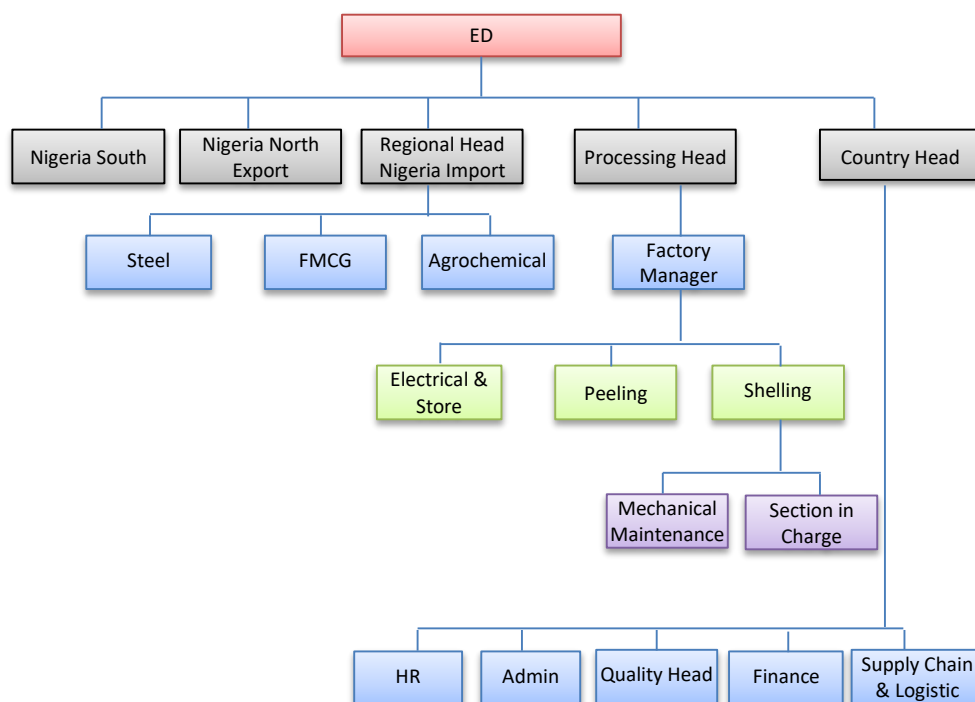
obligation improved during the year under review. This is based on the current ratio of 98% (Yr. 20) as against 84% (Yr. 19).

CORPORATE GOVERNANCE & RISK MANAGEMENT

The company's day to day affair is directed by its board member and implemented by its Executive Director .

The company's corporate organogram structure is as highlighted.

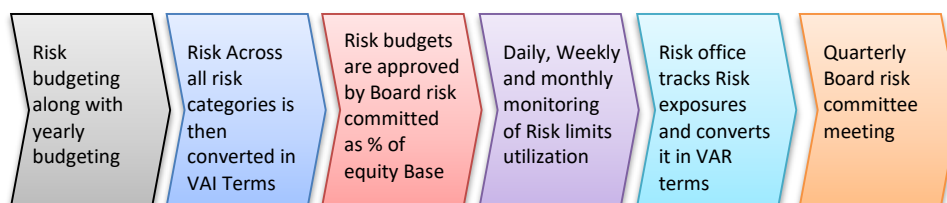
ORGANISATION STRUCTURE



Source: Valency Agro Nigeria Limited

The company recognizes its risks and has developed various measures to manage them. The risk management procedure of the organisation is as presented.

VALENCY RISK APPROVAL PROCESS



Source: Valency Agro Nigeria Limited

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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 paying of significant fees.

In the course of our review, we did not come across any litigation in which the Company is involved as a party.

- **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.

- **CREDIT RISK**

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

Based on our review, a significant amount of ₦18.2b representing 60% of the Company's total assets are concentrated in third parties.

- **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 98% (Yr. 20) and 84% (Yr. 19) as against our benchmark of 100%.

- **EXCHANGE RATE RISK**

This is the risk arising from adverse movement in exchange rate between naira and other currencies of the company's operations.

Based on our review, the company source 100% of its production inputs locally and export 69% of its production.

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FUTURE OUTLOOK

The company intends to expand its current cashew processing plant from 30MT/Per day to 100MT/per day within the next one (1) year.

This is in addition to establishing an Agrochemical Plant in Nigeria in order to reduce importation.

Other projections within the next three (3) years will involve: Projects relating to Local Starch Based Custard Manufacturing Unit, Oil Seed Crushing Complex, Sesame Sortexting and Hulling Plant and Rice Milling.

This projections are expected to increase the Company's sales value in the next four (4) years to ~~N~~341.9b and Profit Before Tax to ~~N~~11.5b

CONCLUSION

The rating of the company is supported by its strong earning profile, very good profitability and experienced management team.

However, it is constrained by its high external funding and weak liquidity. Consequently, we assigned a rating of **"BBB"**

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FINANCES

Financial Position as at

	Dec, 2020 ₦'000	Δ%	Dec, 2019 ₦'000	Δ%	Dec, 2018 ₦'000
ASSETS					
NON CURRENT ASSETS					
Property, Plants & Equipment	4,576,009	(10.05)	5,087,374	10.69	4,595,935
Right of Use of Assets	895,752				
Capital Work in Progress	300	(99.09)	32,844		
Prepayments	120,434				
	<u>5,592,495</u>	9.22	<u>5,120,218</u>	11.41	<u>4,595,935</u>
CURRENT ASSETS					
Inventories	6,028,967	57.09	3,838,010	86.38	2,059,268
Trade and Other Receivables	18,163,836	495.89	3,048,197		
Cash and Cash Equivalents	196,603	103.98	96,384	(75.16)	388,009
Prepayment	117,678	398.61	23,601	(97.66)	1,010,190
	<u>24,507,084</u>	249.79	<u>7,006,192</u>	102.64	<u>3,457,467</u>
TOTAL ASSETS	<u>30,099,579</u>	148.22	<u>12,126,410</u>	50.57	<u>8,053,402</u>
EQUITY AND LIABILITIES					
Equity Attributable to Owners					
Share Capital	10,000	-	10,000	-	10,000
Revaluation Reserve	3,333,360	16.44	2,862,767	26.23	2,267,976
Revenue Reserves	1,480,169	194.33	502,893	(3,150.05)	(16,488)
	<u>4,823,529</u>	42.89	<u>3,375,660</u>	49.27	<u>2,261,488</u>
NON CURRENT LIABILITIES					
Deferred Tax Liabilities	336,578	(19.65)	418,886		
	<u>336,578</u>	(19.65)	<u>418,886</u>		
CURRENT LIABILITIES					
Borrowings	5,728,324	-			
Trade and Other Payables	2,877,232	314.14	694,746	244.98	201,385
Contract Liabilities	91,228	-			
Amounts Due to Related Comp	16,237,622	112.87	7,627,858	36.54	5,586,516
Income Tax Payables	5,066	(45.28)	9,258	130.76	4,012
	<u>24,939,472</u>	199.33	<u>8,331,862</u>	43.85	<u>5,791,913</u>
TOTAL LIABILITIES	<u>25,276,050</u>	188.84	<u>8,750,748</u>	51.09	<u>5,791,913</u>
TOTAL EQUITY AND LIABILITIES	<u>30,099,579</u>	148.22	<u>12,126,410</u>	50.57	<u>8,053,402</u>

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Signed: 
Name: **Oladele Adeoye**
Designation: Chief Rating Officer
Date: 26th August, 2020

For and on behalf of:
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's 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+.

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LONG-TERM RATING

Investment Grade

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

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Non-Investment Grade

Indicator	Meaning	Explanation
BB	Moderate Risk	(Marginal) Assigned to issuers which have, marginal financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, 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	(Weak) Assigned to issuers which have, weak financial strength, operating performance and profile when compared to the standard established by DataPro Limited. These funds, 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	(Poor) Assigned to issuers, which have poor financial strength, operating performance and profile when compared to the standards established DataPro Limited. These funds, 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	(Very Poor) Assigned to issuers, which have very poor financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, 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.

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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.