[redacted] RISK ASSESSMENT REPORT

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CREDIT RISK ASSESSMENT REPORT

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Prepared for	:	[redacted]
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Currency used in this report	:	This report is presented in [redacted] unless otherwise stated.

Table 1

CONTENTS

RISK ASSESSMENT FOR [redacted]

EXECUTIVE SUMMARY

[redacted] is a manufacturing private limited company based in Kampala, Uganda. The company was incorporated on 12th August 2011. Its core mission is to manufacture polypropylene packaging materials and sisal ropes. The company earns revenues also from renting out real estate property. Key risk areas for [redacted] include liquidity and governance risks. Liquidity risk is high as the company does not have adequate liquid assets to meet obligations as they fall due. The current asset and quick ratios were below the acceptable thresholds. Governance risk is moderate. Significant reliance is placed on the founder and CEO, Mr. Francis Mugabe. The governance structure appears underdeveloped, with no clear succession plan or independent oversight. The risk relating to corporate governance is therefore moderate. Other areas of risk management were assessed moderate or low including:

Solvency Risk : Solvency risk reflects a company's ability to meet long-term obligations using its total assets. As of FY24, [redacted] assets of Ushs 11.75Bn comfortably exceed liabilities of Ushs 6.09Bn, indicating low and stable solvency risk. The equity ratio also improved to 0.48x, signalling a stronger capital structure and enhanced long-term financial stability.

Business Risk : The company has proven to be resilient since its incorporation. We have assessed the business model to be strong and sustainable supported its approximately 1.5 decades of operations,

Credit Risk: [redacted] has a good credit record with no adverse credit reports and a low credit risk profile based on the credit reference bureau information as of April 2025. Credit risk is assessed as low and stable.

Legal Risk: Based on a review of available information, there are no legal matters that warrant concern at Kike Impex. We have therefore assessed legal risk to be low and stable.

Political and Sovereign Risk: We have assessed political risk at [redacted] to be low and stable.

ADVISORY TO [redacted] – RISK MITIGATION STRATEGY

Regarding [redacted] investment in [redacted] valuing up to approximately USD 400,000, given [redacted] moderate risk profile, we recommend that [redacted] should take a prudent and structured approach when engaging with Kike Impex.

The Risk mitigation strategy of a 40% bank guarantee along with 60% corporate guarantee is deemed as unfavourable due to the corporate guarantee being non-viable due to the following factors,

1. [redacted] has already granted a loan to [redacted]. As of 30th June 2024, [redacted] has an outstanding loan of [redacted] to [redacted]. Furthermore, the company also holds an outstanding debt of [redacted]. This altogether amounts to a total outstanding debt of [redacted]
2. [redacted] revenue generation is lesser than [redacted] revenue, i.e. revenue of [redacted] as of June 2024 stood at [redacted] and revenue of [redacted] stood at [redacted]
3. A cautious approach has also been followed due to the material concerns in [redacted] financial statements (Working capital, PPE, Borrowing movements, Depreciation, Finance costs) and limited information availability on the company. (Ex: Unavailability of a functional website).
4. In the general context, corporate guarantees are being issued by the parent company, and the available information restricts the determination of the parent company.

Suppose [redacted] is set on proceeding with the 60% corporate guarantee, in that case, as the financial statements of [redacted] is deemed unreliable due to material discrepancies it is advised to check on the legal documentation related to the shareholding of [redacted] along with the latest company bank statements for 1 year. Furthermore, it is advised to obtain the loan agreement for the loan from UDB and to check on the terms and conditions of the loan, **interest rate**, covenants and details of any pledged collateral. Under these circumstances, it will also be beneficial to obtain the tax returns and the tax payment receipt for 2024 and 2023 to verify the actual tax paid by the company.

Below is the proposed strategy which would help [redacted] to manage the credit risk, should [redacted] decide to supply its energy products and services to [redacted].

[redacted] should obtain **a credit insurance for the remaining 60% of the investment [redacted] coupled with 40% [redacted] bank guarantee for the investment.**

Further details, including alternative mitigation mechanisms and a detailed explanation of each section, are available in the report.

8BUSINESS PROFILE

COMPANY FORMATION DETAILS

[redacted]

SHAREHOLDING STRUCTURE

[redacted] is privately owned by [redacted] who controls 60% and [redacted] who controls the other 40%. Both shareholders are Ugandan Nationals.

GOVERNANCE STRUCTURE

There is a board of directors responsible for policy direction. The board comprises two individuals, namely Mr. Francis Mugabe and Mrs. Agnes Muhire, who are the two shareholders. Mr. Mugabe is a finance expert while Mrs. Muhire is an educationalist. The CEO, Mr. Francis Mugabe, also the controlling shareholder, heads the management team. Other key team members have business administration, economics, and mechanical engineering skills, among other fields. There is an organisational structure that shows responsibilities and reporting lines for the various roles in the company including marketing and sales, human resources, accounting, production, procurement, and operations. We noted that there is no reference to any board committees in the governance of the company.

PRINCIPAL BUSINESS LINES

The company's primary business is manufacturing and selling polypropylene products (packing bags), rental income, and logistical supplies. The company prides itself on being capable of supplying packaging materials for wholesale, retail, and final consumers. The company's articles of association list several other business lines in which the company is authorised, including retail trade, real estate development, computer and technological dealings, and management consultancy.

REVENUE SOURCES AND PRODUCT LINES

The company's primary source of revenue is the manufacture and sale of a range of polypropylene (PP) bags in different sizes, sisal ropes, and shopping bags. It also receives rental income. In the financial years ended June 2023 and June 2024 and the subsequent six-month period to 31 December 2024, sales from polypropylene bags accounted for 97% of gross income. The balance of 3% was rental income.

MAJOR EVENTS/ PLANS FOR BUSINESS.

The company plans to be the leading manufacturer of PP woven packaging materials with increased market share and quality customer service. The company seeks to manufacture packaging materials that are tailored to specific needs of its clients. It boasts of raw materials suppliers who include SABIC, SURYA, SHREE Perdarslate and Bajaj Polymers with capacity to supply any quantity of raw materials within the stipulated time frames.

BUSINESS PROFILE SUMMARY

Based on our assessment, the business appears strong and sustainable overall. However, the governance structure seems weak given that the company is an SME with only two board directors.

EXTERNAL RELATIONSHIPS

BANKING RELATIONSHIPS

According to the audited financial statements, the company has a long-term banking relationship with [redacted]. ICRA has not received any bank statements or loan agreements for assessment and review.

EXTERNAL AUDITOR DETAILS

Auditor Name	[redacted]
Latest Financials	[redacted]
Audit Report Date	[redacted]
Audit Opinion	Unqualified

Table 2

CREDIT BUREAU DETAILS

Mr. Francis Mugabe – Very Low Risk

The credit profile of Mr. Francis Mugabe is “very low risk”, with a high credit score of 266 (a 260+ score is considered very good), categorised as A3, indicating a very low probability of defaulting on a credit facility. The score's trend is stable at 260 from April 2024 to April 2025, signalling consistently high creditworthiness. This consistency in high creditworthiness is a positive indicator for the client, who also had no financial malpractices recorded, no arrears, and no credit accounts running as of April 2025.

One concern, however, is the record of a bounced cheque amounting to Ushs 10m on 17 October 2023 because of insufficient funds at Centenary Rural Development Bank.

Overall, Mr. Francis Mugabe’s credit profile suggests a very low risk of default as he is in the highest credit quality category based on the credit report as of 14th April 2025 from Creditinfo Uganda CRB Ltd.

Kike Impex Limited – Low Risk

Kiki Impex has a credit score of 236, placing it in the B2 grade category. According to the report's scoring system, this B2 grade signifies a "Low Risk" borrower, indicating a low probability of defaulting on credit facilities. Further, the timeline of the credit score shows a steady trend oscillating between 200 and 260 between the period April 2024 to April 2025, which is within the low-risk category based on timely payment behaviour with no adverse accounts and no financial malpractices recorded.

A concern, however, is the number of bounced cheques totalling 24 and amounting to Ushs 172m. The reasons for the bounced cheques included insufficient funds, transaction first presented, and figures differing between the payment amount and image amount details. Further, two previous applications; one for a guarantee and another for overdraft were denied for breaching regulations.

According to the credit bureau report, the company has made 13 credit applications, two of which were rejected, four of which were approved, and seven of which are pending approval. These applications indicate the company's ongoing need for credit.

Overall, the credit profile of Kike Impex is characterised by a low risk with the company having ongoing appetite for credit as evidenced by recent applications.

FINANCIAL ANALYSIS

Kike Impex limited is a manufacturing firm operational from 2011, ICRA has performed financial analysis based on two years of financials (FY23-FY24) which are audited. The company year-end is in June. Even though the 1H25 (6 months financial statements from July 2024 to December 2024) has been provided, due to the material misstatements spotted in these unaudited accounts, these interim financial statements have not been analysed. Furthermore, it is to be noted two years of financial data may be insufficient to assess medium-term trends in financial indicators, However, the June 2024 audited recent financial statements provide a useful basis for evaluating the company's recent financial health. As the company has reported the financials in absolute terms, the same has been followed in our analysis and tables.

INCOME STATEMENT

Performance Analysis		
Ushs	**Jun-23**	**Jun-24**
Revenue	[redacted]	[redacted]
Gross Profit	[redacted]	[redacted]
OPEX	[redacted]	[redacted]
EBIT	[redacted]	[redacted]
EBITDA	[redacted]	[redacted]
Rental Income	[redacted]	[redacted]
Net Profit	[redacted]	[redacted]

Table 3

Kike Impex has recorded a revenue of [redacted] in FY24, up from [redacted] in FY23, recording a 7% y/y growth. The growth in revenue shows a positive movement in the company's sales performance. Gross profit grew by approximately the same rate, i.e. 6%, indicating a stable cost of sales, which gives the firm the opportunity to increase its market shares by sustained growth in the total sales while maintaining profitability.

The company's operating expenses were managed efficiently during the year, despite a 7% increase in revenue, the management demonstrated effective cost control by maintaining total operating expenses (OPEX) at a stable level. OPEX of the firm experienced a marginal increase of 1% on a y/y basis, reaching [redacted] in FY24. The major contributors to the operating cost are rent and employment cost (contributed 66% of total OPEX), which remained almost unchanged during the year, and the fixed nature of these costs ultimately led the EBIT to increase by 8% on a y/y basis in FY24, reaching [redacted] The 8% increase in operating profit compared to a 7% increase in revenue indicates operational efficiency and room for further profitability improvement by achieving further revenue growth.

Although rental income does not arise from core operations, it serves as an additional income stream for Kike Impex, contributing to the total net income. According to the provided two-year financials, there is a fixed rental income of [redacted] each year. While it has consistently and significantly contributed to the total net income, ICRA has classified this as non-operational income due to the lack of further disclosures on the matter.

Net profit slightly decreased in FY24, reaching [redacted]. It declined by 4% y/y, which is attributed to a drastic increase in income tax expense, which increased from [redacted] in FY23 to [redacted] in FY24, recording a 36% y/y growth.

Kike Impex maintained an overall profitability position. Gross profit, operating profit, and profit before tax recorded positive year-on-year growth. The effective translation of revenue growth into profitability reflects strong operational efficiency and room to improve profitability further. Net income declined slightly due to a drastic increase in income tax expense; however, it still posted a handsome amount of [redacted] in FY24.

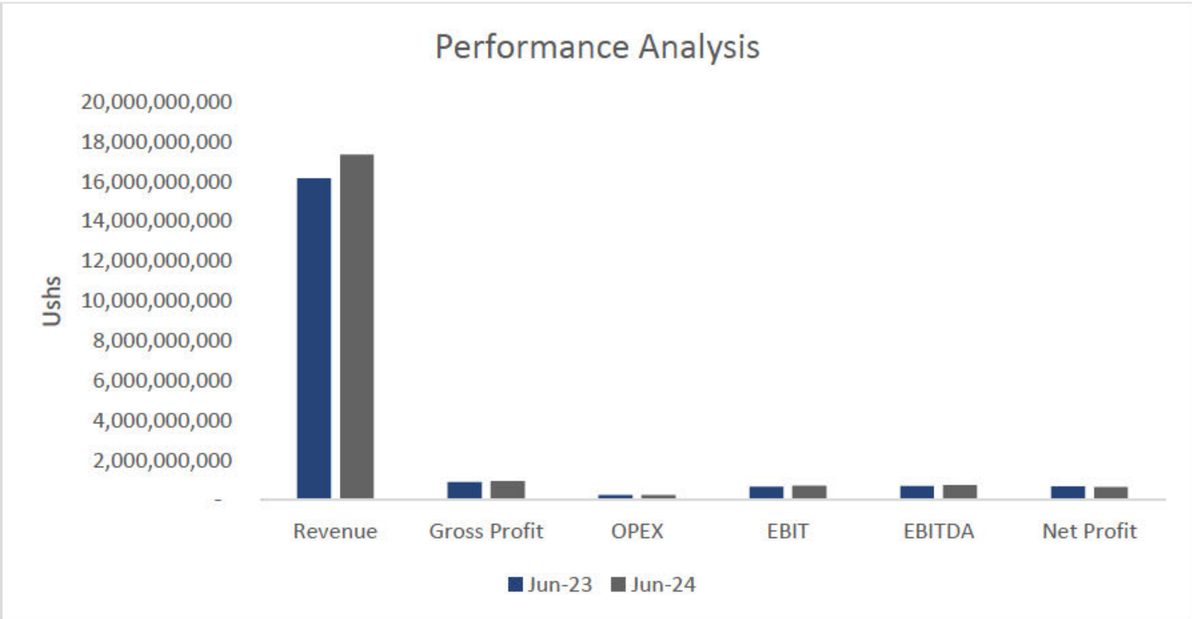


Figure 1

BALANCE SHEET

Financial Position Analysis		
Ushs	**Jun-23**	**Jun-24**
Total Non-Current Assets	[redacted]	[redacted]
Total Current Assets	[redacted]	[redacted]
Cash & Bank Balance	[redacted]	[redacted]
Total Equity	[redacted]	[redacted]
Total Non-Current Liabilities	[redacted]	[redacted]
Long-Term Debts	[redacted]	[redacted]
Short-Term Debts	[redacted]	[redacted]
Total Current Liabilities	[redacted]	[redacted]

Table 4

Total Assets decreased marginally by 0.4% in FY24, standing at [redacted] and were mainly contributed via non-current assets (92%). The firm's total non-current assets have declined negligibly during FY24 by 0.2%, reaching [redacted]. Non-current assets of the firm comprised 27% of Plant, property and equipment, while 73% [redacted] of non-current assets comprised of an entry recorded as "due from a related party". The note of this entry states that it is an agriculture term loan facility (DFCU Term loan 3) which was borrowed by Kike Impex and was used to finance the purchase of agricultural machinery of Kakoge project. However, if it is assumed that the reason behind recording this under non-current assets is that this is the amount spent on the purchase of agricultural machinery. In that case, it is still unclear why it is not added to PPE. Moreover, there is no depreciation charged on it. Furthermore, we are unable to find the exact corresponding loan mentioned in note 6 with 12% interest for 6 years in the liability side. Reason being, even though the name of the loan is similar (i.e. DFCU Term loan 3) in note 6 in assets and note 10 in liabilities, the duration of the loan and the interest rates are different.

Total current assets stood at [redacted] in FY24, comprising 76% of inventory, 14% trade receivables and 10% cash and bank balance. A significant portion of current assets is allocated to inventory, which is consistent with the nature of the business. However, the cash and bank balances appear to be low, representing only 10% of current assets and 2% of trade payables. Moreover, cash and trade receivables together represent 5% of trade payables, which is still low.

The firm maintains a strong equity base, with total equity rising to [redacted] in FY24 from Ushs 5.02Bn in FY23 on the back of retained earnings/ reinvested profits. Notably, 100% of the net income is reinvested into the business, reflecting a commitment to growth and long-term sustainability. Retained earnings account for 99% [redacted] of total equity, while share capital contributes the remaining 1% (Ushs 20.0m).

In FY24, long-term debt declined by 30%, from [redacted] to [redacted], primarily due to repayments. As a result, total non-current liabilities decreased significantly by 21%, from [redacted] in FY23 to [redacted] in FY24.

As of June 2024, the total borrowings of the firm stood at Ushs 1.49Bn, out of which [redacted] is payable in the long term while [redacted] is due within one year. The loan is availed from DFCU Bank, which has a lifetime of 5 years at an interest rate of 23% per annum. However, the initiation date of the loan is not specified in the financials, making it unclear over what period the portion classified as a long-term liability is supposed to be repaid. The firm has also availed a bank overdraft facility of Ushs 300m of which, as of 31st June 2024, [redacted] was outstanding, which is also due in one year.

Total current liabilities declined significantly from [redacted] in FY23 to [redacted] in FY24, recording a 7% decline on a y/y basis. This decrease is mainly due to a decrease in the bank overdraft facility and trade payables. Trade payables, which account for 90% of total current liabilities, declined by 7% y/y, reaching 4.31Bn. Similarly, the bank overdraft decreased from [redacted] in FY23 to 29.77m in FY24. Notably, the DFCU term loan (short-term portion of DFCU term loan 3) increased sharply by 72% in FY24, reaching [redacted].

The firm's balance sheet showed normal figures in terms of non-current assets, with 92% of its investments concentrated in PPE, including "due from related party", which reflects the capital-intensive nature of the business. However, cash relative to accounts payable are lower, due to which the firm may face liquidity issues. Moreover, the company maintains a strong equity base and is reinvesting 100% of its net income back into the business, which is a positive indicator. Long-term debt dropped by 30% to Ushs 1.01Bn in FY24, indicating repayment pressure. At the same time, accounts payable remain significantly high, i.e. 4.31Bn, further indicating short-term repayment demands as well. Given the already low cash and bank balances, any unexpected cash requirements could place additional strain on the company's liquidity position.

Given the above facts and figures, ICRA has placed the financial position of Kike Impex Limited at moderate risk category.

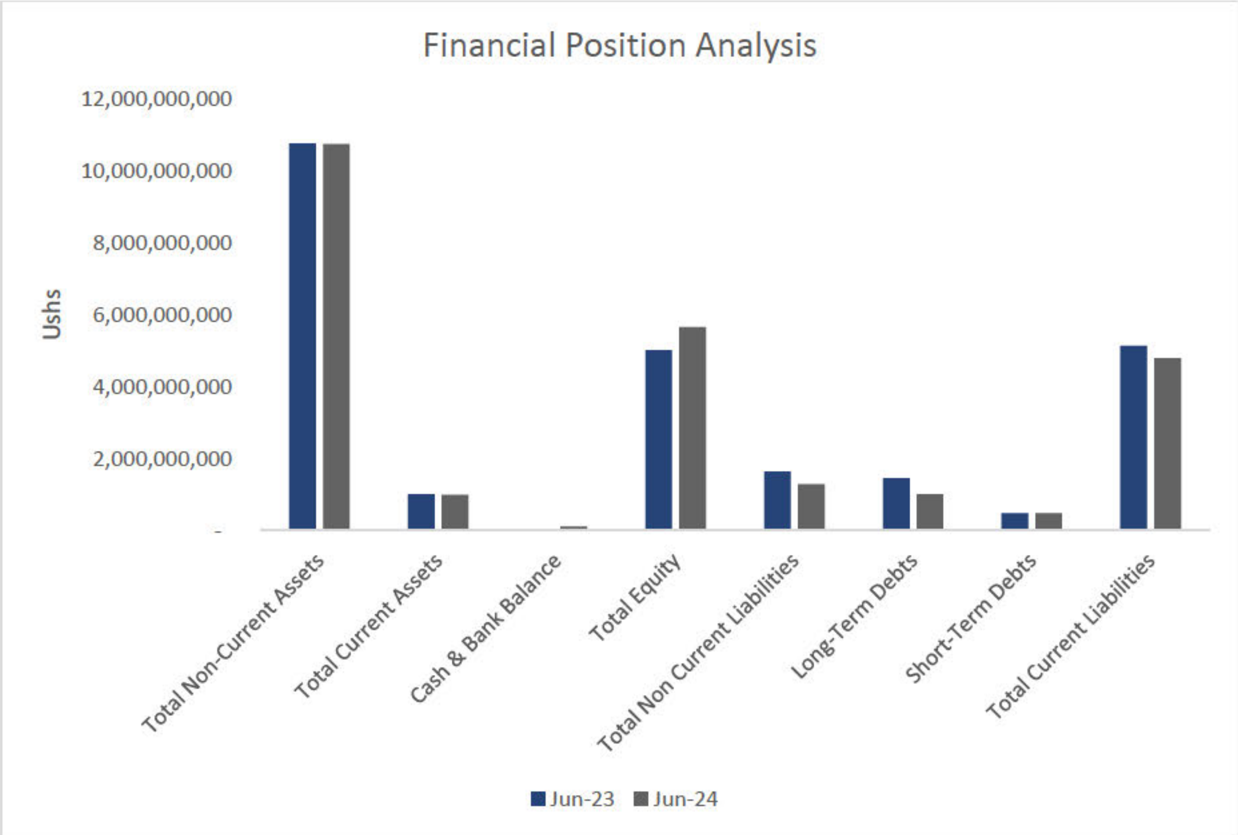

Financial Position Analysis
12,000,000,000
10,000,000,000
8,000,000,000
6,000,000,000
4,000,000,000
2,000,000,000
-
Ushs
Total Non-Current Assets
Total Current Assets
Cash & Bank Balance
Total Equity
Total Non Current Liabilities
Long-Term Debts
Short-Term Debts
Total Current Liabilities
Jun-23
Jun-24

Figure 2

CASH FLOW ANALYSIS

Cash flow is one of the most important financial statements. It shows how cash is generated and utilised across operating, investing, and financing activities. It plays a key role in risk assessment by highlighting potential cash shortfalls or funding gaps that may threaten financial stability. However, the provided cash flow statements carry material discrepancies, which can mislead our analysis, and therefore, no cash flow analysis is done. A few of the most alarming disparities are mentioned as follows.

- Finance cost ([redacted]) is recorded in the income statement; however, its effect is not shown in the cash flow statement. This scenario suggests the possibility that the interest has not yet been paid. Still, in that case, an entry regarding interest payable must be recorded in the balance sheet, the effect of which will ultimately come to the cash flows in the shape of "changes in working capital, " which is also not noticed, which makes the OCF incorrect.
- In the income statement, a depreciation of [redacted] is recorded, while in the cash flow statement, the depreciation of [redacted] is added back to the PBT, which makes the OCF incorrect.
- A cash outflow of [redacted] is recorded as an "acquisition of fixed assets" in the cash flow statement. However, in the balance sheet, a y/y decline of [redacted] is noticed in PPE in FY24, which generally implies a cash inflow from investing activities for the company. This makes the cash flows from operating activities incorrect.
- The summations of the operating cash flow are also incorrect.

Based on the above-mentioned material errors, it can be noticed that the provided cash flow statement does not reflect the accurate figures. Hence, we decided not to analyse the cash flow statement as it can mislead our analysis.

RATIO ANALYSIS

LIQUIDITY ANALYSIS

Liquidity Ratios		
	Jun-23	Jun-24
Current Ratio (times)	[redacted]	[redacted]
Quick Ratio (times)	[redacted]	[redacted]
Cash Ratio (times)	[redacted]	[redacted]

Table 5

The firm's current ratio remained critically low during FY23 and FY24. For FY24, the current ratio stood at 0.21x, which is alarmingly low, as the generally accepted ratio is 2.0x, while the industry average for miscellaneous manufacturing is 2.21x. This indicates that Kike Impex is facing significant liquidity challenges, with current assets falling far short of covering short-term liabilities. Such a weak liquidity position raises concerns about the firm's ability to meet short-term obligations from its short-term/liquid assets.

The quick ratio measures a company's ability to cover its short-term obligations out of its most liquid assets. Quick ratio of Kike Impex is negligible, which indicates serious concern about the liquidiy. The quick ratio for FY24 stood at 0.05x, far beyond the generally acceptable ratio, i.e., 1.0x, and the industry average, i.e. 1.09x. This suggests that the firm may not have sufficient liquid assets to meet its short-term liabilities, which eventually may lead the firm towards additional debts and increased financial risk.

The cash ratio provides a stricter assessment of a company's ability to meet its short-term obligations, as it considers only cash and cash equivalents from its current assets. The cash ratio of Kike impex stood at 0.02x in FY24, also far beyond its industry average, i.e. 0.60x. This indicates that the company holds a minimal cash buffer to settle its short-term obligations. Since the firm's accounts receivable are also very low compared to current liabilities, the collection of receivables may also not cover the cash needs, potentially pushing it towards taking on additional debts.

Liquidity ratios indicate that Kike impex holds a high liquidity risk and may face serious liquidity issues in future, potentially impacting its ability to operate smoothly without securing additional financing.

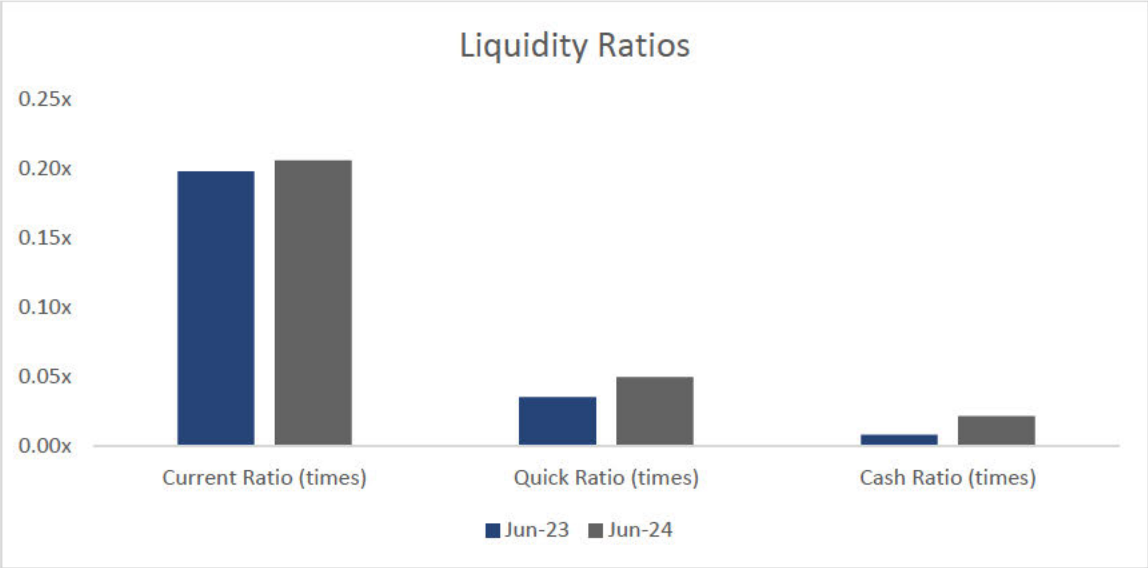

Liquidity Ratios
0.25x
0.20x
0.15x
0.10x
0.05x
0.00x
Current Ratio (times)
Quick Ratio (times)
Cash Ratio (times)
Jun-23
Jun-24

Figure 3

LEVERAGE ANALYSIS

Leverage Ratio		
	Jun-23	Jun-24
Debt-to-equity Ratio (times)	[redacted]	[redacted]
Equity Ratio (times)	[redacted]	[redacted]
Debt Ratio (times)	[redacted]	[redacted]
Debt to EBIT (times)	[redacted]	[redacted]
Debt to equity – adjusted	[redacted]	[redacted]

Table 6

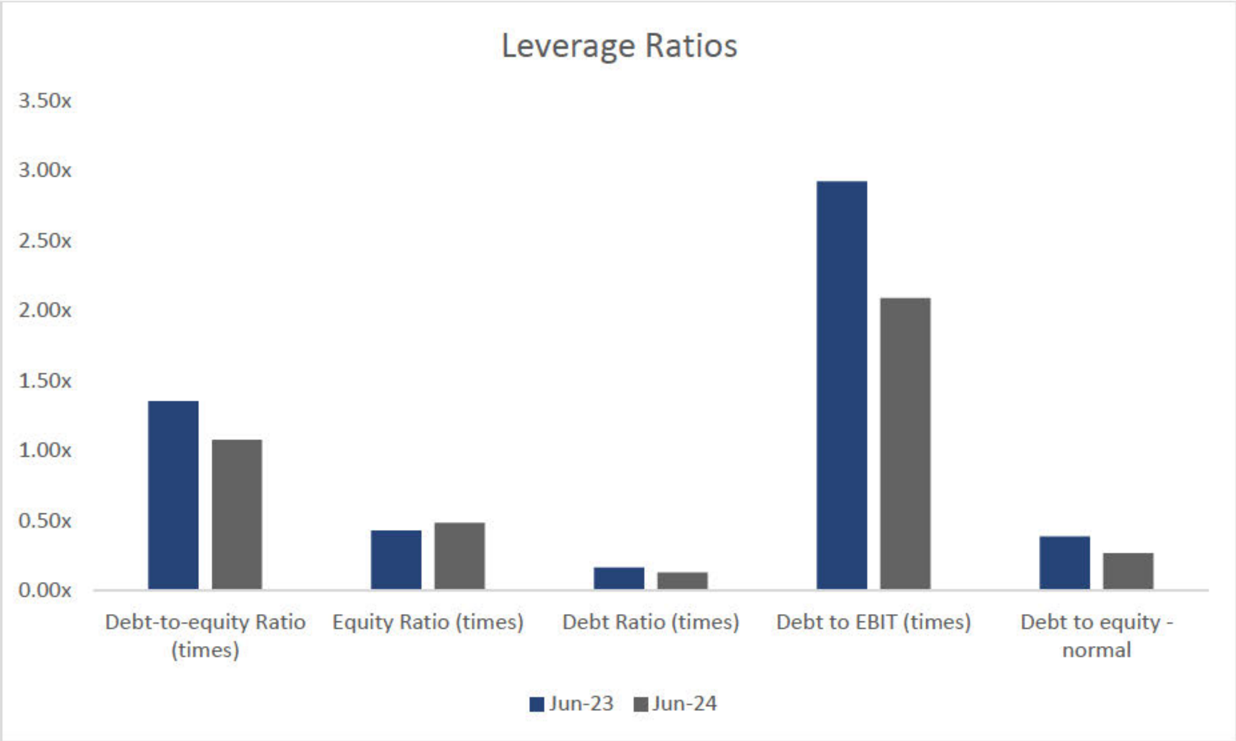
Kike impex holds a strong equity base and posted impressive figures for debt-to-equity ratios. Moreover, plugging 100% of its income back into the business gave more strength to the equity base. It is noticed that the debt-to-equity ratio improved from 1.35x in FY23 to 1.08x in FY24. This ratio is calculated by dividing total liabilities by equity, reflecting the extent to which the firm is financed by external obligations, including debt and other liabilities, relative to shareholders' equity. Furthermore, the adjusted debt-to-equity ratio (total debt/total liabilities) also improved from 0.39x in FY23 to 0.26x in FY24, keeping in view the generally accepted ratio, i.e. 2.0x, Kike impex holds strong debt-to-equity ratios.

Equity ratio shows the proportion of a company's total assets financed by shareholders' equity. Equity ratio of Kike impex also shows healthy figures, it improved from 0.43x in FY23 to 0.48x in FY24. In this case, Kike impex also performed better than industry average, i.e. 0.35x. These improvements are attributed to retaining 100% of the net income in the business, contributing to enhancing the firm's capital structure and financial stability.

Debt ratio of Kike impex indicates a low reliance on external debt for financing its assets, which is positive sign and reflects a lower leverage risk. Kike Impex reported a debt ratio of 0.13x in FY24, significantly lower than the industry average of 0.56x, indicating a stronger financial position.

The firm's debt-to-EBIT ratio was 2.09x, slightly above the generally accepted benchmark of 2.0x. This suggests that while the firm maintains a strong equity base, additional debt could pose challenges if profitability does not grow at a pace that matches the increase in debt.

The strong equity base of Kike Impex provides a buffer against leverage risk. Hence, it is deemed that the firm carries low leverage risk.



Leverage Ratios
3.50x
3.00x
2.50x
2.00x
1.50x
1.00x
0.50x
0.00x
Debt-to-equity Ratio (times)
Equity Ratio (times)
Debt Ratio (times)
Debt to EBIT (times)
Debt to equity - normal
Jun-23
Jun-24

Figure 4

RISK ASSESSMENT

This risk assessment analyses risk into two categories, namely financial and non-financial risks. Financial risks emanate from financial transactions, including credit, liquidity, solvency and interest rate risks. All other risks are non-financial risks.

FINANCIAL RISKS

CREDIT RISK

Credit risk, which is the risk of default, is low and stable. The latest credit bureau report of the company indicates that the company is low risk, while the credit report for the promoter shows that he is a very low credit risk. There were no adverse reports about the company. Of concern were reports of bounced cheques because of insufficient funds and breach of regulations.

We did not receive sufficient financial data to facilitate a trend analysis. Our credit risk analysis is based on the financial data for 2024 and 2023. The debt-to-equity and debt ratios can also be used as acceptable credit risk indicators for companies. For Kike Impex, these ratios were reasonably low which further support the low credit risk profile of the company as alluded to above. The D/E ratio, considering only debt, stood at [redacted] in FY23 and reduced to [redacted] in FY24. This indicates that the business is more heavily financed by equity than debt and therefore has low credit risk. Similarly, the debt ratio stood at [redacted] in 2024, reducing from [redacted] in 2023. The company's current credit exposure is a loan and an overdraft facility from DFCU Bank.

LIQUIDITY RISK

We have assessed liquidity based on assets realisable within one year against liabilities falling due within the same period (current assets versus current liabilities). As of 30 June 2024, the current ratio stood at 0.21x, which was steady with the 2.0x recorded as of June 2023. The quick ratio was 0.05x compared to 0.04x as at the end of June 2023. These ratios were below the acceptable levels for both the current ratio (acceptable ratio is 2.0x) and the quick ratio (acceptable ratio is 1.0x). Liquidity was therefore assessed as low as the company would be unable to meet obligations as they fall due in the absence of external sources of liquid funds.

SOLVENCY RISK.

Solvency risk refers to a company's ability to meet its long-term obligations using its total assets. Taking a conservative approach, solvency risk can also be measured as the capacity of Kike impex to meet all liabilities using the total assets of the company. Total assets as of FY24 stood at [redacted] whilst total liabilities stood at [redacted] indicating that the company's total assets were comfortably able to cover its total liabilities. This translates to a low and stable solvency risk profile. Furthermore, the equity ratio improved to 0.48x in FY24 from 0.43x in FY23, gradually strengthening the capital structure, with nearly half of the company's assets financed through shareholders' equity. This rising equity contribution further reinforces the company's long-term financial stability.

NON-FINANCIAL RISKS

BUSINESS RISK

Business risk of Kike Impex Limited is assessed low. The company's line of business is inherently low risk, subject to fluctuations in demand for packaging products. However, the diverse types of packaging products produced inherently mean that the volatility in demand is well addressed.

The company has shown growth in balance sheet size and revenues between the two financial years of 2023 and 2024, and the audit report for the financial year 2024 confirms that the company's assessment as a going concern is reasonable. Business risk is therefore assessed as low and stable.

WEAKNESSES IN GOVERNANCE AND ACCOUNTING FRAMEWORK

We noted some governance weaknesses at Kike Impex. There is a two-member board which does not entail the broad skills and competencies required for effective control and oversight. In addition to the apparent vest of control in one person, the lack of functional board committees adds to weaknesses in corporate governance. Furthermore, we noted that the audited accounts submitted for review had errors, indicating a poor audit and accounting framework, an indicator of weaknesses, such as there being no audit committee or the audit committee being poorly staffed with low competence and lacking in skills. The errors in the financial statements cast doubt on the reliability of the financial information submitted. We have therefore expressed a disclaimer on the reliability of the financial information submitted for this credit review.

KEY MAN RISK

There seems to be **key man risk** at Kike Impex Limited. The CEO seems to be the sole person driving the company, as the board and senior management seem to be centred around this one person. The company's corporate governance is weak as no formal structures reflect the board's and board committees' involvement in the company's management. This is to be expected as the company is an SME.

LEGAL AND COMPLIANCE RISK

A review of available information indicates that there were no legal matters that warrant concern at Kike Impex. We have therefore assessed legal risk to be low and stable. The key for the company will be continued adherence to the relevant laws and regulations, such as tax laws, labour laws and environmental protection laws, to ensure compliance. We note that relevant to Kike Impex is adherence to the ecological requirements of the Uganda Environmental Management Authority and the licensing requirements of the Kampala Capital City Authority.

GOING CONCERN RISK

"Going concern" refers to the ability of the company to continue in existence for the foreseeable future. This is key to achieving company objectives and meeting stakeholder expectations, such as those of investors, employees, government and suppliers. At Kike Impex, we have assessed the going concern risk to be moderate. No events significantly threaten the company's capacity to continue in existence for the foreseeable future, especially if it can improve its governance structure and liquidity position.

POLITICAL RISK

We have assessed political risk at Kike Impex to be low. There is no information to indicate any alignment of the company with the government of Uganda or, indeed, any political party in Uganda. Exposure to sovereign risk is discussed under country risk below.

STRATEGIC RISK

- Market competition – the company seems to be well placed in the local market. With the drive to build local manufacturing capacity, the company is positioned to benefit from government nationalist policies.
- Business model disruption- We do not see any cause for serious concern relating to business model disruption.
- Reputation. The major threat to the company's reputation stems from the efficacy and safety of operations. This risk is assessed to be low.

OPERATIONAL RISK

Operational risk is assessed as low. Key components of this risk include:

- Supply chain disruptions. This threat is assessed as low because the company has reliable, diversified sources of raw materials and a reliable local market for its products.
- Mechanical equipment failures. This risk is deemed low as the company manages it in its day-to-day operations.

- Physical asset damage or loss. This risk requires continual monitoring and is assessed as a remote risk.
- Business continuity and disaster recovery risks. Business interruption and continuity planning, disaster recovery, crisis management, as well as backup planning are key for sustaining operations at Kike impex. It's a moderate risk area for Kike impex. We have not come across any information to indicate a threat to continuity of business and operations.

ENVIRONMENTAL AND SOCIAL RISKS.

Environmental and social risks refer to ecological damage, such as pollution, contribution to climate change, sustainability risks, social responsibility and human rights violations. The risk is remote for Kike Impex. The company sought approval from the environmental management authority in Uganda for its manufacturing activities in the country. The key to managing environmental and social risks is community and stakeholder engagement. As a manufacturer, Kike Impex needs to monitor its environmental and social footprint closely.

REPUTATIONAL RISK

Reputational risk arises from the company's image. Social media and online reputation management are key to safeguarding the company's image. Brand protection and reputational risks are very key. We have assessed reputational risk as low. We are not aware of any negative publicity about Kike Impex.

OVERALL RISK ASSESSMENT

We have assessed the above risks as they relate to Kike Impex, considering each risk's likelihood and potential impact and the company's existing controls and mitigation strategies based on available information. Overall, Kike Impex Limited is a moderate credit risk. Using the credit risk mitigation strategies proposed in this report, [redacted] should manage the exposure adequately should it proceed to get exposure to Kike Impex Limited.

RECOMMENDED RISK MITIGATION STRATEGIES

Given the above risk assessment of Kike Impex for various risk types, we have recommended the following risk mitigation strategies for [redacted].

1. **Bank Guarantee**

A bank guarantee issued in USD by a local Ugandan bank can be considered a secure option, with a high degree of enforceability. However, the following key factors must be put in place for such a guarantee:

- **Terms and Conditions**: The claim process's specific terms must be reviewed carefully. [redacted] must ensure that it has clarity on how the claim process will be executed in practice.
- **Validity Period**: The guarantee's validity period should align with the full duration of the contract for sale.
- **Applicable Rules**: The guarantee should be governed by the ICC's Uniform Rules for Demand Guarantees (URDG 758).
- **Legal Review**: We are available to assist in reviewing the guarantee's wording to ensure the terms are favourable and enforceable on behalf of [redacted].

  We recommend obtaining a **100% bank guarantee** of the contract value. This provides a more secure position to relying on a **40% guarantee plus asset possession rights**.

  However, if [redacted] is highly confident in its ability to recover assets through possession, then the 60% guarantee and asset rights could also be considered a sufficiently secure option.

2. [redacted] should consider buying **Credit Insurance**. This means buying an insurance policy from an insurance company to cover potential losses due to non-payment of obligations that may arise from the supply of energy products and associated services to Kike Impex.
3. Government Guarantee - [redacted] should seek to secure a guarantee from the Government of Uganda through the Ministry of Finance for any exposures to Kike Impex Limited.
4. [redacted] should execute a contract agreement with Kike Impex that ranks [redacted] exposure above all other creditors in case of liquidation of Kike Impex.
5. [redacted] should ensure it obtains perfected collateral for any exposure to Kike Impex that will arise from the supply of solar energy products and services. This collateral should be unencumbered assets or property with tangible value based on recent valuation reports conducted by a credible, certified, independent valuer.
6. **Contractual Protections**: [redacted] should include contractual protections in the supplier's agreement, such as termination clauses and dispute resolution mechanisms to mitigate potential losses.

We have itemised the above recommended risk mitigation strategies in order of importance, ease of execution, and effectiveness. These strategies can be used in isolation or collectively to manage credit risk effectively.

KEY QUESTIONS

The list of questions below would need to be answered by Kike Impex limited to facilitate a more holistic approach to credit risk exposure management.

1. Has the company audited its financial statements for at least five years? If yes, we would need audited financial statements to be made available.
2. Are there any other legal suits against the company currently ongoing?
3. Is there any strategic plan for the company?
4. Is there any succession plan for the company?
5. What is the group structure, clearly showing the parent company and the subsidiaries?
6. Does the company have any board and management committees in place?
7. Does the company have any business continuity and disaster recovery plans?
8. What framework is there for risk management?
9. How does the company intend to develop and protect its brand and reputation?

CONCLUSION

We have assessed the risk profile of [redacted]. Our assessment is limited to the information available about the company. Overall, [redacted] has a moderate risk of default. The company has a weak governance structure, a poor accounting framework, and low liquidity. We have recommended strategies that would help manage the risk should [redacted] decide to supply its energy products and services to [redacted]

ANNEXURES

INCOME STATEMENT

Ushs	Jun-23	Jun-24
Revenue	[redacted]	[redacted]
Cost of sales	[redacted]	[redacted]
Gross Profit/(Loss)	[redacted]	[redacted]
Operating Expenses		
Administrative expenses	[redacted]	[redacted]
Depreciation	[redacted]	[redacted]
Employment costs	[redacted]	[redacted]
Establishment costs	[redacted]	[redacted]
Total Operating Expenses	[redacted]	[redacted]
Operating Profit/(Loss)	[redacted]	[redacted]
Rental Income	[redacted]	[redacted]
Finance costs	[redacted]	[redacted]
Profit/(Loss) Before Tax	[redacted]	[redacted]
Income Tax Expense	[redacted]	[redacted]
Net Profit/(Loss)	[redacted]	[redacted]

Table 7

STATEMENT OF FINANCIAL POSITION

Ushs	Jun-23	Jun-24
Assets		
Non-Current Assets		
Property, Plant and Equipment	[redacted]	[redacted]
Due from related party	[redacted]	[redacted]
Total Non-Current Assets	[redacted]	[redacted]
Current Assets		
Inventories	[redacted]	[redacted]
Trade Receivables	[redacted]	[redacted]
Other receivables	[redacted]	[redacted]
Cash & Bank Balance	[redacted]	[redacted]
Total Current Assets	[redacted]	[redacted]
Total Assets	[redacted]	[redacted]
Equity		
Share capital	[redacted]	[redacted]
Retained Earnings	[redacted]	[redacted]
Total Equity	[redacted]	[redacted]
Liabilities		
Non-Current Liabilities		
DFCU term loan 3 (after 1 years)	[redacted]	[redacted]
Deferred tax	[redacted]	[redacted]
Total Non-Current Liabilities	[redacted]	[redacted]
Current Liabilities		
Trade payables	[redacted]	[redacted]
Other payables	[redacted]	[redacted]
Tax payables	[redacted]	[redacted]
DFCU Bank overdraft	[redacted]	[redacted]
DFCU term loan 3 (within 1 year)	[redacted]	[redacted]
Total Current Liabilities	[redacted]	[redacted]
Total Liabilities	[redacted]	[redacted]
Total Equity and Liabilities	[redacted]	[redacted]

Table 8

STATEMENT OF CASH FLOWS

Ushs	Jun-23	Jun-24
Operating Cash Flow		
Net Profit Before Tax	[redacted]	[redacted]
Depreciation & Amortization	[redacted]	[redacted]
OCF before WC adjustments	[redacted]	[redacted]
Working Capital Changes		
Changes in Inventory	[redacted]	[redacted]
Changes in Trade receivables	[redacted]	[redacted]
Changes in Trade payables	[redacted]	[redacted]
Changes in working capital	[redacted]	[redacted]
Cash Used in Operations	[redacted]	[redacted]
Taxes Paid	[redacted]	[redacted]
Net Operating Cash Flow	[redacted]	[redacted]
Investing Cash Flow		
Acquisition of fixed assets	[redacted]	[redacted]
Net Investing Cash flows	[redacted]	[redacted]
Financing Cash Flow		
DFCU Bank Overdraft	[redacted]	[redacted]
DFCU term loan 3	[redacted]	[redacted]
Net Financing Cash Flow	[redacted]	[redacted]
Net +/(-) Cash Flows	[redacted]	[redacted]
Opening Cash Balance	[redacted]	[redacted]
Closing Cash Balance	[redacted]	[redacted]

Table 9

OTHER RATIOS

Ushs	Jun-23	Jun-24
Gross Profit Margin (%)	[redacted]	[redacted]
Operating Profit Margin (%)	[redacted]	[redacted]
Net Profit Margin (%)	[redacted]	[redacted]
Return on Equity (%)	[redacted]	[redacted]
Return on Assets (%)	[redacted]	[redacted]
Return on Capital Employed (%)	[redacted]	[redacted]
Operating CF Margin (%)	[redacted]	[redacted]
Average Collection Period (Days)	[redacted]	[redacted]
Average Payment Period (Days)	[redacted]	[redacted]
Inventory Turnover (Days)	[redacted]	[redacted]
Inventory Turnover Ratio (Times)	[redacted]	[redacted]
Interest Coverage Ratio (Times)	[redacted]	[redacted]

Table 10

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Date: 25th April 2025

Auth. Signatory