Saro Lifecare Limited

2022 Corporate Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

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SARO LIFECARE LIMITED

Rating Assigned:

Bbb+

This refers to a company with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.

Outlook: Stable
Issue Date: 17 October 2022
Expiry Date: 30 June 2023

Previous Rating: None

Industry: Fast Moving Consumer Goods (Home & Personal Care)

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RATING RATIONALE

- Agusto & Co. hereby assigns a **"Bbb+"** rating to Saro Lifecare Limited ("Saro Lifecare", "SLC" or "the Company"). The rating is reflective of the Company's satisfactory profitability, as well as its adequate working capital and low leverage positions. Agusto & Co has also taken into consideration SLC's expanding local manufacturing capacity that has helped to build some resilience against supply chain and foreign exchange risks associated with sourcing raw materials and finished products abroad. These rating positives are however constrained by the Company's concentrated ownership structure as well as concerns over continuous margin decrease across its product portfolio owing to intensifying cost pressures and subdued demand that has characterised the business climate.

- Saro Lifecare Limited is an indigenous player in the home and personal care segments of the country's fast moving consumer goods (FMCG) sector and a member of the Saroafrica Limited ("Saro Group") – a diversified company with business interests spanning the crop protection, agro-processing, oil palm, ethanol and consumer goods industries. The Company commenced operations in October 2007 after it acquired the home and personal care division of Chemicals & Allied Products Plc (CAP Plc), which gave it exclusive rights over the Purit Antiseptic Liquid, Carat Medicated Soap, Safecut Aftershave and Dayspring Liquid Detergent amongst other brands. SLC later inherited the Sniper brand from a sister company. Saro Lifecare is yet to achieve considerable scale in the personal care market. Hence, the Company's operations are skewed toward the production and marketing of insecticides under its Sniper and Nopest brands.

- Saro Lifecare engages in local manufacturing of its in-home pest control and personal care products except for the production of its soap line, which it outsources to a third party under a toll manufacturing agreement. Although the Company imports its branded aerosol from China, plans are underway to commence local production following the successful installation of a new aerosol line. The Company's products are sold to end-users through its extensive distribution network and relies on internal sources of finance to fund its operations and for business expansion.

- Historically, the performance of the FMCG sector in Nigeria has been marred by several constraints both on the demand and supply side. The country's sluggish economic growth coupled with the pressure of rising food and energy costs continue to moderate consumers' spending, while macroeconomic headwinds of currency devaluation and inflationary pressure have kept the operating costs of FMCG companies elevated. These challenges have resulted in undulating revenue performance and margin pressure.

- Despite these challenges, Saro Lifecare's financial condition has remained resilient. The Company's revenue grew by 15.7% to ₦8.4 billion in the financial year ended 31 December 2021 (FYE 2021) on the back of robust volume growth supported in part by its market-based pricing strategy. However, the Company recorded a lower operating profit and pre-tax profit margins of 8.2% and 14.6% respectively in FYE 2021 (2020: 11.2%; 15.8%) to underline the adverse impact of soaring input and energy costs during the year. Overall, SLC's return on assets (ROA) remained relatively flat at 16.1% in FYE 2021, while its return on equity ratio (ROE) moderated slightly to 26.4% (2020: 29.2%) but was higher than the average inflation rate of 16.7% during the same year. Considering the limited ability to pass on cost increases to customers, management plans to sustain profit margin through increased import substitution and better operational efficiency across the business. In our view, SLC's profitability is satisfactory.

- Saro Lifecare's unaudited accounts for the eight months ended 31 August 2022 showed revenue of ₦6.7 billion, which represented 79% of the annual budget, to reflect sustained volume growth from the home and personal care segments. However, the Company posted a lower pre-tax profit margin of 5.8% in the review period owing to the intensifying cost pressures, while its annnualised ROA and ROE ratios fell to 9.1% and 15.9% respectively. To the extent that SLC can fully pass on cost increases to customers by adopting a cost-based pricing strategy, we anticipate additional margin pressure in the near to medium term.

- Saro Lifecare's operating cash flow (OCF) rebounded to a positive of ₦369.9 million in FYE 2021 compared to the negative OCF of ₦316.6 million recorded in the previous year on the back of better working capital management during the period. The OCF in 2021, which represented 4.4% of revenue, depicts a low cash-generating capacity. Also, we recognise that the OCF was insufficient to cover dividend payments and estimated replacement costs of ₦375.2 million and ₦177.3 million respectively, thus resulting in an operating cash flow deficit of ₦182.5 million. In our opinion, Saro Lifecare's operating cash flow requires improvement.

- Due to increased inventory investments, which adversely affected the length of its operating cycle, Saro Lifecare's working capital need grew to ₦2.8 billion in FYE 2021 (2020: ₦2.3 billion), while its available working capital (measured as the excess of equity over long term assets) increased by 20% to ₦3.6 billion and was sufficient to fund the working capital need. Therefore, the Company recorded an overall working capital surplus of ₦0.8 billion. With the import substitution initiatives likely to ease funding pressure associated with foreign sourcing of raw materials and finished goods, we anticipate better working capital management and improved funding structure. In our view, SLC's working capital is adequate.

- Given the absence of interest-bearing liabilities, Saro Lifecare's leverage ratios were well above our benchmarks. Furthermore, we expect the Company's low leverage indicators to remain at the same level over the near term as we do not envisage any significant increase in interest-bearing liabilities as management plans to continue to utilise internal funding sources rather than expensive debts for business expansion.

- Going forward, SLC intends to deepen its market presence with increased local manufacturing and expansion of its distribution channels. This is in addition to ongoing plans to continue to modify the range of its product offerings and prices in line with consumers' changing preference and price sensitivity. Furthermore, the Company is equally pursuing some cost containment strategies, which should support margin growth in the near term. Overall, we expect Nigeria's large population and the high incidence of malaria and other diseases caused by household pests and rodents to continue to sustain the demand for the Company's products. Based on the above, we hereby attach a **stable** outlook to Saro Lifecare Limited.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges

Strengths
- A leading player in the in-home pest control market
- Good brand equity and awareness
- Adequate working capital
- Low leverage
- Strong parental support from the Saroafrica Group

Weaknesses
- Thinning margins across its product portfolio
- Operating cash flow that requires improvement
- Concentrated ownership structure

Opportunities
- Nigeria has the largest consumer market in Africa
- Export potentials to other countries within the African continent
- Local manufacturing and sourcing of key inputs could boost margins of FMCG companies

Challenges
- Restrictive foreign exchange regime
- Weakening consumer purchasing power
- Adverse impact of currency devaluation and forex shortages on prices of imported products
- Spiralling cost of sales owing to inflationary and exchange rate pressures
- Intense rivalry from importers of insecticides and skin care products
- Decrepit national infrastructure - inadequate power supply and poor road network

Overview of the Home and Personal Care Industry in Nigeria

The Nigerian Home and Personal Care Industry ("the Industry") is a subset of the fast moving consumer goods (FMCG) sector. The Industry has experienced steady growth over the last two decades on the back of the increased capital investment by both domestic and foreign players driven by Nigeria's large population, increase in consumer spending and development of the retail distribution channels. The Industry is diversified with numerous product offerings. Our primary focus in this report will be on the insecticide (liquid and aerosol) and skin care (antiseptic, disinfectant, jelly, powder, soap and hand sanitizer) sub-segments.

Within the insecticide and skin care sub-segments, there are several indigenous and foreign operators, which can be broadly classified into formal and informal based on the quality of products as well as the scale of operations and the level of regulatory oversight. Formal operators typically offer standardized products and have large-scale operations that are certified by appropriate regulatory authorities, while informal operators are unregistered, small-scale businesses, providing unstandardized products including operators engaged in importation. Some of the notable players in the formal sector include PZ Cusson, Unilever Nigeria, SC Johnson, Saro Lifecare Limited, Reckitt Benckiser, Godrej Nigeria Limited, Johnson & Johnson, Hello Product Limited, Gongoni Company Limited and Procter & Gamble (P&G) Nigeria amongst others.

These key operators have their factories located mostly within the eastern and western regions of the country. This is largely due to the nearness of these regions to the target markets. Some multinationals tend to have competitive advantages over indigenous operators due to the financial and technical support that they enjoy from their parent companies, and usually have broader product offerings than local operators. Although, the majority of the Industry's products (approximately 80%) are sold within the country, some operators export to neighbouring countries such as Togo, Benin Republic, Cameroon and Ghana.

These products are typically sold through retail outlets such as departmental stores, beauty salons, pharmacies and hospitals as well as in the open markets. Industry players in the formal sector supply their products to registered distributors across the various geographical zones either directly or through third-party logistics companies to ensure uniform pricing. These distributors sell directly to wholesalers; however, some Industry players also sell directly to wholesalers and large retail stores. The open markets remain the largest distribution channels and account for over two-thirds[1] of volume sales, while hypermarkets, supermarkets and convenience stores control about 30%. Other retail channels such as e-commerce presently account for less than 3% of product sales.

Typically, market leaders adopt similar product differentiation strategies which are centered on pricing, branding, packaging, marketing and distribution. Due to the stiff competition in the Industry, operators employ different marketing strategies to grow market share and retain brand loyalty. Major players invest in advertising, promotional activities and an efficient distribution network to boost sales as well as the popularity of their brands. This is in addition to the constant expansion of the existing product portfolio to meet consumers' everchanging preferences and needs, whilst penetrating new markets. A recent marketing strategy that is increasingly being adopted in the Industry is the use of popular entertainment and sports personalities

[1] *Agusto & Co's estimates*

to advertise as brand influencers. Some operators also engage the services of in-store sales representatives, especially at shopping malls and supermarkets. Furthermore, Industry players employ product re-launch as a key marketing strategy. This often occurs when operators notice declining brand loyalty or the proliferation of fake products in the market. Such products are typically re-launched with improved properties and more attractive and counterfeit-proof packaging.

Industry operators are regulated by various statutory authorities that are responsible for ensuring their compliance with national and international best practices. The National Agency for Food and Drug Administration and Control (NAFDAC), the Federal Ministry of Trade & Investment (FMTI), the Standard Organisation of Nigeria (SON) and the National Office of Technological Acquisition Program (NOTAP) are the principal agencies responsible for regulating production, distribution, sales, advertising, importation and exportation of insecticides and skin care products. In addition, the Advertising Practitioners Council of Nigeria (APCON), and the Federal Ministry of Interior perform supervisory functions in various aspects of the Industry's operations.

The Industry is highly import-dependent with imported raw materials accounting for about two-thirds of operators' input costs. These inputs include chemicals such as cetrimide, chlorhexidine, isopropyl alcohol, benzyl benzoate, aromatic pine oil and fragrances, which are usually imported from China, India, Germany, Indonesia and United Kingdom. As a result, Industry operators are highly susceptible to volatility in commodity prices and foreign exchange rates. The adverse impact on the global supply chain in the aftermath of the coronavirus (COVID-19) pandemic, and more recently, Russia's invasion of Ukraine has amplified the risk of undue dependence on other countries for critical inputs.

In addition to the issue of rising input costs and declining purchasing power, operators face several challenges. Infrastructural deficiencies, particularly in the electric power and transportation sectors have resulted in high operating costs. The inadequate power supply in the country means operators must generate their electricity either through diesel/gas-fired generators or renewable sources. The costs incurred in the installation and maintenance of alternative energy sources, which represent about a tenth of the gross revenue, have continued to impede operators' margins. Other operational challenges include threats to the local distribution of products amid worsening insecurity, the proliferation of counterfeited products (especially from Asia), and concerns over profit repatriation for international operators amid exchange rate volatility and currency restrictions in the country. These challenges have triggered an increase in toll manufacturing in which operators outsource the production of their entire or selected product lines to other local manufacturers such as European Soaps and Detergents Limited and Fareast Mercantile Limited.

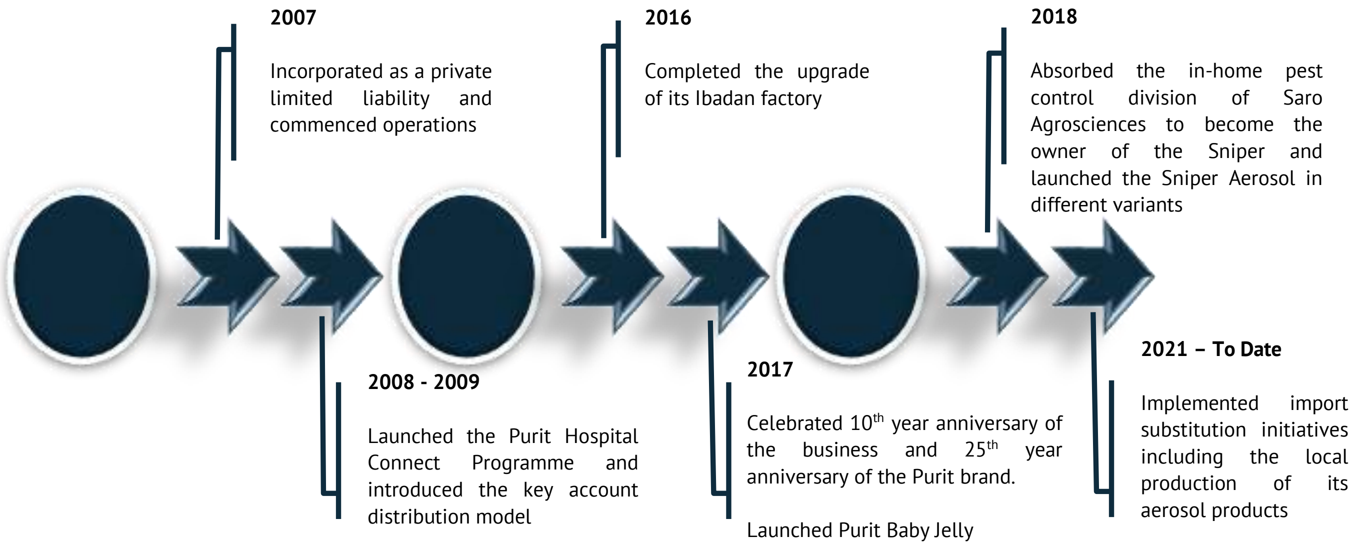
Even with the worsening infrastructural deficiencies and the high cost of doing business in Nigeria, we expect the country's large consumer market and the enormous trade opportunities presented by the African Continental Free Trade Area (AfCFTA) to spur new investments and expansion within the Industry. Based on the above, we have attached a **stable** outlook to the Home and Personal Care Industry in Nigeria.

PROFILE OF SARO LIFECARE LIMITED

Saro Lifecare Limited ("Saro Lifecare", "SLC" or "the Company") is an indigenous player in the home and personal care segments of the fast moving consumer goods (FMCG) sector in Nigeria. SLC is a member of Saroafrica Limited ("Saro Group" or "the Group") – a diversified company with business interests spanning the crop protection, agro-processing, oil palm, ethanol and consumer goods industries.

Saro Lifecare was incorporated on 16 October 2007 as a private limited liability company and acquired the household manufacturing plant, previously belonging to Chemical and Allied Product Plc (CAP Plc), in Ibadan, Oyo State. Following the acquisition, SLC became the owners of Purit Antiseptic Liquid, Carat Medicated Soap, Safecut Aftershave and Dayspring Liquid Detergent amongst other brands. In 2018, Saro Lifecare absorbed the in-home pest control division of Saro Agrosciences Limited to become the owner of the Sniper brand. The Company has successfully launched different variants of the Sniper insecticides including dichlorvos (also known as DDVP or liquid insecticide), aerosol spray, gel and solid formulations.

Figure 2: Key Milestones in Saro Lifecare Limited's History



Source: Saro Lifecare Limited's Management Presentation

Saro Lifecare Limited prioritizes health, safety, quality and environmental protection (HSEQ) in line with international best practices. Its products conform to the certification criteria of the National Agency for Food and Drug Administration and Control (NAFDAC), the Standards Organisation of Nigeria (SON) and other regulatory agencies, thus demonstrating its unwavering compliance with hygiene and health standards.

In 2019, the Company's product portfolio was adversely affected following the ban of the Sniper 100 ml DDVP formulation by NAFDAC amid constant cases of abuse and misuse of the product. After considering the potential long-term impact of this ban on other Sniper DDVP pack sizes of 200 ml, 250 ml, 500 ml and 1 litre, management has decided to introduce two replacement products – Sniper Hotshot (0.75% Pirimiphos-methyl + 0.188% Deltamethrin) and Sniper Bedbug (0.05% Imidacloprid + 0.025% Beta-cyfluthrin). These new products, which will be in aerosol sprays, have been successfully registered with NAFDAC. This is indicative of the products' low mammalian toxicity. The commercial production of Sniper Hotshot and Sniper Bedbug will commence in the last quarter of 2022 (Q4'2022).

OPERATING STRUCTURE

Saro Lifecare Limited manufactures antiseptic and disinfectant liquids, powder, aftershave, jelly and hand sanitizer products locally at its factory in Ibadan, while its soaps are produced by Fareast Mercantile Company Limited (FMCL) under a toll manufacturing arrangement. The Company's factory operated at an estimated utilization rate of *circa (c)* 70% during the review period. Saro Lifecare imports its aerosol sprays although plans are underway to commence local production by Q4'2022.

SLC has a wide and diversified product portfolio across the in-home pest control and personal care categories, with an extensive network of distributors, wholesalers and retailers (including hypermarkets), while also using its hospital connect programme for the marketing of its Purit products. Furthermore, the Company leverages Saro Group's crop protection distribution channels for the sale of its Sniper and Nopest DDVP products.

Table 1: Saro Lifecare Limited's Product Portfolio

Category	Brand	Product
Personal care	Purit	Antiseptic Liquid, Antiseptic Powder, Hand Sanitizer, Hygiene Soap and Petroleum Jelly
	Carat	Antiseptic/Disinfectant Liquid and Medicated Soap (Classic, Mint Cool and Herbal)
	Safecut	Safecut Aftershave Spray
In-home pest control	Sniper	DDVP insecticide (200ml, 250ml, 500ml & 1 litre), Aerosol (300ml, 600ml & 750ml), Cockroach Killer Gel (10g & 20g) and Rat Killer (20g)
	Nopest	DDVP Insecticide (200ml, 250ml, 500ml & 1 litre)

Source: Saro Lifecare Limited's Management Presentation

OTHER INFORMATION

As at 31 December 2021, Saro Lifecare Limited's total assets and liabilities stood at ₦7.6 billion and ₦2.9 billion respectively, while shareholders' funds were ₦4.6 billion. In 2021, the Company generated a turnover of ₦8.4 billion predominantly from the sale of in-home pest control products and posted a profit after tax of ₦820.3 million (2020: ₦750.4 million). In the same period, Saro Lifecare had an average of 55 persons in its employment (2020: 63 persons).

Table 2: Background Information

Authorised Share Capital:	₦50 million
Paid-up Capital:	₦50 million
Shareholders' Funds:	₦4.6 billion
Registered Office:	Plot 2068, Block 18C, Odunsanya Oduguwa Crescent, Green Estate, Amuwo-Odofin New Access Road, Lagos
Principal Business:	Manufacturing and marketing of home and personal care products
Auditors:	Ernst & Young

Source: Saro Lifecare Limited's 2021 Annual Report

FINANCIAL CONDITION

ANALYSTS' COMMENTS

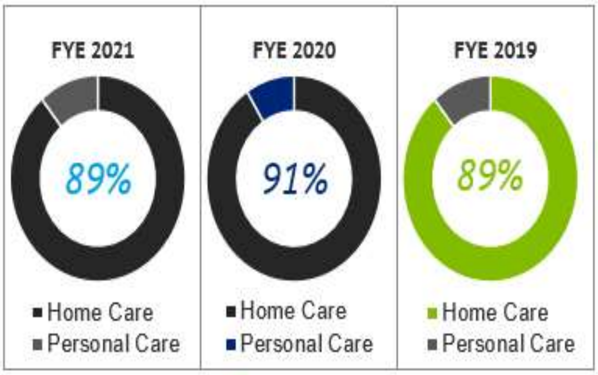
- *We have analysed the audited financial statements of Saro Lifecare Limited ("Saro Lifecare", "SLC" or "the Company") for the three years ended 31 December 2021.*
- *Saro Lifecare Limited obtained a ₦470 million 90-day intercompany loan from Saro Investment Limited on 31 December 2021 to meet its working capital needs. Considering that the loan was received on the last working day of the year, we have excluded the loan amount from the Company's FYE 2021 cash balances and liabilities to show their true positions.*

PROFITABILITY

Saro Lifecare Limited generates revenue from the sale of in-home pest control (including liquid insecticide) and personal care products under its Sniper, Nopest, Purit, Carat and Safecut brands through its extensive distribution network. SLC also distributes its products indirectly to consumers (especially in hard-to-reach areas) under a consignment arrangement that allows it to use the sales channels of Saro Agrosciences Limited. In return, SLC offers a sales commission of 6% for personal and home care products and 12% for DDVP products. Revenue under this indirect arrangement is deferred[2] until the products are sold to final consumers.

In 2021, consumers' spending patterns remain concentrated on food and other highly essential commodities owing to the lasting effects of the coronavirus pandemic (COVID-19) as well as the increasing pressure on households' disposable incomes caused by the upsurge in food and energy prices. This was in addition to industry-wide challenges of rising input costs amid supply chain disruptions and macroeconomic headwinds of higher inflation and foreign exchange rates. Faced with these challenges and considering the price competition within the FMCG industry, management adopted a market-based pricing strategy to support volume growth as well as protect SLC's market share.

Figure 3: Breakdown of SLC's revenue by business segment



In the financial year ended 31 December 2021 (FYE 2021), Saro Lifecare Limited recorded revenue of ₦8.4 billion, which represented a 15.7% increase from the previous year, to reflect the positive impact of its competitive pricing strategy on sales volume. A breakdown of the Company's revenue showed that the home care and liquid insecticide segment accounted for 89%, while the rest were contributions from the personal care division. Based on the imminent local production of its aerosol insecticide products, coupled with its expanding product mix across the home and personal care segments, we expect Saro Lifecare Limited's overall revenue to maintain an upward trajectory in FYE 2023.

Saro Lifecare's direct costs represent the cost of raw materials consumed (including the invoice price of the inputs as well as freight and delivery costs) and other production overheads. The Company's production costs have trended upwards in recent times amid mounting inflationary and foreign exchange pressures. As a result of the limited ability to pass on these input cost increases to consumers, SLC's cost of sales to revenue ratio

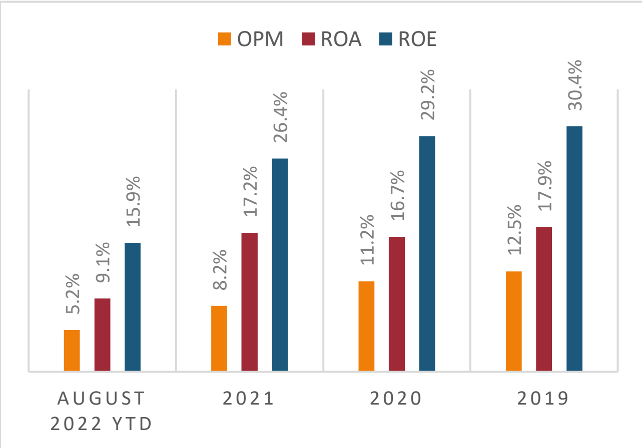
[2] *The net deferred income with respect to sales made through Saro Agrosciences Limited stood at ₦198.6 million (2020: ₦56.7 million).*

rose sharply to 64.3% in FYE 2021 (2020: 48.3%), thus resulting in a much lower gross profit margin of 35.7% compared to the 51.7% recorded in the prior year.

Although SLC's operating expenses to revenue ratio improved to 27.6% in FYE 2021 (2020: 40.5%) following the marked reduction in owner's emolument, its operating profit margin declined by 300 basis points to 8.2% in the same period. Similarly, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) margin also dipped to 15.5%, below the previous year's 17.1%. Management expects the ongoing import substitution initiative for raw materials to somewhat minimise volatility in its input costs, thus resulting in improved operating profit and EBITDA margins. However, we expect rising inflationary pressure and energy costs to continue to weigh on SLC's overall margin growth in the near to medium term.

Saro Lifecare's other income arising mainly from promo discounts[3] and other miscellaneous incomes amounted to ₦0.5 billion in FYE 2021, which represented a significant 6.4% of revenue. Considering that the bulk of the other incomes are based on notional figures, we do not consider them as a sustainable income stream for the business. In FYE 2021, SLC recorded nil finance costs as its assets and operations were funded through interest-free liabilities and shareholders' equity. Overall, the Company reported a pre-tax profit margin of 9.8% in FYE 2021 (2020: 10.4%), which we consider satisfactory.

Figure 4: OPM, ROA & ROE (2019 – August 2022 YTD)



SLC's return on average assets (ROA) ratio remained relatively flat at 16.1% in FYE 2021, while its return on equity ratio (ROE) moderated to 26.4% (2020: 29.2%) but was still better than the average inflation rate of 16.7% during the same year. Similarly, the Company's three-year (2019 – 2021) weighted average ROA and ROE ratios of 16.6% and 28% respectively, underline the relative stability in its profitability levels despite input cost pressures and the price elasticity of demand for its products.

The Company's unaudited accounts for the eight months ended 31 August 2022 showed revenue of ₦6.6 billion, which represented about 79% of the year's budget, to reflect sustained volume growth across its product portfolio. However, its pre-tax profit margin fell to 5.8% amid intensifying input cost pressures. Therefore, Saro Lifecare's annualised ROA and ROE ratios dipped to 9.1% and 15.9% respectively. Given that its home and personal care products have sticky prices, we do not envisage significant upward price adjustments, hence we expect SLC to continue to absorb increases in input cost at the detriment of margins. However, we expect the increased local manufacturing and other strategies to improve operational efficiency across the business to have some cushioning impact on both costs and profit margins in the medium term.

In our opinion, Saro Lifecare Limited's profitability is satisfactory.

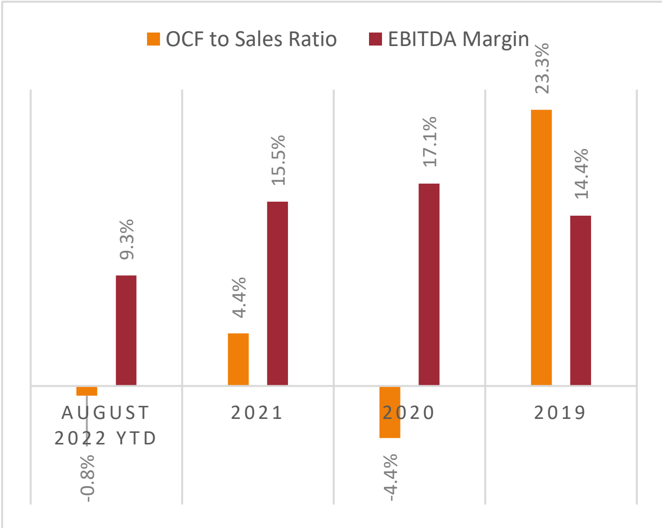
[3] *Savings on promo discount represents the gross profit margin of finished goods issued for promotional activities during the period.*

Cash Flow

Saro Lifecare Limited generates cash essentially from the sale of its in-home pest control and personal care products to customers across the country. The Company's sales are mostly on a prepayment or cash basis although trade credits of up to 90 days are granted to hypermarkets. The pre-approved credit limits to these hypermarkets are computed based on their volume sales as well as past credit history. In FYE 2021, the combined average credit period granted to hypermarkets and related entities (both on trade and non-trade transactions) improved markedly to 30 days (2021: 89 days) to underline the Company's effective accounts receivables collection strategy.

Despite the prevailing supply chain disruptions caused by the prolonged effect of the coronavirus pandemic and the ongoing Russia-Ukraine war, which have continued to put a strain on both the cost and availability of inputs, Saro Lifecare's cash-generating capacity has remained resilient. During the financial year ended 31 December 2021, SLC's operating cash flow (OCF) rebounded to a positive of ₦369.9 million, compared to the prior year's negative of ₦316.6 million to reflect the higher earnings and better working capital management during the period. While SLC's operating cash flow to sales ratio improved to 4.4% in FYE 2021, compared to the -4.4% recorded in the previous year, it remained below our benchmark.

Figure 5: OCF to sales ratio vs EBITDA margin (2019 – Q3'2022)



Although the Company had no interest payment obligation during the review period, its OCF was slightly lower than the ₦375.2 million paid as dividend. However, we recognise that SLC's three-year (2019 – 2021) cumulative OCF of ₦1.8 billion was sufficient to meet a cumulative dividend payment of ₦1.1 billion over the same period.

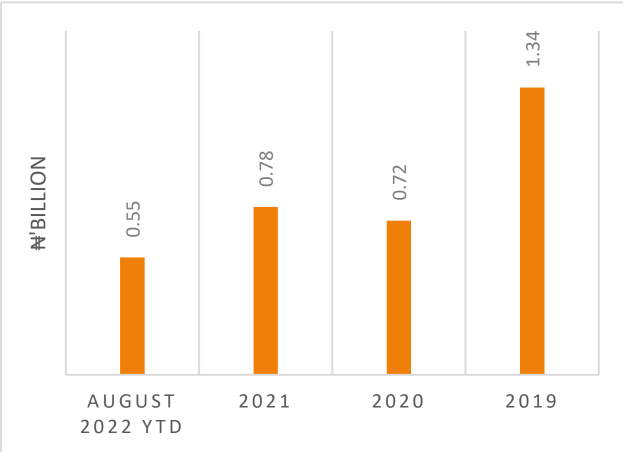
Saro Lifecare Limited's posted a negative operating cash flow of ₦0.5 billion in the eight months ended 31 August 2022 (unaudited) following a strategic decision to stockpile critical raw materials in readiness for the planned launching of its new aerosol factory. To the extent that SLC is able to efficiently manage its working capital, we expect the growing demand for its products as well as the expanding production and distribution capacities to translate to improved earnings and operating cash flow positions. However, the Company's overall liquidity profile could be weakened by the high dividend payout policy.

In our opinion, Saro Lifecare Limited's overall cash flow position requires improvement.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2021, Saro Lifecare Limited's working assets remained relatively flat at ₦5.3 billion as increases in inventory levels and deposits for letters of credit[4] were offset by marked reductions in advance payments to suppliers and amounts due from related entities during the period. The main components of SLC's working assets as at FYE 2021 were stocks (72%), foreign exchange purchased for imports (13%) and amounts due from related parties (12%). Given the inventory management challenges (particularly as it relates to imported raw materials and finished products) posed by the ongoing global supply chain disruptions and the liquidity crisis in the country's forex market, we expect the Company's investments in working assets to remain elevated.

Figure 6: Working Capital Surplus/(Deficiency)



As at FYE 2021, SLC's spontaneous financing decreased by 15% to ₦2.9 billion with accrued expenses and other payables relating to unsettled letters of credit obligations accounting for nearly two-thirds of the amount. The Company's spontaneous financing was insufficient to fund its working assets, leaving a working capital need of ₦2.8 billion as at FYE 2021. Even the ₦470 million working capital support facility obtained from the Saroafrica Group on 31 December 2021 was insufficient to fully meet the Company's working capital requirement. Saro Lifecare Limited has consistently posted a working capital need over the last three years partly due to the unfavourable trade terms with suppliers as the bulk of its purchases are either on a prepayment or cash basis. However, management believes that this payment method has continued to help the Company to avoid credit and foreign exchange risks.

As at 31 December 2021, Saro Lifecare Limited's long-term assets increased by 11% to ₦1.1 billion on account of ongoing investments in the insecticide aerosol project as well as the expansion of the production capacity of its personal care segment during the period. As at the same date, the Company's long-term funds of ₦4.6 billion, which were wholly equity, were more than sufficient to cover long-term assets, resulting in available working capital of ₦3.6 billion. Hence, the Company posted an overall working capital surplus of ₦0.8 billion as at the 2021 financial year.

The Company posted a working capital surplus of ₦0.5 billion in the eight months ended 31 August 2022 (unaudited) despite huge investments in working assets during the period. With the local production of the Company's aerosol products likely to ease funding pressure associated with rising import prices and volumes, we anticipate better working capital management. Therefore, we expect the Company to continue to record working capital surpluses over the near to medium term.

In our view, Saro Lifecare Limited's overall working capital position is adequate.

[4] *Including deposits for foreign exchange and "Form M" bids*

LEVERAGE

Saro Lifecare Limited relies on internal sources of finance, and to a lesser extent, intercompany loans from the Saroafrica Group to fund its operations. During the review period, the Company obtained a ₦470 million short-term loan from a sister company – Saro Investment Limited to fund the purchase of critical raw materials. The 90-day loan, which attracted an interest rate of 15% per annum, was disbursed into the Company's account on 31 December 2021. Considering that the amount was received on the last working day of the year, we have excluded the loan from the Company's FYE 2021 cash balances and amounts due to related parties in our leverage analysis.

The Company's adjusted total assets increased by 4% to ₦7.1 billion as at FYE 2021 and were funded by equity (65%) and liabilities (35%), thus depicting a satisfactory equity cushion. Based on SLC's funding strategy, which is largely equity-driven, we do not anticipate any significant deterioration in its equity cushion by the end of the 2022 financial year-end.

As at 31 December 2021, SLC's adjusted total liabilities, which were solely non-interest bearing, decreased by 15% to ₦2.5 billion with accruals and other payables relating to letters of credit obligations and remittances to tax authorities accounting for more than 77% of the outstanding liabilities. The other components of SLC's interest-free liabilities as at FYE 2021 were income tax payable (21%), amounts due to related parties (1%) and trade creditors (1%).

In the absence of external loans, Saro Lifecare Limited has continued to maintain low leverage ratios exemplified by a net debt to total assets ratio of 27% as at FYE 2021 (2020: 42%). We recognise that the Company's leverage ratios, even with the inclusion of the intercompany loan, were still better than our benchmarks. Although management has disclosed plans to raise debt to finance future expansion as well as meet working capital needs, we do not anticipate significant deterioration in the Company's overall leverage position. This is based on our estimation that the additional earnings to be derived from the debt-induced expansion should cushion the impact of financial leverage.

In our view, Saro Lifecare Limited's leverage is low.

OWNERSHIP, GOVERNANCE, MANAGEMENT & STAFF

During the FYE 2021, Saro Lifecare Limited allotted the unissued portions of its authorised share capital, to existing shareholders on a pro-rata basis. Thus, the Company's authorised, issued and fully paid-up share capital as at 31 December 2021 stood at ₦50 million, made up of fifty million units of ordinary shares of ₦1 each. The Saro Group underwent a shareholder restructuring that culminated in Saroafrica Limited (incorporated in the United Kingdom) becoming the parent company of all the entities within the Group. Consequently, 74.97% of the ordinary shares of Saro Lifecare Limited, which were previously held by Saro Agrosciences Limited and Mr. Rasheed Sarumi, were transferred to Saroafrica Limited during the review period. However, Mr. Rasheed Sarumi, who is the founder and the ultimate beneficiary of Saroafrica Limited, retained a 24.98% direct interest in the Company. Therefore, Mr. Rasheed Sarumi (directly and indirectly) owns a 99.95% equity stake in Saro Lifecare Limited, thus depicting a concentrated ownership structure.

Saro Lifecare has a five-member Board of Directors ("the Board"), which comprises the Chairman, two non-executive directors, an independent director, and the Managing Director. Mr. Abdul Bello, the former Group Managing Director of UAC of Nigeria PLC, leads the Board as the Chairman, while Mrs. Gbemileke Otun is the Managing Director following her appointment on 12 October 2020 to replace erstwhile MD – Mr. Santanu Sarma. There was no alteration in the composition of the Board of Directors of Saro Lifecare Limited in the period under review.

The Board operates through a three-member Audit, Risk and Finance Committee ("the Committee"). The Committee has two non-executive directors and an independent director as members and is chaired by Mr. Ayotunde Akin-Taylor (a non-executive director). The Committee meets every quarter. Overall, we reckon that the Directors of Saro Lifecare Limited are drawn from a diversified background with vast experience in board management.

Table 3: Current Directors

Name	Designation
Mr. Abdul Bello	Chairman
Mrs. Gbemileke Otun	Managing Director
Mr. Ayotunde Akin-Taylor	Non-Executive Director
Mrs. Kike Kuponiyi	Non-Executive Director
Mrs. Iquo Ukoh	Independent Director

Source: Saro Lifecare Limited's 2021 Annual Report and Management Presentation

The Managing Director is supported by a team of six senior management professionals covering production, marketing, finance, human resources and operations. The senior management staff have over a decade of relevant industry experience and most of them have been with the Company for more than five years. We consider the management team to be adequately qualified and experienced.

As at 31 December 2021, SLC had a staff strength of 55 employees (2020: 63 employees). The Company's average cost per employee moderated slightly by 8% to ₦5.6 million in FYE 2021, while contribution per employee (pre-tax profit adjusted for staff cost) grew by 22% to ₦22.1 million owing to the improved earnings during the period and was sufficient to cover the average cost per employee 3.9x, which we consider good.

Management Team

Mrs. Gbemileke Otun is the Managing Director of Saro Lifecare Limited. Mrs. Otun has relevant experience in the consumer goods industry. Prior to her appointment as the MD, she had previously held other senior management positions in Gossy Warm Springs Limited, Saro Lifecare Limited and Saro Home and Garden. She has also worked with a leading multinational consumer products company and had experience in brand management, marketing, sales and distribution, corporate relations and communications. She holds a Bachelor's degree in Electrical/Electronic Engineering from the University of Lagos and a Master of Business Administration (MBA) from the Lagos Business School. Mrs. Otun has also attended several local and international training courses including the Harvard Business School's Strategic Marketing Management Programme.

Table 4: Other Members of Saro Lifecare's Management Team

Name	Position
Ms. Bukola Oyinlade	Head, Personal Care Division
Mr. Francis Nwandu	Head, Accounts
Mr. Chidi Chibundu	Head, Production
Ms. Sarah Fadahunsi	Acting Head, Innovation & Commercialization
Mr. Adebayo Ogunjobi	Acting Head, Liquid Insecticide Division
Mr. Adedapo Shode	Human Resources Business Partner

Source: Saro Lifecare Limited's Management Presentation

Outlook

The higher raw material prices and operating costs have continued to weigh on the overall profitability of the Home and Personal Care Industry, especially as operators are unable to fully transfer these costs to consumers, largely due to the low switching costs and availability of substitutes. Consequently, the country's challenging operating environment and subdued consumers' spending remain major obstacles to Industry players' pursuit of brand popularity and profitability. Agusto & Co believes that the eventual path to success for insecticide and skincare brands in Nigeria lies in their ability to better manage business costs through improved operational efficiency. This is in addition to capitalising on economies of scale in the procurement of raw materials and distribution of finished goods through collaborations with suppliers and key distributors. Also, operators should consider embarking on significant import substitution and local sourcing of input materials if they must survive the adversities caused by forex shortages and other external shocks on their overall bottom line.

Given consumers' contracting disposable income and the potential adverse impact on the overall demand for the Company's products, management has continued with its market-based pricing strategies to protect market share as well as support volume growth. SLC plans to commence the local production of its aerosol spray in Q4'2022 after a successful trial run at the new factory. Considering that aerosol products are the main driver of the Company's sales volume, management expects some improvement in overall profit margin when the new plant comes on stream. Furthermore, the Company expects the replacement products for the banned Sniper 100 ml to have an immediate positive impact on both revenue and margin growth. Despite expanding cost lines, we expect Saro Lifecare's overall profitability to continue to be resilient as seen over various economic cycles.

Based on its strong brand acceptance (particularly in the in-home pest control segment) and expanding product offerings and distribution channels, we believe that Saro Lifecare is well-positioned to further increase earnings and OCF levels over the near to medium term. Also, we expect the anticipated growth in the Company's revenue and profit to have a positive impact on its operating cash flow position, provided it can rein in operating cost escalations arising from the high inflation and exchange rates. Whilst we expect the steady rise in inventory investments to continue to pressure the Company's short-term funding capacity, we do not anticipate any significant deterioration in its overall working capital position given the strong equity funding buffer and the sustained funding support from the Saro Group. In addition, we expect the Company to continue to maintain a low debt profile based on management's cautious stance on the uncontrolled accumulation of external loans and the use of internal funding sources for business expansion.

Based on the aforementioned, we attach a **stable** outlook to Saro Lifecare Limited.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Aug-22 Unaudited		31-Dec-21		31-Dec-20		31-Dec-19	
	₦'million		₦'million		₦'million		₦'million	
ASSETS								
IDLE CASH	170.9	1.9%	376.0	5.3%	50.3	0.7%	258.3	4.6%
MARKETABLE SECURITIES & TIME DEPOSITS	375.1	4.1%	404.0	5.7%	667.0	9.7%	1,078.4	19.1%
CASH & EQUIVALENTS	546.0	5.9%	780.0	11.0%	717.4	10.5%	1,336.7	23.6%
FX PURCHASED FOR IMPORTS	-		701.2	9.9%	124.8	1.8%	130.1	2.3%
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	2,788.2	30.2%	32.0	0.4%	1,799.1	26.2%	65.5	1.2%
STOCKS	4,052.4	43.9%	3,799.4	53.5%	1,479.1	21.5%	2,662.9	47.1%
TRADE DEBTORS	-		51.2	0.7%	45.0	0.7%	354.8	6.3%
DUE FROM RELATED PARTIES	238.2	2.6%	629.9	8.9%	1,719.3	25.0%	191.5	3.4%
OTHER DEBTORS & PREPAYMENTS	447.3	4.8%	63.1	0.9%	35.2	0.5%	26.5	0.5%
TOTAL TRADING ASSETS	7,526.0	81.5%	5,276.7	74.2%	5,202.5	75.8%	3,431.4	60.7%
PROPERTY, PLANT & EQUIPMENT	1,155.0	12.5%	1,046.8	14.7%	944.6	13.8%	860.5	15.2%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	4.8	0.1%	3.6	0.1%	-		26.7	0.5%
TOTAL LONG TERM ASSETS	1,159.8	12.6%	1,050.4	14.8%	944.6	13.8%	887.2	15.7%
TOTAL ASSETS	**9,231.8**	**100.0%**	**7,107.1**	**100.0%**	**6,864.4**	**100.0%**	**5,655.3**	**100.0%**
Growth	*29.9%*		*3.5%*		*21.4%*		*37.6%*	
LIABILITIES & EQUITY								
SHORT TERM BORROWINGS	-		-		-		-	
CURRENT PORTION OF LONG TERM BORROWINGS	-		-		-		-	
LONG-TERM BORROWINGS	-		-		-		-	
TOTAL INTEREST BEARING LIABILITIES (TIBL)	-		-		-		-	
TRADE CREDITORS	1,824.5	19.8%	15.2	0.2%	-		80.1	1.4%
DUE TO RELATED PARTIES	218.8	2.4%	35.5	0.5%	92.6	1.3%	20.6	0.4%
OTHER CREDITORS AND ACCRUALS	1,962.1	21.3%	1,911.3	26.9%	2,461.4	35.9%	1,867.5	33.0%
TAXATION PAYABLE	-		513.4	7.2%	364.0	5.3%	343.3	6.1%
DEFERRED TAXATION	-		-		8.6	0.1%	-	
TOTAL NON-INTEREST BEARING LIABILITIES	4,005.4	43.4%	2,475.4	34.8%	2,926.6	42.6%	2,311.4	40.9%
TOTAL LIABILITIES	4,005.4	43.4%	2,475.4	34.8%	2,926.6	42.6%	2,311.4	40.9%
SHARE CAPITAL	50.0	0.5%	50.0	0.7%	23.0	0.3%	23.0	0.4%
SHARE PREMIUM	2,370.0	25.7%	2,370.0	33.3%	2,397.0	34.9%	2,397.0	42.4%
DEPOSIT FOR SHARES	248.8	2.7%	248.8	3.5%	-		-	
REVALUATION SURPLUS	32.4	0.4%	32.4	0.5%	32.4	0.5%	32.4	0.6%
OTHER NON-DISTRIBUTABLE RESERVES	180.6	2.0%	-		-		-	
REVENUE RESERVE	2,344.5	25.4%	1,930.6	27.2%	1,485.5	21.6%	891.4	15.8%
SHAREHOLDERS' EQUITY	5,226.4	56.6%	4,631.8	65.2%	3,937.9	57.4%	3,343.8	59.1%
TOTAL LIABILITIES & EQUITY	**9,231.8**	**100.0%**	**7,107.1**	**100.0%**	**6,864.4**	**100.0%**	**5,655.3**	**100.0%**

STATEMENT OF COMPREHENSIVE INCOME	31-Aug-22 Unaudited		31-Dec-21		31-Dec-20		31-Dec-19	
	₦'million		₦'million		₦'million		₦'million	
TURNOVER	6,669.6	100.0%	8,355.8	100.0%	7,223.0	100.0%	7,455.1	100.0%
COST OF SALES	(4,467.9)	-67.0%	(5,368.8)	-64.3%	(3,491.3)	-48.3%	(4,153.7)	-55.7%
GROSS PROFIT	2,201.7	33.0%	2,987.0	35.7%	3,731.7	51.7%	3,301.4	44.3%
OTHER OPERATING EXPENSES	(1,856.2)	-27.8%	(2,302.8)	-27.6%	(2,922.7)	-40.5%	(2,373.1)	-31.8%
OPERATING PROFIT	345.5	5.2%	684.2	8.2%	809.0	11.2%	928.3	12.5%
OTHER INCOME/(EXPENSES)	213.2	3.2%	532.2	6.4%	332.3	4.6%	79.1	1.1%
PROFIT BEFORE INTEREST & TAXATION	558.7	8.4%	1,216.4	14.6%	1,141.4	15.8%	1,007.4	13.5%
INTEREST EXPENSE	(6.4)	-0.1%	-		-		-	
PROFIT BEFORE TAXATION	552.3	8.3%	1,216.4	14.6%	1,141.4	15.8%	1,007.4	13.5%
TAX (EXPENSE) BENEFIT	(165.7)	-2.5%	(396.1)	-4.7%	(391.0)	-5.4%	(325.7)	-4.4%
PROFIT AFTER TAXATION	386.6	5.8%	820.3	9.8%	750.4	10.4%	681.7	9.1%
NON-RECURRING ITEMS (NET OF TAX)	-		-		-		-	
MINORITY INTERESTS IN GROUP PAT	-		-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	386.6	5.8%	820.3	9.8%	750.4	10.4%	681.7	9.1%
DIVIDEND	-		(375.2)	-4.5%	(156.4)	-2.2%	(542.4)	-7.3%
PROFIT RETAINED FOR THE YEAR	386.6	5.8%	445.1	5.3%	594.0	8.2%	139.4	1.9%
SCRIP ISSUES	-		-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	27.4		-		-		-	
PROFIT RETAINED B/FWD	1,930.6		1,485.5		891.4		752.0	
PROFIT RETAINED C/FWD	2,344.5		1,930.6		1,485.5		891.4	
ADDITIONAL INFORMATION								
Staff costs (₦'million)	275		309		383		323	
Average number of staff	55		55		63		66	
Staff costs per employee (₦'million)	5		6		6		5	
Staff costs/Turnover	4.1%		3.7%		5.3%		4.3%	
Capital expenditure (₦'million)	171		187		176		59	
Depreciation expense - current year (₦'000)	63		82		92		65	
(Profit)/Loss on sale of assets (₦'million)	-		(7)		(3)		-	
Number of 50 kobo shares in issue at year end ('million)	100		100		46		46	
Market value per share of 50 kobo (year-end)	100		100		100		100	
Market capitalisation (₦'million)	100		100		46		46	
Market/Book value multiple	0		0		0		0	
Average age of depreciable assets (years)	5		4		5		5	
Sales at constant prices - base year 1985 (₦'million)	12		17		17		20	
Auditors	N/A		ERNST & YOUNG		ERNST & YOUNG		ERNST & YOUNG	
Opinion	N/A		CLEAN		CLEAN		CLEAN	

CASH FLOW STATEMENT FOR Y/E	31-Aug-22 Unaudited	31-Dec-21	31-Dec-20	31-Dec-19
	₦'million	₦'million	₦'million	₦'million
OPERATING ACTIVITIES				
Profit after tax	386.6	820.3	750.4	681.7
ADJUSTMENTS				
Interest expense	6.4	-	-	-
Depreciation	63.2	82.1	92.0	64.7
(Profit)/Loss on sale of assets	-	(7.0)	(3.0)	-
Other non-cash items	208.0	-	-	-
Potential operating cash flow	664.2	895.4	839.4	746.4
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:				
Trade creditors	1,809.4	15.2	(80.1)	40.9
Due to related parties	183.3	(57.1)	72.0	20.6
Advance payments and deposits from customers	-	-	-	-
Other creditors & accruals	50.7	(550.0)	593.9	1,213.4
Taxation payable	(513.4)	149.3	20.8	136.2
Deferred taxation	-	(8.6)	8.6	-
Obligations under unfunded pension schemes	-	-	-	(3.6)
Cash from (used by) spontaneous financing	1,530.1	(451.2)	615.1	1,407.4
(INCREASE)/DECREASE IN WORKING ASSETS:				
FX purchased for imports	701.2	(576.3)	5.3	(79.9)
Advance payments and deposits to suppliers	(2,756.2)	1,767.2	(1,733.7)	961.2
Stocks	(253.0)	(2,320.3)	1,183.9	(1,228.1)
Trade debtors	51.2	(6.3)	309.9	(147.5)
Due from related parties	391.7	1,089.4	(1,527.8)	55.1
Other debtors & prepayments	(384.2)	(27.8)	(8.7)	23.1
Cash from (used by) working assets	(2,249.3)	(74.2)	(1,771.1)	(416.1)
CASH FROM (USED IN) OPERATING ACTIVITIES	**(55.1)**	**369.9**	**(316.6)**	**1,737.7**
RETURNS TO PROVIDERS OF FINANCING				
Interest paid	(6.4)	-	-	-
Dividend paid	-	(375.2)	(156.4)	(542.4)
CASH USED IN PROVIDING RETURNS ON FINANCING	(6.4)	(375.2)	(156.4)	(542.4)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	**(61.5)**	**(5.3)**	**(472.9)**	**1,195.4**
NON-RECURRING ACTIVITIES				
Non-recurring items (net of tax)	-	-	-	-
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	**-**	**-**	**-**	**-**
INVESTING ACTIVITIES				
Capital expenditure	(171.4)	(187.0)	(176.1)	(59.1)
Sale of assets	-	9.8	3.0	-
Purchase of other long term assets (net)	(1.2)	(3.6)	-	(23.9)
Sale of other long term assets (net)	-	-	26.7	-
CASH FROM (USED IN) INVESTING ACTIVITIES	**(172.5)**	**(180.9)**	**(146.4)**	**(82.9)**
FINANCING ACTIVITIES				
Increase/(Decrease) in short term borrowings	-	-	-	-
Increase/(Decrease) in long term borrowings	-	-	-	-
Proceeds of shares issued	-	248.8	-	-
CASH FROM (USED IN) FINANCING ACTIVITIES	**-**	**248.8**	**-**	**-**
CHANGE IN CASH INC/(DEC)	(234.1)	62.7	(619.4)	1,112.4
OPENING CASH & MARKETABLE SECURITIES	780.0	717.4	1,336.7	224.3
CLOSING CASH & MARKETABLE SECURITIES	**546.0**	**780.0**	**717.4**	**1,336.7**

KEY RATIOS	31-Aug-22 Unaudited	31-Dec-21	31-Dec-20	31-Dec-19
PROFITABILITY				
Operating profit margin	5.2%	8.2%	11.2%	12.5%
EBITDA margin	9.3%	15.5%	17.1%	14.4%
Return on asset	9.1%*	17.2%	16.7%	17.9%
Return on equity	15.9%*	26.4%	29.2%	30.4%
Sales growth	19.7%*	15.7%	-3.1%	10.1%
CASH FLOW				
Interest cover (times)	-	-	-	-
Principal payback (years)	-	-	-	-
WORKING CAPITAL				
Working capital need (days)	193	122	115	55
Working capital deficiency (days)	-	-	-	-
LEVERAGE				
Interest bearing debt to Equity	-	-	-	-
Total debt to Equity	76.6%	53.4%	74.3%	69.1%
IBD net of cash and Equiv. as a % of Equity without rev.	-	-	-	-
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	116.2%	102.0%	118.2%	106.1%

**Annualized growth rate*

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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