

# SARO AGROSCIENCES LIMITED

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## 2022 Final Corporate Rating Report

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# Saro Agrosiences 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:** 28 October 2022

**Expiry Date:** 30 June 2023

**Previous Rating:** N/A

**Industry:** Agricultural Inputs

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## RATING RATIONALE

- Agusto & Co. hereby assigns a “Bbb” rating to Saro Agrosiences Limited (“Saro Agrosiences”, “SAS” or “the Company”) to reflect our opinion on the Company’s low leverage and adequate working capital, which mirrors the favourable terms of trade it enjoys with both suppliers and customers. The rating is buttressed by the Company’s leading position in the agricultural inputs industry, its diversified portfolio and distribution network as well as its stable, qualified and experienced management team. We have also considered the Company’s ongoing import substitution initiative which we believe would result in production cost advantages and a higher earning capacity for the Company in the medium to long term. The rating is however constrained by the Company’s low profitability and cash flow which requires improvement. Also, the weak macroeconomic environment evidenced by foreign exchange distortions, inflationary pressures, and its attendant adverse impact on businesses has been factored into the rating.
- Saro Agrosiences Limited is a leading player in the Nigerian Agricultural Inputs Industry. The Company was incorporated as a private limited liability company in 1991 and its primary business involves the importation, sale and distribution of crop protection products (CPP) such as herbicides, fungicides, insecticides, weed killers and seed treatments. SAS is also involved in the sale of other agricultural inputs such as fertilizers, seeds and farming implements to small, medium and large-scale farmers, commercial farms, out growers and retail distributors. The Company has an extensive distribution network with warehouses across 27 states in Nigeria. Saro Agrosiences was founded by Mr. Rasheed Sarumi who is the current Group Managing Director of SaroAfrica Limited. Mr. Sarumi holds an 86% equity stake in Saro Agrosiences both directly and indirectly. Hence, our opinion on the concentrated ownership structure of the Company.
- In the financial year ended 31 December 2021 (FYE 2021), Saro Agrosiences’ revenue grew by 86.5% year-on-year to ₦32.2 billion, supported by growth in the sales volume of crop protection products, price reviews, and the widening of its retail distribution network. As a result, SAS’ operating profit margin (OPM) improved to 6.3% (2020: 2.3%). Nonetheless, the Company’s EBITDA margin remained flat at 8.4% (2020: 8.3%). Overall, the Company posted pre-tax pre-interest return on assets (ROA) and pre-tax returns on equity (ROE) of 12% and

### *Saro Agrosciences Limited*

27.6% respectively in FYE 2021 (2020: 8.7%, 17.7%). While we acknowledge SAS' profitability ratios in 2021 surpassed pre-pandemic levels, we note that these metrics were below Agusto & Co's expectations for companies in the Agricultural Inputs industry and thus, require improvement. In the seven months ended 31 July 2022, Saro Agrosciences recorded an uptick in revenue, on account of upward price adjustments in crop protection products. However, due to the impact of inflationary pressures and depreciation of the domestic currency, the Company's direct costs to revenue ratio worsened to 88.1%. Thus, SAS' ROA and ROE dipped to 2.7% and 11.6% respectively. Overall, we consider Saro Agrosciences' profitability as low.

- SAS recorded a negative operating cash flow (OCF) of ₦2.4 billion in FYE 2021 due to the high inventory holding during the year, following Management's decision to stock up on crop protection products to lessen the negative effects of the disruptions in the global supply chain on its business. Thus, the OCF to sales ratio dropped to a negative of 8% in FYE 2021 as against 20% in 2020. However, the Company's cumulative OCF over the past three years (2019-2021) was sufficient to cover the dividend and interest payments during the comparable period. In the seven months ended 31 July 2022, SAS' OCF improved to ₦6 billion due to its increased scale of operations and the resultant increase in trade and other payables. In our view, SAS cash flow requires improvement.
- As at FYE 2021, the Company recorded a short working capital need of ₦5.1 billion and available working capital of ₦7.6 billion, thus resulting in an overall working capital surplus of ₦2.5 billion. In the unaudited account as at July 2022, SAS also posted an overall working capital surplus of ₦7.9 billion. In our opinion, SAS' working capital is adequate for its current level of operations.
- As at FYE 2021, SAS' funding mix comprised non-interest-bearing liabilities (52%), interest-bearing liabilities (5%), and equity (43%), which depicts a satisfactory equity cushion. The Company's net debt (total liabilities less cash and equivalents) to average total assets of 64% in FYE 2021 was in line with our expectation. As at the same date, SAS' interest-bearing debt-to-equity ratio remained below 1% and was better than our benchmark of 25%, thus underlining the Company's low-leverage position.
- In line with its backward integration strategy, SAS is currently building a 21 million litre per annum capacity CPP formulation plant for in-house production of herbicides and other agrochemicals. Management anticipates this project will be concluded in the fourth quarter of 2022. Upon completion, it is expected that this initiative will result in production cost advantages and improved earnings for the Company. SAS also plans to improve revenue by extending its retail distribution network with the opening of new warehouses across the country coupled with maintaining a wide array of product offerings. We expect these initiatives to improve the Company's sales volume, cash flow and earnings in the near to medium term.

*Saro Agrosciences Limited*

- Based on the aforementioned, we hereby attach a **stable** outlook to Saro Agrosciences Limited.

**Figure 1: Strengths, Weaknesses, Opportunities and Challenges**

<b>Strengths</b> <ul style="list-style-type: none"> <li>• Strong player in the agro-allied Industry</li> <li>• Diversified product offerings</li> <li>• Stable, qualified and experienced management team</li> <li>• Low leverage</li> <li>• Adequate working capital</li> </ul>
<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• Low profitability</li> <li>• Concentrated ownership structure</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Growing demand of agro inputs for industrial use and food processing</li> <li>• New growth opportunities via exports across the West African sub-region</li> <li>• Rising population in the country which will continue to support demand for agricultural products</li> </ul>
<b>Challenges</b> <ul style="list-style-type: none"> <li>• Unprecedented climate changes such as prolonged dry or rainy seasons which could adversely affect the crop production industry</li> <li>• The adverse effect of the frail macroeconomic environment - high inflation, depreciation of the Naira and weak consumer purchasing power</li> <li>• Global supply chain challenges, causing delays in lead times</li> <li>• Insecurity challenges particularly in the crop producing areas in the country.</li> </ul>

## OVERVIEW OF THE AGRICULTURAL INPUTS INDUSTRY IN NIGERIA

The agriculture sector is the bedrock of the Nigerian economy and has become a major focus in recent times, in line with the government's efforts to further diversify the economy. The sector recorded a year-on-year nominal growth of 13.8% to close at ₦9.9 trillion in the first half of 2022 (H1'2022) and contributed 21.9% to Gross Domestic Product in H1 2022. Crop production remains the major driver of the agricultural sector. This is evident as it accounts for 88%<sup>1</sup> of the overall nominal growth of the sector in H1'2022. Agriculture is a sector of high importance as it provides livelihood to a significant portion of the Nigerian population.

The Agricultural Inputs Industry ("Agro Inputs Industry" or "the Industry") is a subset of the agricultural sector and comprises four key segments - crop protection (such as pesticides, herbicides, bactericides and fungicides), crop nutrition (fertilizers), seeds and agro machinery. Agro-inputs play a vital role in different stages of plant development from land clearing and cultivation to the storage of farm produce. These inputs are also used to eliminate a variety of agricultural pests, yield-limiting crop pathogens and insects that damage crops and livestock. The industry has a direct impact on the productivity of the agricultural sector, which is the nucleus of the Nigerian economy. The use of agricultural inputs in Nigeria are driven by the demand for food crops, majorly; maize, cassava, oil palm, rice, yam, soybean, cowpea, vegetables, melon, groundnuts and sesame. Some of the major players in the agro-inputs industry in Nigeria include Saro Agrosiences, Jubaili Agrotec, Harvestfield Industries Limited, TAK Group, WACOT Limited and Lionseal Industries amongst others.

The regulatory bodies that govern the agro-inputs industry in Nigeria include the Farm Inputs Support Services (FISS) Department, the Federal Ministry of Agriculture and Rural Development (FMARD) and the National Agricultural Seeds Council amongst others. The Industry also has two self-regulatory bodies which provide guidelines and a code of conduct for industry players. These bodies are the Fertilizer Producers and Suppliers Association of Nigeria (FEPSAN) and the Nigeria Agro Inputs Dealers Association (NAIDA). In July 2022, FMARD issued a new bill to regulate the manufacture, importation, distribution and sales of fertilizers, in addition to improving the quality of fertilizers, agrochemicals and other agricultural inputs in Nigeria. This bill aims to sanitize the industry and curtail the adulteration and importation of toxic pesticides and agrochemicals into Nigeria.

Over the years, the Agro Input industry has been plagued by a myriad of challenges, including rising input costs and insecurity in the northern and middle belt region of Nigeria which have threatened farming activities. Poor funding of agricultural development programmes has also been a major challenge as it has resulted in inadequate extension services for farmers and players in the Industry. In the 2022 National Budget, agriculture was allotted 1.7%, which falls significantly lower than the 10% specified in the 2003 Maputo Declaration on Agriculture and Food Security in Africa. Furthermore, farmers make up the largest group of financially excluded persons in Nigeria, thereby underscoring the supply shortfall in finance to agriculture in Nigeria. We believe that the availability of finance will significantly improve output and productivity in agriculture.

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<sup>1</sup> National Bureau of Statistics

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Low-quality seeds as well as inadequate information on newly developed improved seedlings also portend a challenge to crop production and the agro-inputs industry in Nigeria. Despite the growth recorded in the number of seed companies in Nigeria, investment in seed production is still low, as farmers still find it difficult to access improved seeds and seedlings. The lack of investment in seed production has created a gap in the seed segment. Hence, there is a need for the government to prevent the supply-availability gap from widening further and guard against the proliferation of unregistered and incompetent operators who flood the market with fake or poor-quality seeds.

Notwithstanding these challenges, the Agro-Inputs Industry is expected to continue to grow. This is premised on the growth in the food processing sector, the expanding population size, the steady demand for food crops for domestic and industrial consumption, the ban on importation of some staple foods, coupled with the government's renewed efforts on economy diversification due to the dwindling revenue from crude oil. We expect the agro-inputs industry to continue to grow and have a positive impact on the agricultural sector in Nigeria as the structures, functions and constraints of the industry are continually reviewed by the government. We believe that promoting market transparency via a market information system, fostering technology transfer activities and strengthening research capacity for developing the private seed industry will go a long way in improving the Agri-input Industry. In addition, creating an enabling macro policy environment while adhering to a consistent inputs marketing policy will encourage growth in the sector.

Based on the aforementioned, we attach a **stable** outlook to the agro-inputs industry in Nigeria.

## PROFILE OF SARO AGROSCIENCES LIMITED

### Background & Overview

Saro Agrosciences Limited ("Saro Agrosciences", "SAS" or "the 'Company'") is a leading player in the agricultural inputs industry in Nigeria and a member of the SaroAfrica International Group<sup>2</sup> - a strong player in the Fast-Moving Consumer Goods (FMCG) and agro-allied segments. SAS was incorporated as a private limited liability company in 1991 as Saro Pharma and Chemical Company Limited. Since its inception, the Company has evolved through different operational models and names to Saro Agrosciences.

The Company is primarily involved in the importation, distribution and sale of crop protection products (such as fungicides, herbicides, insecticides, weed killers and seed treatments), off-patent protection products<sup>3</sup>, soil and plant nutrients (such as water-soluble crystalline fertilizers, specialty fertilizers and bio-stimulants), farm implements (such as sprayers and tractors) and seeds. The Company also offers free advisory services to farmers and product end-users on weather, early crop diseases diagnosis and commodity prices in addition to equipping them with insights that will sustainably increase their yield.

**Table 1: Key Milestones in the Evolution of Saro Agrosciences Limited**

<i>Dates</i>	<i>Key Events</i>
<b>1991</b>	▪ The Company started with the sale of Mackechnie fungicide for cocoa in South West Nigeria
<b>1996</b>	▪ Agrosciences launched the Productive Farmers Programme to train farmers and crop protection product dealers on the safe and responsible use of crop protection products
<b>1999</b>	▪ Recruited its pioneer set of graduate trainees
<b>2001</b>	▪ Marked its 10 <sup>th</sup> anniversary. Became the leading player in the Nigeria agrochemical market
<b>2008</b>	▪ Achieved a major innovation in its route-to-market strategy. Introduced a key account model that transformed into direct retail in 2009
<b>2009</b>	▪ The Company acquired a manufacturing plant in Ibadan from Chemical and Allied Products Plc
<b>2012</b>	▪ Commissioned an ultra-modern container terminal in Amuwo Odofin, Lagos. ▪ Launched the leadership development and General Management Program in partnership with Lagos Business School
<b>2013</b>	▪ Began a joint venture with SeedCo as AgriSeedCo. Nigeria and is currently leading the Nigerian agricultural revolution with the introduction of the high-yielding maize seed
<b>2019</b>	▪ Introduced the "Total Innovative Agrosolutions" division with a focus to provide affordable agro inputs and technical services

Source: Saro Agrosciences Limited's Management Presentation

<sup>2</sup>SaroAfrica International was incorporated as a limited liability company in the United Kingdom in January 2021, as part of the group's journey towards establishing a holding structure and consolidating its financials.

<sup>3</sup>Off Patent Protection Products (OPP) are non-generic, innovative agro-input products of superior quality. The hybrid seeds sold by the Company are patented.

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Saro Agrosciences has created a wide logistics and distribution network and has a reach extending to over ten million small- and large-scale farmers. The Company has its headquarters in Ibadan and over 48 distribution centres spread across 27 states in Nigeria. Saro Agrosciences aims to increase food production in Nigeria by providing cost-effective agro-input offerings to farmers for controlling plant disease, insects and damage caused by fungus.

In line with its import substitution agenda, Agrosciences is currently building a 21 million litres capacity herbicide formulation plant in Magboro, Lagos-Ibadan Expressway, which is expected to be completed in the last quarter of 2022. Upon completion, the plant is expected to reduce the Company's reliance on imported crop protection products and result in foreign exchange savings and production cost advantages for the Company.

As at FYE 2021, Saro Agrosciences held a 40% equity interest in AgriSeedco Nigeria Limited - a joint venture with SeedCo Zimbabwe. AgriSeedco Nigeria Limited is a company involved in the research, development, breeding, production, processing, treatment, warehousing, sales and distribution of seeds and grains.

### **Additional Information**

As at 31 December 2021, Saro Agrosciences' total assets stood at ₦21.4 billion, while total liabilities and shareholders' funds were ₦12.2 billion and ₦9.2 billion respectively. In the financial year ended 31 December 2021, SAS generated revenue of ₦32.2 billion and recorded a profit after tax of ₦1.7 billion. In the same period, the Company had an average of 208 staff in its employment (2020: 179 staff).

**Table 2: Background Information as at 31 December 2021**

Authorised Share Capital:	₦250 million
Paid-up Capital:	₦250 million
Shareholders' Funds:	₦9.2 billion
Registered Office:	Plot 6-8, Block F, Off Town Planning Way, Ibadan.
Principal Business:	Import, sale & distribution of crop protection products
Auditors:	Ernst & Young

*Source: Saro Agrosciences Limited's 2021 Annual Report*



## FINANCIAL CONDITION

### ANALYSTS' COMMENTS

We have analysed the audited financial statements of Saro Agrosciences Limited ("Saro Agrosciences", "SAS" or "the Company") for the three years ended 31 December 2021.

## PROFITABILITY

Saro Agrosciences generates revenue principally from the sale of agro-inputs such as Crop Protection Products (CPP), Off Patent Protection Products (OPP), fertilizers, seeds, and farming implements. Over 94% of the company's revenue is attributed to CPPs. SAS currently serves over 10 million farmers through thousands of high-volume and low-volume farmer-facing retailers in about 900 agro-input markets.

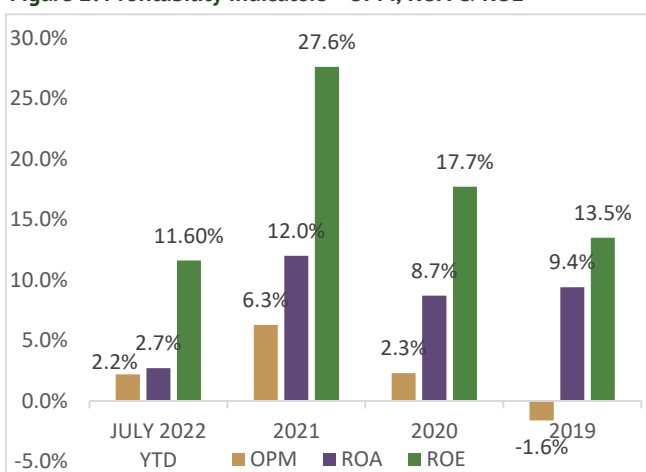
In the financial year ended 31 December 2021 (FYE 2021), Saro Agrosciences reported total revenue of ₦32.2 billion, up by 86% from the prior year. The growth in the topline performance was attributed to the 40% year-on-year growth in sales volume, the continued extension of the Company's distribution chain evidenced by the opening of five new distribution centres, an upward review of product prices, and the rebound in economic activities which were hitherto stalled by the COVID induced shocks.

SAS imports its products from Asia, thus making input costs susceptible to exchange rate fluctuations. The Company is also faced with the challenge of rising costs of locally sourced products due to higher inflationary pressures. Nonetheless, SAS mitigated these challenges by transferring cost increases to customers. Consequently, SAS' cost of sales to revenue and gross profit ratio remained largely unchanged at 76% and 24% respectively (FYE 2020: 75.6%, 24.4%). With the persisting inflation and depreciation of the domestic currency, we expect the Company's direct costs to remain pressured. However, Management expects to transfer most of its cost increases to customers.

In 2021, the Company's operating expenses as a percentage of revenue ratio improved to 17.6% (2020: 22%) due to higher growth in revenue which outstripped operating costs. As a result, SAS posted an improved operating profit margin of 6.3% in FYE 2021 (2020: 2.3%), although, this fell below our benchmark for the agro-inputs companies in Nigeria.

Saro Agrosciences' other income arising mostly from interest on short-term investments, rental income from a related party (Saro Lifecare), insurance claims and share of profit from its associate (AgriSeedco) amounted to

**Figure 2: Profitability Indicators - OPM, ROA & ROE**



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₦0.5 billion and represented 2% of revenue. In the same year, SAS finance cost-to-revenue ratio remained below 1%.

In the year under review, Saro Agrosciences' earnings before interest, tax, depreciation and amortization margin (EBITDA) remained relatively unchanged at 8.4% (FYE 2020: 8.3%) However, the Company's pre-interest pre-tax return on assets (ROA) of 12% in FYE 2021 and the three-year (2019-2021) weighted average ROA of 10.4% were below our benchmarks. SAS' pre-tax returns on equity (ROE) of 27.6% in FYE 2021 was in line with our expectation, however, the three-year (2019-2021) weighted average of 22% was below our benchmark.

Subsequent to the year-end, Saro Agrosciences' unaudited account for the seven months ended July 2022 showed revenue of ₦37.2 billion, representing 50% of the Company's projected revenue for 2022, to reflect the impact of price reviews of the Company's products. In the same period, SAS' cost of sales to revenue ratio worsened to 88.1% due to the depreciation of the Naira and the continued rise in the price of input materials. Consequently, the Company's annualized ROA and ROE dipped to 2.7% and 11.6% respectively.

Moving ahead, we believe the Company's ability to improve profit margins depends on its ability to pass on cost increases to customers amid foreign exchange volatility. Nonetheless, we recognize Saro Agrosciences' ongoing backward integration project which involves the construction of a CPP formulation plant in Magboro, Ogun State, scheduled for completion in the fourth quarter of 2022. Once operational, we expect this initiative to limit the Company's exposure to foreign exchange risks. We believe this strategy will also support volume growth and improve profitability in the near to medium term.

In our opinion, Saro Agrosciences profitability is low and requires improvement.

## **CASH FLOW**

SAS' sales are predominantly made on cash basis, although trade credits of up to 60 days are granted to a few selected out growers, commercial farms and plantations who meet the Company's credit risk assessment criteria. SAS enjoys a favourable payment window of between 120 and 150 days on unconfirmed Letters of Credit for its supplies.

In the financial year ended 2021, Saro Agrosciences' average trade creditors payment period stood at 66 days whilst the Company recorded nil outstanding trade debtor days, thus reinforcing our opinion that the Company operates an efficient cash collection strategy.

The COVID-19 pandemic, and more recently, the ongoing Russia-Ukraine war have resulted in a disruption in global supply networks. This has led to increased shipping and logistics costs and uncontrollable delays in the delivery of agri-inputs. Manufacturing and import-based businesses in Nigeria have reacted to this by holding high inventory levels as a hedge against inventory shortages and possible upward movements in price. In the FYE 2021, SAS recorded a negative operating cash flow (OCF) of ₦2.4 billion, as against the positive OCF of



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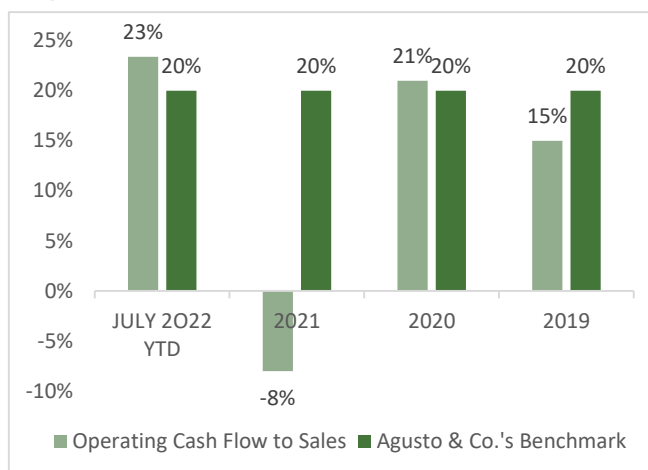
₦3.6 billion recorded in 2020. This was largely attributable to the upsurge in inventory which was premised on Management's strategic decision to front-load the ordering process as a hedge against delays and elongated lead times between ordering and delivery of inventory<sup>4</sup>. Consequently, there was no OCF to cover dividend and interest payments. However, the Company's OCF of ₦3.6 billion over the three years (2019-2021) was sufficient to cover returns to providers of finance amounting to ₦1.1 billion in the same period.

Given Saro Agrosiences' growing sales volumes and increasing scale of operations with the planned completion of its herbicide formulation plant in the near term, its widening distribution network, coupled with the favourable trade terms with its customers and suppliers, we expect a much-improved OCF in the near to medium term.

In the seven months ended 31 July 2022 (unaudited), the Company's operating cash flow improved to ₦6 billion due to the significant increase in spontaneous financing (trade and other payables) and was sufficient to pay returns to providers of financing amounting to ₦0.5 billion. The OCF to sales ratio also improved to 23% (FYE 2021: -8%) and was in line with our benchmark.

In our opinion, Saro Agrosiences' overall cash flow position requires improvement.

**Figure 3: OCF to Sales Ratio (2019 – JUL 2022 YTD)**



## LIQUIDITY PROFILE

Saro Agrosiences' liquidity position comprised cash and equivalent balances of ₦3.5 billion (2020: ₦5.8 billion) and committed unutilized credit lines of ₦9.7 billion as at FYE 2021. These credit lines relate to foreign currency letters of credit, obtained from four different merchant and commercial banks to fund the importation of agricultural input materials. As at FYE 2021, SAS utilized ₦14.2 billion out of the total available credit facilities of ₦23.9 billion.

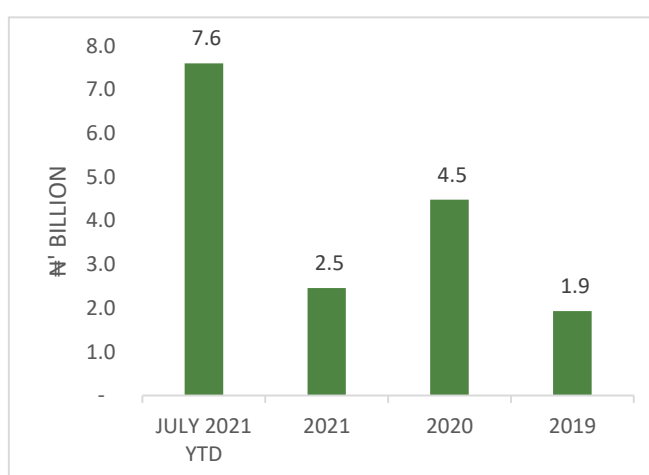
Agusto & Co. notes the Company's good credit history with its lenders, evidenced by the continuous credit lines with four financial institutions. The stock of the committed undrawn bank lines coupled with the cash and equivalents position provide adequate liquidity buffers for SAS. Hence, we consider SAS' liquidity profile to be good.

<sup>4</sup> SAS' lead time from order confirmation to clearing of shipments at the port went up from 100 days to 170 days post covid

## FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2021, SAS' working assets rose sharply to ₦16.3 billion (2020: ₦7.4 billion) due to the marked increase in the inventory levels and growth in other receivables. The major components of the Company's working assets as at FYE 2021 were inventory (82%), other receivables and prepayments (8%), foreign exchange purchased for imports (6%), and amounts due from related parties (4%).

Saro Agrosciences' spontaneous financing increased to ₦11.1 billion as at the FYE 2021 (2020: ₦6.7 billion), primarily due to the rise in trade payables on account of the increase in the level of the Company's business activities. SAS' spontaneous financing was insufficient to cover the working assets, resulting in a short-term working capital need of ₦5.1 billion as at FYE 2021. Over the years, SAS has consistently recorded working capital needs due to its growing business operations and increased inventory levels. Given Management's strategy of stocking up crop protection products as a hedge against global supply chain risks and inventory shortages, we expect this trend to continue.



As at FYE 2021, Saro Agrosciences' long-term assets declined by 13% to ₦1.7 billion, following the sale of the Company's interest in Saro Lifecare Limited to SaroAfrica International, in line with the company's restructuring and transformation to a group structure. As at the same date, SAS' long-term funds of ₦9.2 billion, wholly comprised equity, was sufficient to cover the long-term assets, resulting in available working capital of ₦7.6 billion. The Company's available working capital was adequate to cover the short-term working capital need of ₦5.1 billion, leaving an overall working capital surplus of ₦2.5 billion as at year-end 2021. In the unaudited account as at July 2022, SAS also posted an overall working capital surplus of ₦7.9 billion.

In our opinion, Saro Agrosciences' has adequate working capital for its current business operations.

## LEVERAGE

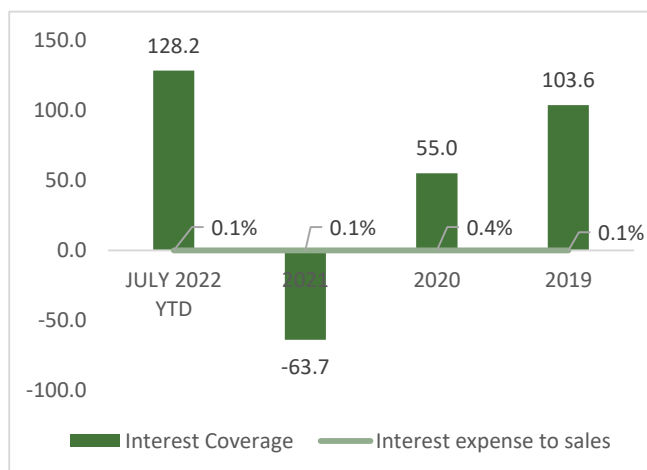
As at 31 December 2021, Saro Agrosciences had total liabilities of ₦12.2 billion, comprising low interest-bearing liabilities (8.5%) and non-interest-bearing liabilities (91.5%). About 40% of the interest-free liabilities were amounts payable to SAS' foreign suppliers. The other components of the Company's spontaneous financing included other creditors and accruals (43%), amounts due to related parties (11%) and tax payable (7%). The Company's interest-bearing liability relates to an Import Finance Facility (IFF) from a merchant bank to finance the importation of inventory during the year.

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As at the reporting date, Saro Agrosciences' total assets of ₦21.4 billion were funded by total liabilities (56.8%) and equity (43.2%), thus depicting a satisfactory equity cushion. In addition, we note positively that the bulk of the Company's liabilities were non-interest-bearing, thus providing adequate spontaneous financing for the business.

Due to the negative operating cash flow, driven by huge investments in inventory, the Company had an interest coverage ratio of -63.7x in FYE 2021, compared to its three-year (2019-2021) average ratio of 28.5x.

**Figure 5: Interest expense and Interest Cover (2019- 2022)**



SAS' finance costs as a percentage of revenue in FYE 2021 and over the past three years (2019-2021) was below 1% on account of sustained revenue growth over the period. In the same vein, the Company's interest-bearing debt (net of cash and equivalents) to equity ratio in FYE 2021 and over the past three years (2019-2021) also remained below 1%.

As at the FYE 2021, the Company's net debt (total liabilities less cash and equivalents) as a percentage of average total assets of 64% was in line with our benchmark and underlines the Company's low leverage position. In the unaudited account for the seven months ended 31 July 2022, Saro Agrosciences' interest expense to revenue and interest-bearing debt to equity ratios remained below 1% while its interest cover improved to 128.2x.

Overall, we expect some elevation in the SAS' net debt profile over the near to medium term, based on the proposed bond issuance to fund the Company's business operations and working capital needs.

In our opinion, Saro Agrosciences' leverage position is low.

## OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2021, Saro Agrosciences had an authorized share capital of ₦250 million, made up of 250 million ordinary shares at ₦1 each. During the year, the Company issued 65 million ordinary shares through a bonus issue of 2.46 shares for every 7 shares held. The bonus issue was carried out by the Company in accordance with the Corporate Affairs Commission (CAC) directive<sup>5</sup> to fully issue its unissued shares to meet

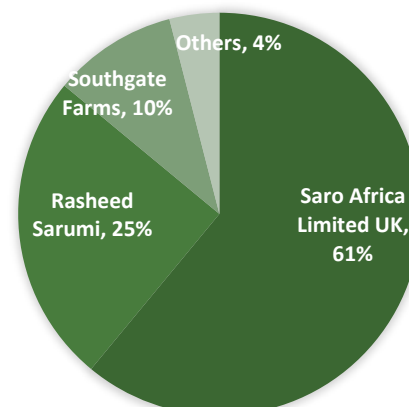
<sup>5</sup> The CAC in its publication dated April 16 2021, granted an extension period for existing companies to issue all of their unissued share capital in compliance with section 124 of the Companies and Allied Matters Act 2020 (CAMA) on or before 31<sup>st</sup> December, 2022.

up to its authorized shares. Consequently, Saro Agrosociences' issued and fully paid-up share capital matched up with its authorized share capital at ₦250 million in FYE 2021 (2020: ₦185 million).

During the 2021 financial year, Saro Agrosociences carried out a major restructuring and transformed to a group structure with the establishment of Saroafrika International Limited as the parent company of all entities in the group. Hence, Mr. Rasheed Sarumi, the founder and ultimate beneficiary of Saroafrika International Limited transferred 61% of his initial direct holding of 86% to the Saroafrika group.

As at 31 December 2021, Saro Agrosociences Limited was principally owned by Mr. Rasheed Sarumi through his direct and indirect holdings in the Company. He held a 25% direct stake in SAS but controlled up to 86% interest in the Company through his indirect holdings in Saroafrica Limited. As at the same date, Southgate Farms held a 10% interest in the Company, while retail investors accounted for the remaining 4%. In our opinion, SAS has a concentrated ownership structure.

### Figure 6: Ownership Structure



## Board Composition & Structure

SAS has a 5-member Board of Directors (“the Board”), consisting of four non-executive directors and one executive director. Mr. Monday Awulu leads the Board as Chairman, while Mr. Tunji Majekolagbe serves as the Managing Director. The Board performs its oversight functions through the Board Audit Risk and Financial Risk Committee (BARFC). This Committee is chaired by Mrs. Morohunke Bammeke, with support from the Managing Director and a Non-Executive Director. This Committee holds its meetings quarterly to deliberate on financial and audit risk-related matters as well as issues relating to the strategic direction of the Company. Overall, we believe the directors of Saro Agrosociences are drawn from diversified backgrounds with vast experience in board management.

Table 3: Board of Directors as at 31 December 2021

Name of Director	Designation
Mr. Monday Awulu	Chairman
Mr. Tunji Majekolagbe	Managing Director
Mr. Wole Adeyegbe	Non-Executive Director
Mr. Ayo Akinmade	Independent Non-Executive Independent Director
Mrs. Ronke Bammeke	Independent Non-Executive Independent Director

Source: Saro Agrosciences' 2021 Audited Financial Statement

Saro Agrosiences management team comprises the Managing Director and seven management personnel, covering various segments of the business. The members of the management team have extensive knowledge

### *Saro Agrosciences Limited*

of the country's agricultural input industry and a majority of the management personnel have been with the Company for more than a decade. In our opinion, Saro Agrosciences has a stable, qualified and experienced management team.

As at 31 December 2021, the Company had a staff strength of 208 employees (2020: 179 employees). SAS' cost per employee rose to ₦5.8 million (2020: ₦3.2 million) due to an upward review in the salary and the recruitment of some senior staff during the year. During the same year, the operating profit per employee (adjusted for staff cost) increased by 75% to ₦12 million and was sufficient to cover the average cost per employee 2.1 times, thus depicting a satisfactory staff productivity level, in our opinion.

#### **Management Team**

**Mr. Tunji Majekolagbe** is the Managing Director of Agrosciences Limited. He has vast experience, spanning several industries and has held key managerial positions in notable organizations including Johnson Products Nigeria Limited and Nigerian Bottling Company. He holds a Higher National Diploma in Accounting and a Master of Business Administration (MBA) from Lagos State University. Mr. Majekolagbe is also an alumnus of Lagos Business School and a fellow of the Institute of Chartered Accountants of Nigeria (ICAN).

**Table 4: Other Members of Saro Agrosciences Limited's Management Team**

Names	Positions
Mr. Temidayo Owoeye	Head of Marketing
Mr. Olumide Abel	Trade Channel Manager
Mr. Moses Dafiaghor	Head of Research and Development
Mrs. Abimbola Saliu	Team Lead, Supply Chain
Mrs. Jesutosin Mobolade	Head of Accounts
Mr. Bunmi Olafisoye	Audit Risk, Compliance and Governance Partner
Mr. Felix John	Business Farmer Channel Manager

*Source: Management Presentation*

## OUTLOOK

The distortion in global supply networks occasioned by the pandemic and the Russia-Ukraine war as well as the foreign exchange challenges in Nigeria have had attendant impacts on the agri-inputs industry. Notwithstanding, SAS remained resilient amid the global supply chain disruptions due to its strategic alliances with its partners in India and China. The Company has maintained a compound annual growth rate (CAGR) of 23.7% in revenue over the last three years, which is above the average inflation rate of 13.9% over the same period. However, SAS' profit margins have remained low due to rising input costs on account of the persistent devaluation of the Naira.

Saro Agrosciences intends to reduce its exposure to foreign exchange risks and cushion the effect of low margins through its import substitution strategy. This involves the building of a herbicide formulation plant with a capacity of 21 million litres per annum, projected to be completed in the fourth quarter of 2022. Management believes once the plant becomes operational, it will result in cost savings of ₦276 per litre and a reduction of \$21.1 million in the foreign exchange requirements of the Company. We anticipate SAS' backward integration strategy will lessen its dependence on imported products and result in margin growth over the medium to long term. Augusto & Co notes the recent flooding in the country which has affected 31 states and resulted in erosion and destruction to crops and farmlands. Hence, we expect this to negatively impact the demand for SAS' products in the near term. However, we reckon that the impact will be short-lived and agricultural activities will pick up after the flood waters recede and the dry season sets in. Thus, we expect the Company's revenue to be sustained in the medium term by the growing demand of food crops for domestic and industrial consumption.

SAS serves over 10 million farmers with plans to reach 20 million farmers by 2025. The Company also plans to deepen its market presence by expanding its distribution network with the opening of new warehouses across the country. Saro Agrosciences has a long-term plan to be a net exporter of agri-inputs in West Africa. We believe this will position the Company to take advantage of the opportunities presented by the African Continental Free Trade Area (AfCFTA) to grow its business through exports to neighbouring countries, thereby providing foreign currency earnings for the Company. To stay ahead of unprecedented weather changes, SAS is in strategic partnerships with Nigerian Meteorological Agency (NIMET) and some private organizations which provide seasonal climate and weather predictions and outlooks on various climate variables.

Based on its strong brand acceptance and diversified product offerings, coupled with the favourable terms of trade it enjoys with customers and suppliers, we expect Saro Agrosciences' cash flow position to be good in the near to medium term. We expect SAS's debt profile to inch up based on the Company's plan to inject new debt capital (bonds) into its financing structure. Nonetheless, we believe this will further improve its long-term funding position and overall working capital. We also believe the parental support from SaroAfrica International Limited will be sustained over the short to medium term.

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



## FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Jul-2022 (Unaudited)		31-Dec-21		31-Dec-2020		31-Dec-2019	
	₦'million		₦'million		₦'million		₦'million	
<b>ASSETS</b>								
IDLE CASH	8,737.38	20.9%	3,090.40	14.4%	5,074.27	33.6%	1,069.16	10.9%
MARKETABLE SECURITIES & TIME DEPOSITS	-		405.27	1.9%	691.68	4.6%	1,269.23	13.0%
<b>CASH &amp; EQUIVALENTS</b>	<b>8,737.38</b>	<b>20.9%</b>	<b>3,495.67</b>	<b>16.3%</b>	<b>5,765.96</b>	<b>38.1%</b>	<b>2,338.39</b>	<b>23.9%</b>
FX PURCHASED FOR IMPORTS	-		993.04	4.6%	447.58	3.0%	428.39	4.4%
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	180.15	0.4%	24.66	0.1%	570.18	3.8%	0.67	0.0%
STOCKS	27,795.52	66.4%	13,358.61	62.4%	6,253.00	41.3%	4,548.70	46.6%
TRADE DEBTORS	397.52	0.9%	19.37	0.1%	57.84	0.4%	414.05	4.2%
DUE FROM RELATED PARTIES	-		608.76	2.8%	30.57	0.2%	89.17	0.9%
OTHER DEBTORS & PREPAYMENTS	1,864.23	4.5%	1,252.75	5.8%	77.33	0.5%	184.44	1.9%
<b>TOTAL TRADING ASSETS</b>	<b>30,237.41</b>	<b>72.3%</b>	<b>16,257.18</b>	<b>75.9%</b>	<b>7,436.50</b>	<b>49.2%</b>	<b>5,665.42</b>	<b>58.0%</b>
INVESTMENT PROPERTIES	-		-		-		-	
OTHER NON-CURRENT INVESTMENTS	371.87	0.9%	396.99	1.9%	826.72	5.5%	621.50	6.4%
PROPERTY, PLANT & EQUIPMENT	2,500.33	6.0%	994.11	4.6%	1,031.55	6.8%	999.45	10.2%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	-		275.45	1.3%	62.62	0.4%	145.00	1.5%
<b>TOTAL LONG-TERM ASSETS</b>	<b>2,872.20</b>	<b>6.9%</b>	<b>1,666.55</b>	<b>7.8%</b>	<b>1,920.89</b>	<b>12.7%</b>	<b>1,765.95</b>	<b>18.1%</b>
<b>TOTAL ASSETS</b>	<b>41,846.99</b>	<b>100.0%</b>	<b>21,419.40</b>	<b>100.0%</b>	<b>15,123.35</b>	<b>100.0%</b>	<b>9,769.75</b>	<b>100.0%</b>
<i>Growth</i>	<i>95.4%</i>		<i>41.6%</i>		<i>54.8%</i>		<i>10.2%</i>	<i>95.4%</i>
<b>LIABILITIES &amp; EQUITY</b>								
SHORT TERM BORROWINGS	868.73	2.1%	1,030.72	4.8%	1,283.45	8.5%	-	
CURRENT PORTION OF LONG-TERM BORROWINGS	-		-		-		405.00	4.1%
LONG-TERM BORROWINGS	-		-		-		395.01	4.0%
<b>TOTAL INTEREST-BEARING LIABILITIES (TIBL)</b>	<b>868.73</b>	<b>2.1%</b>	<b>1,030.72</b>	<b>4.8%</b>	<b>1,283.45</b>	<b>8.5%</b>	<b>800.01</b>	<b>8.2%</b>
TRADE CREDITORS	24,638.94	58.9%	4,406.61	20.6%	0.74	0.0%	135.22	1.4%
DUE TO RELATED PARTIES	16.24	0.0%	1,170.15	5.5%	1,856.21	12.3%	272.81	2.8%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-		14.78	0.2%
OTHER CREDITORS AND ACCRUALS	7,036.34	16.8%	4,749.22	22.2%	4,435.85	29.3%	1,474.12	15.1%
TAXATION PAYABLE	70.76	0.2%	811.43	3.8%	376.15	2.5%	445.50	4.6%
DIVIDEND PAYABLE	-		5.21	0.0%	34.11	0.2%	3.32	0.0%
<b>TOTAL NON-INTEREST-BEARING LIABILITIES</b>	<b>31,762.27</b>	<b>75.9%</b>	<b>11,142.62</b>	<b>52.0%</b>	<b>6,703.07</b>	<b>44.3%</b>	<b>2,345.74</b>	<b>24.0%</b>
<b>TOTAL LIABILITIES</b>	<b>32,631.00</b>	<b>78.0%</b>	<b>12,173.34</b>	<b>56.8%</b>	<b>7,986.52</b>	<b>52.8%</b>	<b>3,145.74</b>	<b>32.2%</b>
SHARE CAPITAL	250.00	0.6%	250.00	1.2%	185.00	1.2%	185.00	1.9%
SHARE PREMIUM	3,465.00	8.3%	3,465.00	16.2%	3,530.00	23.3%	3,530.00	36.1%
DEPOSIT FOR SHARES	801.42		801.42		-		-	
REVALUATION SURPLUS	179.28	0.4%	179.28	0.8%	179.28	1.2%	179.28	1.8%
REVENUE RESERVE	4,520.30	10.8%	4,550.36	21.2%	3,242.55	21.4%	2,729.73	27.9%
<b>SHAREHOLDERS' EQUITY</b>	<b>9,215.99</b>	<b>20.1%</b>	<b>9,246.06</b>	<b>39.4%</b>	<b>7,136.83</b>	<b>47.2%</b>	<b>6,624.01</b>	<b>67.8%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>41,846.99</b>	<b>98.1%</b>	<b>21,419.40</b>	<b>96.3%</b>	<b>15,123.35</b>	<b>100.0%</b>	<b>9,769.75</b>	<b>100.0%</b>

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<b>STATEMENT OF COMPREHENSIVE INCOME</b>	<b>31-Jul-2022 (Unaudited)</b>		<b>31-Dec-21</b>		<b>31-Dec-20</b>		<b>31-Dec-19</b>	
	<b>₦'million</b>		<b>₦'million</b>		<b>₦'million</b>		<b>₦'million</b>	
TURNOVER	37,159.00	100.0%	32,225.53	100.0%	17,282.79	100.0%	17,039.93	100.0%
COST OF SALES	(32,743.00)	-88.1%	(24,501.51)	-76.0%	(13,072.40)	-75.6%	(15,146.97)	-88.9%
<b>GROSS PROFIT</b>	<b>4,416.00</b>	<b>11.9%</b>	<b>7,724.03</b>	<b>24.0%</b>	<b>4,210.39</b>	<b>24.4%</b>	<b>1,892.95</b>	<b>11.1%</b>
OTHER OPERATING EXPENSES	(3,929.00)	-10.6%	(5,683.72)	-17.6%	(3,806.04)	-22.0%	(2,172.13)	-12.7%
OPERATING PROFIT	487.00	1.3%	2,040.31	6.3%	404.35	2.3%	(279.18)	-1.6%
OTHER INCOME/(EXPENSES)	170.00	0.5%	502.28	1.6%	889.37	5.1%	1,175.94	6.9%
<b>PROFIT BEFORE INTEREST &amp; TAXATION</b>	<b>657.00</b>	<b>1.8%</b>	<b>2,542.58</b>	<b>7.9%</b>	<b>1,293.72</b>	<b>7.5%</b>	<b>896.76</b>	<b>5.3%</b>
INTEREST EXPENSE	(47.00)	-0.1%	(38.25)	-0.1%	(64.68)	-0.4%	(24.08)	-0.1%
<b>PROFIT BEFORE TAXATION</b>	<b>610.00</b>	<b>1.6%</b>	<b>2,504.34</b>	<b>7.8%</b>	<b>1,229.04</b>	<b>7.1%</b>	<b>872.68</b>	<b>5.1%</b>
TAX (EXPENSE) BENEFIT	(195.00)	-0.5%	(794.57)	-2.5%	(425.15)	-2.5%	(290.53)	-1.7%
<b>PROFIT AFTER TAXATION</b>	<b>415.00</b>	<b>1.1%</b>	<b>1,709.76</b>	<b>5.3%</b>	<b>803.89</b>	<b>4.7%</b>	<b>582.15</b>	<b>3.4%</b>
NON-RECURRING ITEMS (NET OF TAX)	-		-		-		-	
MINORITY INTERESTS IN GROUP PAT	-		-		-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	415.00	1.1%	1,709.76	5.3%	803.89	4.7%	582.15	3.4%
DIVIDEND	(401.95)	-1.1%	(401.95)	-1.2%	(291.08)	-1.7%	(276.99)	-1.6%
<b>PROFIT RETAINED FOR THE YEAR</b>	<b>13.05</b>	<b>0.0%</b>	<b>1,307.82</b>	<b>4.1%</b>	<b>512.82</b>	<b>3.0%</b>	<b>305.16</b>	<b>1.8%</b>
SCRIP ISSUES	-		-		-		-	
OTHER APPROPRIATIONS/ADJUSTMENTS	(43.12)	-	-	-	-	-	-	-
PROFIT RETAINED B/FWD	4,550.36		3,242.55		2,729.73		2,424.57	
PROFIT RETAINED C/FWD	4,520.30		4,550.36		3,242.55		2,729.73	
<b>ADDITIONAL INFORMATION</b>	<b>31-Jul-22 YTD</b>		<b>31-Dec-21</b>		<b>31-Dec-20</b>		<b>31-Dec-19</b>	
Staff costs (₦'000)	705.70		1,209.78		575.88		455.07	
Average number of staff	208		208		179		175	
Staff costs per employee (₦'000)	3		6		3		3	
Staff costs/Turnover	1.9%		3.8%		3.3%		2.7%	
Capital expenditure (₦'000)	470.38		129.65		165.28		43.38	
Depreciation expense - current year (₦'000)	103.02		167.08		133.17		126.90	
(Profit)/Loss on sale of assets (₦'000)	-		-		-		-	
Number of 50 kobo shares in issue at year end ('000)	500		500		370		370	
Market value per share of 50 kobo (year-end)	100		100		100		100	
Market capitalization (₦'000)	500		500		370		370	
Market/Book value multiple	0		0		0		0	
Average age of depreciable assets (years)	9		10		10		9	
<b>Auditors</b>	<b>N/A</b>		<b>ERNST &amp; YOUNG</b>		<b>ERNST &amp; YOUNG</b>		<b>ERNST &amp; YOUNG</b>	
<b>Opinion</b>	<b>N/A</b>		<b>CLEAN</b>		<b>CLEAN</b>		<b>CLEAN</b>	

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<b>CASH FLOW STATEMENT FOR YEAR ENDED</b>	<b>31-Jul-22 (Unaudited)</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
	<b>₦'million</b>	<b>₦'million</b>	<b>₦'million</b>	<b>₦'million</b>
<b>OPERATING ACTIVITIES</b>				
Profit after tax	415	1,710	804	582
<b>ADJUSTMENTS</b>				
Interest expense	47	38	65	24
Depreciation	103	167	133	127
(Profit)/Loss on sale of assets	-	-	-	-
Other non-cash items	1,182	-	-	-
Potential operating cash flow	<b>(617)</b>	<b>1,915</b>	<b>1,002</b>	<b>733</b>
<b>INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:</b>				
Trade creditors	20,232	4,406	(134)	(104)
Due to related parties	(1,154)	(686)	1,583	273
Advance payments and deposits from customers	-	-	(15)	15
Other creditors & accruals	2,287	313	2,962	1,474
Taxation payable	(741)	435	(69)	(659)
<b>Cash from (used by) spontaneous financing</b>	<b>20,625</b>	<b>4,468</b>	<b>4,327</b>	<b>999</b>
<b>(INCREASE)/DECREASE IN WORKING ASSETS:</b>				
FX purchased for imports	993	(545)	(19)	72
Advance payments and deposits to suppliers	(155)	546	(570)	486
Stocks	(14,437)	(7,106)	(1,704)	225
Trade debtors	(378)	38	356	(269)
Due from related parties	609	(578)	59	(89)
Other debtors & prepayments	(611)	(1,175)	107	337
<b>Cash from (used by) working assets</b>	<b>(13,980)</b>	<b>(8,821)</b>	<b>(1,771)</b>	<b>761</b>
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>6,028</b>	<b>(2,437)</b>	<b>3,557</b>	<b>2,494</b>
<b>RETURNS TO PROVIDERS OF FINANCING</b>				
Interest paid	(47)	(38)	(65)	(24)
Dividend paid	(407)	(431)	(260)	(274)
<b>CASH USED IN PROVIDING RETURNS ON FINANCING</b>	<b>(454)</b>	<b>(469)</b>	<b>(325)</b>	<b>(298)</b>
<b>OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING</b>	<b>5,573</b>	<b>(2,906)</b>	<b>3,232</b>	<b>2,196</b>
<b>NON-RECURRING ACTIVITIES</b>				
Non-recurring items (net of tax)	-	-	-	-
<b>CASH FROM (USED IN) NON-RECURRING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>				
Capital expenditure	(470)	(130)	(165)	(43)
Sale of assets	-	-	-	-
Purchase of other long-term assets (net)	-	-	(123)	(667)
Sale of other long-term assets (net)	301	217	-	-
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(170)</b>	<b>87</b>	<b>(288)</b>	<b>(710)</b>
<b>FINANCING ACTIVITIES</b>				
Increase/(Decrease) in short term borrowings	(162)	(253)	1,283	-
Increase/(Decrease) in long term borrowings	-	-	(800)	(400)

*Saro Agrosciences Limited*

Proceeds of shares issued	-	801	-	-
<b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(162)</b>	<b>549</b>	<b>483</b>	<b>(400)</b>
CHANGE IN CASH INC/(DEC)	5,242	(2,270)	3,428	1,086
OPENING CASH & MARKETABLE SECURITIES	3,496	5,766	2,338	1,253
<b>CLOSING CASH &amp; MARKETABLE SECURITIES</b>	<b>8,737</b>	<b>3,496</b>	<b>5,766</b>	<b>2,338</b>

<u>SUMMARY OF KEY RATIOS</u>	31-Jul-22 (Unaudited)	31-Dec-21	31-Dec-20	31-Dec-19
<b><u>PROFITABILITY</u></b>				
PBT as % of turnover	2%	8%	7%	5%
Return on equity	14%	28%	18%	14%
Real sales growth	15%	61%	-9%	-6%
Sales growth	15%	86%	1%	5%
ROA (pre-tax)	3%	12%	9%	9%
<b><u>CASH FLOW</u></b>				
Interest cover (times)	128.2	(63.7)	55	103.6
Principal payback (years)	0.2	-	0.4	0.4
EBITDA Margin	2.0%	8.4%	8.3%	6.0%
<b><u>WORKING CAPITAL</u></b>				
Working capital need (days)	-	58	15	71
Working capital deficiency (days)	-	-	-	-
<b><u>LEVERAGE</u></b>				
Interest-bearing debt to Equity	9%	11%	18%	12%
Total debt to Equity	354%	132%	112%	47%
IBD net of cash and Equiv. as a % of Equity without rev.	0%	0%	0%	0%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	94%	64%	27%	11%

## RATING DEFINITIONS

<b>Aaa</b>	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.
<b>Aa</b>	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.
<b>A</b>	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
<b>Bbb</b>	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
<b>Bb</b>	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>B</b>	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
<b>C</b>	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
<b>D</b>	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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