# BusinessOutlook

**Shs15.81b** **New debt.** In May 2023, both boards of NSSF and UCL signed a restructuring agreement. The Shs20.6b debt was cancelled and replaced with a new loan of Shs15.81b, with repayments due to begin in January 2025.

**Issue.** Assets have been pledged as collateral, and UCL cannot borrow further.

## How NSSF patience hurts investors of Uganda Clays

Uganda Clays Limited is struggling to claer a loan acquired from the NSSF.

BY DEOGRATIUS WAMALA

To understand Uganda Clays Ltd (UCL) as an investment, you must first understand its relationship with the National Social Security Fund (NSSF); not as a shareholder, although NSSF is that too, holding 32 percent of the company's shares, but as a lender.

The two roles are inseparable, and the tension between them has defined the company's financial story for 15 years. In December 2010, UCL borrowed Shs11.05b from NSSF to fund its day-to-day operations at an interest rate of 15 percent per year. By July 2015, the loan had grown to Shs20.6b, and the company simply could not keep up. NSSF agreed to press pause, freezing both interest and repayments indefinitely.

For the next eight years, the debt sat in the background like a bill stuffed in a drawer. During those frozen years, UCL did well. In 2021, it earned Shs36.7b in revenue, made a profit of Shs5.9b, and paid dividends. The NSSF loan was invisible in all of it because it had been parked.

"Initially, we had cash reserves of about Shs20b in 2021. We decided to purchase a plant from Italy using our own funds. The assumption was we would easily get money, cheaper capital from a bank like the Uganda Development Bank," Managing Director Jones Muhumuza says.

That cheaper capital never came through. The savings were spent. The Italian plant caused disruptions to existing machinery. And the frozen debt was about to wake up.

In May 2023, both boards of NSSF and UCL signed a restructuring agreement—essentially a renegotiation of the old bill. The Shs20.6b debt was cancelled and replaced with a new loan of Shs15.81b, with repayments due to begin in January 2025.

The Shs4.79b difference was recorded as a one-time boost to the balance sheet. But the business was struggling badly that year, recording a loss of Shs2.85b. And for the first time since 2015, interest started ticking again, Shs1.61b in 2023 alone, instantly the company's single biggest expense.

Then January 2025 arrived and UCL could not begin repayments as agreed. It went back to NSSF and negotiated yet another delay, a three-year pause running to January 2028, with interest continuing to accumulate the entire time. Because NSSF is not an ordinary lender, but also a part-owner, accounting rules required the company to record a loss of Shs468m in the net worth section of the balance sheet, chipping away at part of the gain booked in 2023.

The trajectory of the loan tells the story plainly. From Shs11b at inception. Frozen at Shs20.6b in 2015. Restructured down to Shs15.81b in 2023. Grown back through interest to Shs17.42b by the end of 2023, Shs20.13b by the end of 2024, and Shs23.58b by the end of 2025. Not one shilling of the original loan was repaid in 15 years.


Across all five years from 2021 to 2025, UCL has not generated positive free cash flow after capital expenditure in a single year. PHOTO/FILE

### Interest charge

Before 2023, the frozen NSSF loan did not appear in UCL's profit calculations at all. In 2021, the company made Shs7.47b in operating profit, paid NSSF nothing, and shareholders received Shs6.6 profit per share plus a dividend worth Shs1.35b.

Then interest switched back on. By 2025, the company generated Shs4.59b in operating profit, a decent number, but Shs2.98b went straight to NSSF as interest before shareholders saw anything. Operating profit shows what a business actually earns from running itself, before taxes, interest, or one-off events distort the picture.

What remained after all other costs and taxes was Shs142m in net profit on Shs34.8b of revenue. Shareholders' profit per share slid to Shs0.16. The interest charge alone was twenty-one times larger than the profit left for shareholders.

The trend across years shows something. In 2022, despite machinery breakdowns, shareholders still earned Shs2.71 profit per share, because the loan was still frozen. In 2023, the moment interest resumed at Shs1.61b, the company recorded a loss of Shs2.85b. In 2024, interest rose to Shs2.71b, and the loss widened to Shs4.95b. In 2025, margins nearly doubled, and revenue grew, yet shareholders received Shs0.16 profit per share.

The business is genuinely improving.

**ABOUT UCL**

Uganda Clays Limited (UCL) is leading manufacturer of quality baked clay building products in Uganda. It uses Hoffman kilns to currently provide the building materials in a brick-red color. The company's products are categorized into roofing tiles, bricks, maxpans, quarry floor tiles and others. The company was established on July 10, 1950.
**Source: ugandaclays.co.ug**

The debt is simply consuming the improvement faster than management can generate it.

### Cash flow, structural gap

Across all five years from 2021 to 2025, UCL has not generated positive free cash flow after capital expenditure in a single year. The best year was 2021, when the company brought in Shs9.28b from operations. But that same year it spent Shs9.07b on equipment. Almost every shilling that came in went straight back out.

Since NSSF's interest started being charged in 2023, the cash situation has gotten significantly worse. The company generated Shs1.42b in operating cash flow in 2023 and Shs1.53b in 2025, the actual cash its core operations produced after meeting day-to-day costs.

Unlike accounting profit, which can look healthy even when a business is cash-starved, this figure captures what the company truly collected and held from running itself. It is the most honest test of operational self-sufficiency.

Buried inside those numbers is Shs3.93b of interest owed to NSSF but not actually paid in cash, instead being added onto the loan balance every year.

Mr Muhumuza says the production problems are resolved. "The challenges or bottlenecks that we had were on production. That has been resolved."

His focus now is revenue growth. "For any company to grow, obviously, you manage costs but that is not the most important thing. The most important thing is growth, which is the top line."

The growth plan is wide-ranging—five new products in 2026, including bricks to compete directly with concrete blocks, a ten-year vision of ceramics, tiles, bathroom fittings and kitchenware, and export markets in Sudan, DRC and Kenya.

On the debt, Mr Muhumuza says the company will start setting aside between Shs500m and Shs800m monthly from next year in interest-earning accounts ahead of January 2028. He is confident about this. "With the projections that we've done, NSSF gave us a period of five years from 2028 in which to pay that money. But in about 2.5 years or two years, we should have paid off that loan."

That would mean clearing a debt approaching Shs30b in roughly half the time NSSF has allowed.

### 2028 reckoning

The pause ends January 1, 2028, by which point the loan will have grown to roughly Shs30.7b. Repayments then run over five years, with the annual bill, principal plus interest, exceeding Shs6b every year, against operating cash generation of just Shs1.53b in 2025.

The total eventually owed to NSSF is Shs49.5b by December 2025, more than the company's entire net worth of Shs37.96b. Bridging that gap would require a level of cash generation UCL has never achieved, even in its best years, even when NSSF was charging nothing. Its debt-to-equity ratio nearly doubled from 0.36 in 2021 to 0.73 in 2025. NSSF sits at the centre of every decision that matters, as both the largest creditor and a major shareholder.

Asked whether that dual role creates a conflict of interest, NSSF Head of Corporate Affairs Barbra Teddy Arimi said: "The NSSF representatives on the Uganda Clays Board are not part of the investment committee that approved the loan restructuring."

On recoverability, she added: "The NSSF formal assessment is that Uganda Clays has the ability to meet its financial obligations over time. This is largely due to positive operational results and prospects that will continue to strengthen its ability to meet obligations."

Assets have been pledged as collateral, and UCL cannot borrow further during the moratorium without NSSF's approval.

When pressed on what happens if the company cannot pay again in January 2028, the answer returned to collateral and covenants. That reassurance has been independently scrutinised.

The Auditor General's report for the year to June 2025 found the pledged properties, land in Budaka, Pallisa, and Bulambuli in rural eastern Uganda, had a market value of just Shs15.4b, 25 percent below the loan amount at restructuring.

The legal mortgage registered against them was only Shs11b, leaving Shs9.6b entirely unsecured.

The properties had not been revalued since January 2022, before two consecutive years of losses, and the Auditor General recommended that NSSF obtain additional collateral. NSSF responded that UCL indicated some properties were being developed, increasing their value.

When Ms Arimi says the loan is secured, she is technically correct, but the legal mortgage covers only Shs11b of a loan now at Shs22b and still growing, on rural land last valued three years ago, on a company that spent much of the intervening period losing money.

A third restructuring, which is the fourth major renegotiation of a loan now fifteen years old, remains possible.

The 2025 results are genuinely encouraging: margins improved dramatically, revenue grew, and the company returned to profit after two painful loss-making years.

The Italian plant, once fully running, could push performance further still. But the loan that started at Shs11b in 2010 now stands at Shs23.6b.

The moratorium buys three years. The only question that matters is whether UCL uses that time to build a business strong enough to finally face this debt, or simply delays a bill that gets bigger every month it goes unpaid.