



GCR accords an Indicative BBB_{(NG)(IR)} National Scale Rating to Daraju Industries Funding Plc's proposed N10bn Series 1 Senior Unsecured Bond Issue.

Lagos, Nigeria, 19 April 2021 - GCR Ratings ("GCR") has assigned a national scale long term indicative rating of BBB_{(NG)(IR)} to Daraju Industries Funding Plc's proposed N10bn Series 1 Senior Unsecured Bonds. The Outlook on the rating is Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
N10bn Series 1 Bond	Long Term Issue	National	BBB _{(NG)(IR)} *	Stable

*IR stands for Indicative Rating.

Rating Rationale

The Issuer, Daraju Industries Funding Plc, is a special purpose vehicle incorporated for the purpose of raising debt through the issuance of Bonds in order to subscribe to the Notes to be issued by the Sponsor, pursuant to a Master Notes Subscription Agreement. GCR recently accorded a long-term rating of BBB(NG) to the Sponsor, Daraju Industries Limited, on the back of its established market niche and diversified product portfolio which have facilitated stable earnings and cash flows over the cycle.

The Issuer is in the process of registering a N15bn Bond Issuance Programme ("the Programme") with Securities and Exchange Commission and expects to issue up to N10bn in Series 1 under the Programme, with a five-year tenor. The Bonds shall constitute direct, unconditional, senior and unsecured obligations of the Issuer, backed by the irrevocable and unconditional undertaking of the Sponsor and shall rank pari passu without any preference among themselves and all unsecured creditors of the Issuer and at least pari passu with the claims of all holders of both present and future unsecured and unsubordinated obligations of the Issuer. The bond net proceeds will be utilised for refinancing of the existing loans of the Sponsor. GCR expects that the Sponsor will continue to generate robust cash flows sufficient to meet its Bond obligations and continue to demonstrate financial flexibility.

Given that the Sponsor offers timely and full coverage of all payments due to the bondholders, under the Series 1 Senior Unsecured Bonds through the Deed of Undertaking, the Bonds bear the same default risk as its Sponsor and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the long-term rating for the Series 1 Bonds is equivalent to the Sponsor's long term senior unsecured rating. Accordingly, any change in the Sponsor's long-term credit rating would impact the issue rating.

The indicative rating assumes that the conditions in the notes will not change and will receive

regulatory approval.

Outlook Statement

The Stable Outlook reflects GCR’s expectations that the Sponsor will continue to generate robust cash flows and operate profitably over the outlook period. Along with the proposed bond issue, this will help to reduce the high and short dated debt profile.

Rating Triggers

Given that the indicative rating is intrinsically linked to the Issuer’s long-term rating, any change in the rating assigned to the Issuer will directly affect the Bond rating.

Positive rating action could emanate from a meaningful improvement in the debt maturity profile. Attaining or exceeding earnings targets should also ensure improved cash flows and a reduction in the overall quantum of debt. The rating could come under pressure if the company is unable to refinance its short-term debt. Further, persistent liquidity pressure would likely mean that gearing remains high and debt service coverage relatively weak.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR’s Nigeria Country Risk Score report, February 2021
GCR’s FMCG Sector Risk Score report, February 2021
Daraju Industries Limited Issuer rating report, March 2021

Ratings History

Daraju Industries Funding Plc's Series 1 Bond

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
N10bn Series 1 Bond	Initial/new	National	BBB(NG)	Stable Outlook	April 2021

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	6.75
Country risk score	3.75
Sector risk score	3.00
Business profile	0.50
Competitive position	0.50
Management and governance	0.00
Financial profile	(1.00)
Earnings performance	1.00
Leverage and Cash flow	(1.50)
Liquidity	(0.50)
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	6.25

Glossary

Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Indicative Rating	An indicative Rating is denoted by an 'IR' suffix to indicate that a credit rating has been accorded based on review of final draft documentation and expectations regarding final documentation.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Daraju Industries Funding Plc. The rating above was solicited



by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Daraju Industries Funding Plc participated in the rating process *via* tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Daraju Industries Funding Plc, the Sponsor and other reliable third parties to accord the credit rating included:

- 2019 audited annual financial statement, and prior four years annual financial statements;
- 2020 full year management accounts;
- Internal and/or external management reports;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry was also received;
- Draft Series 1 Trust Deed
- Draft Programme Trust Deed
- Draft Shelf Prospectus
- Draft Master Notes Subscription Agreement
- Draft Deed of Undertaking