

# SARO LIFECARE LIMITED

## 2024 Corporate Rating Review Report



# SARO LIFECARE LIMITED

## Issuer Rating:

**A-**

*A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.*

**Outlook:** Stable

**Issue Date:** 21 August 2024

**Expiry Date:** 30 June 2025

**Previous Rating:** Bbb+

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

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## RATING RATIONALE

- Agusto & Co. hereby upgrades the rating assigned to Saro Lifecare Limited ("Saro Lifecare", "SLC" or "the Company") to "A-". The rating upgrade reflects the notable improvement in the Company's profitability and cash flow positions on account of the efficiency in its raw material procurement and agile product pricing that has somewhat shielded its earnings from the economic headwinds of rising inflation and persistent currency devaluation. The rating also considers SLC's low leverage and its expanding aerosol manufacturing capacity, which should sustain its market leadership status in the in-home pest control segment of the Nigerian consumer goods market. We also believe that the increased local production and raw material sourcing will help to build additional resilience against price and supply chain risks associated with imported items. The rating is however constrained by high inventory investments, which have continued to weigh on the Company's working capital management. This is in addition to concerns over SLC's ability to sustain its sales volume and cost pass-through pricing strategy considering the low consumer spending on non-essential items and the intense price competition across its product range.
- Saro Lifecare Limited, an indigenous player in the consumer goods market in Nigeria, specialises in the manufacturing and marketing of in-home pest control and personal care products under six brands – Sniper, Nopest, Purit, Carat, Safecut and Diva's Secret. The Company is a member of the SaroAfrica International Limited ("Saro Group" or "the Group"), a diversified corporation with business interests in crop protection, agro-processing, ethanol and personal care goods industries. SLC sells its products through an extensive wholesale and retail networks that include hypermarkets, supermarkets and grocery stores. The Company also leverages Saro Group's existing (crop protection) supply channels to reach farmers in remote locations. In line with its import substitution strategy, the Company commenced the local production of its insecticides and effectively discontinued the importation of finished aerosol products, following the commissioning of its aerosol factory in the second quarter of 2023.
- In the financial year ended 31 December 2023 (FYE 2023), SLC's revenue grew by 20.5% to ₦13.4 billion to reflect the favourable product mix and the upward price adjustments during the year. The Company's gross and operating profit margins improved markedly to 49.6% and

### *Saro Lifecare Limited*

13.9%, respectively in FYE 2023 (2022: 35% and 4.1%) to underline the positive impact of its hedging strategy (forward buying of critical inputs). Buoyed by other incomes mostly from write-back of provisions no longer required, Saro Lifecare posted a higher pre-tax profit margin of 17.1% in FYE 2023 compared to the previous year's ratio of 12.7%. Overall, SLC's return on asset (ROA) and return on equity (ROE) ratios inched up to 14% and 37% respectively, in FYE 2023 (2022: 13.6% and 27.4%) to reflect the higher profit levels during the year.

- In the six months ended 30 June 2024 (unaudited), Saro Lifecare posted revenue of ₦7.5 billion, which represented about a third of its revenue forecast for the year, which was consistent with the cyclical nature of demand for its insecticides. The Company's pre-tax profit margins moderated to 9.3% to reflect the time lag between the rapid depreciation of the naira and the price adjustments implemented during the period. Therefore, SLC's annualised ROA and ROE ratios fell to 8.8% and 14% respectively. As the Company continues to adapt its product pricing to sufficiently offset rising input and operating costs, we anticipate a quick rebound in its profitability metrics.
- SLC's operating cash flow (OCF) rebounded to ₦4 billion in FYE 2023 (2022: -₦2.7 million) to reflect the much-improved earnings and better working capital management during the year. The OCF in FYE 2023, which represented 29.9% of the revenue for the year, was sufficient to cover maturing debt obligations and dividend payments to shareholders. With the expected upsurge in the demand for its products in the second half of the year (its peak period), we anticipate better earnings and operating cash flows in FYE 2024. In our opinion, Saro Lifecare Limited's operating cash flow is good and sustainable.
- As at FYE 2023, SLC posted an overall working capital surplus of ₦1.4 billion to underscore the enhanced equity buffer amid higher profit accretion and the funding support from Saro Group during the period. However, we expect the additional funding pressure from the inflation and devaluation-induced higher purchase price for both locally sourced and imported raw materials to continue to weigh on the Company's overall short-term funding.
- As at FYE 2023, the Company's total liabilities rose sharply by 93% to ₦10.1 billion after it raised new short-term loans during the year to support its working capital needs. Notwithstanding, SLC's net debt (total debt less cash & cash equivalent) to EBITDA ratio of 2.2x and net interest-bearing debt (excluding cash & cash equivalent) to equity ratio of -22.5% as at FYE 2023 underline its low leverage position.
- Saro Lifecare intends to deepen its market presence with increased local manufacturing and expansion of its distribution channels. Through a mix of price increases and the modification of its product portfolios to match the everchanging consumer buying behaviour, management intends to continue to pass on cost increases whilst sustaining volume growth. Despite the strain on consumer spending, we expect Nigeria's large population and the high incidence of malaria and other diseases caused by household pests and rodents to continue to drive the demand for insecticides and other personal care products. Based on the above, we hereby attach a **stable** outlook to Saro Lifecare Limited.

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

<b>Strengths</b> <ul style="list-style-type: none"> <li>• Low leverage</li> <li>• Good operating cash flow underpinned by earnings growth and favourable terms of trade with customers</li> <li>• A leading player in the in-home pest control market</li> <li>• Good brand equity and awareness</li> <li>• Strong parental support from the Saroafrica Group.</li> <li>• Stable and experienced management team</li> </ul>
<b>Weakness</b> <ul style="list-style-type: none"> <li>• Concentrated ownership structure</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Nigeria's expansive consumer market buoyed by the burgeoning population</li> <li>• Export potentials to other countries within the African continent</li> <li>• Increasing awareness regarding hygiene and personal well-being</li> </ul>
<b>Challenges</b> <ul style="list-style-type: none"> <li>• Diminishing consumer purchasing power</li> <li>• Adverse impact of currency devaluation and forex shortages on prices of imported products</li> <li>• Spiralling cost of sales due to rising inflationary and exchange rates</li> <li>• Intense rivalry from imported insecticides and skin care products</li> <li>• Decrepit national infrastructure - inadequate power supply and poor road network</li> </ul>

## PROFILE OF SARO LIFECARE LIMITED

Saro Lifecare Limited ("Saro Lifecare", "SLC" or "the Company") is an indigenous player in the Nigerian fast-moving consumer goods (FMCG) sector. The Company's primary activities involve the manufacturing and marketing of in-home pest control and personal care products. SLC is a member of Saroafrica International Limited ("Saro Group" or "the Group"), a diversified company with business interests in agro-processing, ethanol, crop protection and consumer goods industries.

SLC was incorporated on 16 October 2007 as a private limited liability company after acquiring the personal and home care division of Chemicals and Allied Plc (CAP Plc). In 2018, SLC absorbed the in-home pest control division of Saro Agrosiences Limited (a member of the Saro Group), thereby gaining ownership of the Sniper brand. Since then, the Company has successfully introduced different variants of the Sniper insecticides, including dichlorvos (also known as DDVP or liquid insecticide), aerosol spray, gel and solid formulations. The Company also 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.

In February 2023, SLC expanded its product offerings by introducing the Diva's Secret (soap) brand, marking its entry into the beauty product segment. The Company currently sells bath soaps under Diva's Secret label and plans to expand its beauty product offerings to align with evolving customer preferences. Saro Lifecare markets its products under six brands, namely Sniper and Nopest in the in-home pest control category, as well as Purit, Carat, Safecut and Diva's Secret in the personal care segment. The Company has a strong market presence throughout Nigeria, facilitated by an extensive network of over 10,000 distributors, wholesalers and retailers, which include hypermarkets, supermarkets and grocery stores. In addition, SLC capitalises on Saro Group's crop protection distribution channels to effectively sell its Sniper and Nopest DDVP products to farmers in rural areas. This strategic collaboration within the Group bolsters SLC's market reach and distribution capabilities.

Saro Lifecare Limited procures 70% of the primary raw materials<sup>1</sup> for its personal care products from the international markets (mainly China), while the remaining 30% is sourced locally. With the launch of its aerosol manufacturing factory in Q2'2023, the Company has transitioned to sourcing over 90% of the essential inputs for its in-home pest control products from local suppliers, thus minimising its exposure to external shocks.

Saro Lifecare Limited prioritises health, safety, quality and environmental protection (HSEQ) in line with international best practices. The Company ensures its products adhere to the certification requirements of the National Agency for Food and Drug Administration and Control (NAFDAC), the Standards Organisation of Nigeria (SON) and other relevant regulatory agencies, thus demonstrating its compliance with hygiene and health standards.

In response to NAFDAC's ban on the sale of DDVP formulation in the 100 ml pack size due to cases of abuse and misuse, as well as the possibility of further regulatory actions affecting other pack sizes (200 ml, 250 ml,

<sup>1</sup> These include cetrimide, chlorohexidine, isolsopropyl alcohol, benzyl benzoate and aromatic pine oil used in the production of antiseptics, handwashes and other personal care products.

### Saro Lifecare Limited

500 ml, and 1 litre), management has decided to gradually phase out its Sniper DDVP products. The Company has formulated two DDVP 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 have been successfully registered with NAFDAC, will be sold as liquid insecticides. SLC intends to commence the commercial production and marketing of the DDVP replacement products in the last quarter of 2024.

**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
	Diva's Secret	Diva's Secret Beauty Soap (Strawberry and Papaya)
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

## OWNERSHIP, GOVERNANCE, MANAGEMENT & STAFF

As at 31 December 2023, Saro Lifecare Limited's authorised, issued and fully paid-up share capital stood at ₦50 million, comprising 50 million units of ordinary shares of ₦1 each. Saroafrica Limited UK, the parent company of entities within the Saro Group, holds a 74.97% stake in the Company, while the remaining shares are directly owned by Mr. Rasheed Sarumi, the founder and the ultimate beneficiary of Saroafrica Limited UK, thus depicting a concentrated ownership structure.

Saro Lifecare has a five-member Board of Directors ("the Board") comprising four non-executive directors (including three independent directors) and an executive director. Mr. Abdul Bello leads the Board as the Chairman, while Mrs. Gbemileke Otun is the Managing Director. There was no alteration to the composition of the Board of Saro Lifecare Limited in the review period. The Board operates through the Audit, Risk and Finance Committee, which meets every quarter. We believe that the directors have vast experience in board management.

**Table 2: Saro Lifecare Limited's Current Directors**

Name	Designation
Mr. Abdul Bello	Chairman
Mrs. Gbemileke Otun	Managing Director
Mrs. Kike Kuponiya	Independent Director
Mrs. Iquo Ukoh	Independent Director
Dr. Solomon Aigbavboa	Independent Director

Source: Saro Lifecare Limited's 2023 Annual Report and Management Presentation

SLC's management team consists of the Managing Director and six senior management professionals covering sales, production, finance, human resources and operations. The members of the management team possess over a decade of relevant industry experience on average. We consider the management team to be adequately qualified and experienced.

## MANAGEMENT TEAM

**Mrs. Gbemileke Otun** is the Managing Director of Saro Lifecare Limited. Mrs. Otun has over ten years of experience in the consumer goods industry. Before assuming her current role, Mrs. Otun held various senior management positions at Gossy Warm Springs Limited, Saro Lifecare Limited and Saro Home and Garden. She has also worked with a leading multinational consumer products company, where she gained expertise in brand management, marketing, sales and distribution, corporate relations and communications. Mrs. Otun 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. She has also attended several local and international training courses, including the Harvard Business School's Strategic Marketing Management Programme.

**Table 3: Other Members of Saro Lifecare's Management Team**

Name	Position
Mr. Ifeoluwa Alomoge	Head, In-Home Pest Division
Mr. Francis Nwandu	Head, Accounts
Mr. Victor Oyedokun	Head, Production
Ms. Ibukun Wey	Head, Innovation & Commercialization
Mr. Adebayo Ogunjobi	Head, Liquid Insecticide Division
Mrs. Benedicta Enodiana	Human Resources Business Partner

Source: Saro Lifecare Limited's Management Presentation

As at 31 December 2023, Saro Lifecare's staff strength stood at 58 employees (2022: 52 employees), while its average cost per employee in the same year increased by 26.4% to ₦10 million to reflect the upward review of employee compensation during the year. SLC's average contribution per employee (measured as pre-tax profit adjusted for staff cost) rose sharply to ₦53.9 million in FYE 2023 (2022: ₦35 million) on the back of the improved earnings during the period. The contribution per staff was more than sufficient to cover the average cost per employee 5.4x, thus depicting a good staff productivity level.

## 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 2023 and its management accounts for the six months ended 30 June 2024.

## PROFITABILITY

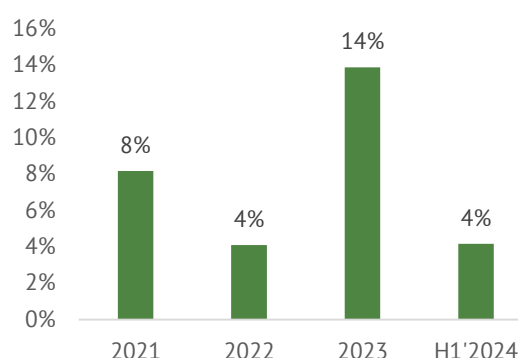
Saro Lifecare Limited generates revenue from the production and marketing of its in-home pest control (including liquid insecticide) and personal care products under its Sniper, Nopest, Purit, Carat, Safecut and Diva's Secret brands. These products are sold through an extensive distribution network of wholesalers and retailers that include hypermarkets, supermarkets and grocery stores. In addition to these direct sales networks, SLC also distributes its products indirectly to consumers (especially in hard-to-reach areas) by leveraging the sales channels of its sister company, Saro Agrosiences Limited. In return, Saro Agrosiences receives a sales commission of 6% on all personal and home care products and 12% on DDVP products. Revenue under this indirect arrangement is deferred<sup>2</sup> until the products are sold to final consumers.

The increasing strain on disposable incomes caused by the rising food and energy prices has continued to alter households' spending patterns in favour of foods and other highly essential commodities. In addition to the constrained demand, makers of in-home pest control have had to contend with industry-wide challenges of rising input costs caused by supply chain disruptions and macroeconomic headwinds of higher inflation and foreign exchange rates. Saro Lifecare Limited has maintained a market-based pricing strategy to support volume growth and protect its market share.

In the financial year ended 31 December 2023 (FYE 2023), Saro Lifecare's revenue grew by 20.5% year-on-year to ₦13.4 billion 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 88.6%, while the rest were contributions from the personal care division. Based on its growing distribution network and competitive pricing, management expects revenue to maintain an upward trajectory in FYE 2024. However, SLC's future revenue could be adversely affected by the country's worsening macroeconomic indicators.

The Company procures the bulk of the raw materials needed to meet its production need for any particular year at the beginning of such year, thus minimising price and foreign exchange risks. However, additional purchases are made during the year to augment existing stock. Based on this hedging and other cost optimisation strategies, Saro Lifecare's cost of sales to revenue ratio improved markedly to 50.4% in FYE 2023 (2022: 65%), thus resulting in a gross profit margin of 49.6%, which was higher than previous year's ratio of 35%. However, SLC's operating expenses to revenue ratio increased to

Figure 2: Operating Profit Margin (2021 – H1'2024)



<sup>2</sup> As at FYE 2023, the net of deferred income and deferred cost with respect to sales made on behalf of the Company by Saro Agrosiences Limited stood at ₦7.2 million (2022: ₦115.7 million).

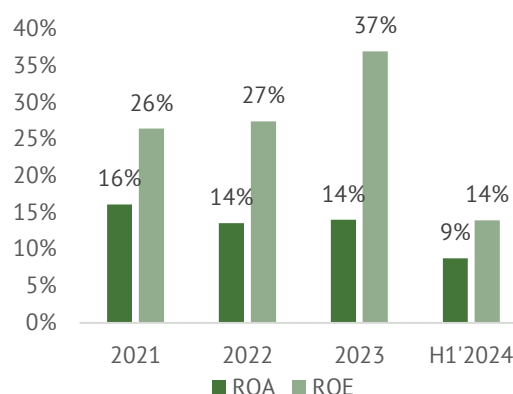
*Saro Lifecare Limited*

35.7% in FYE 2023 (2022: 30.9%) to reflect the sharp rise in special payouts to the Promoter<sup>3</sup> and profit sharing/staff bonuses, which are based on business performance for the year. Overall, the Company posted a higher operating profit margin of 13.9% in FYE 2023, which was thrice the ratio in 2022. Also, Saro Lifecare's EBITDA margin in the same period increased to 18.1% compared to the previous year's ratio of 13.5%. Management expects the forward purchase of critical raw materials to somewhat minimise volatility in its input costs, thus resulting in improved operating profit and EBITDA margins.

In FYE 2023, Saro Lifecare's other income arising mainly from write-back of provisions no longer required, interest on fixed deposits and other miscellaneous income stood at ₦0.4 billion and represented 3.2% of the revenue for the year. Unlike many local manufacturers in Nigeria, Saro Lifecare posted a zero foreign exchange loss in the review period to reflect the positive impact of its hedging strategy. Also, SLC recorded a nil interest expense in FYE 2023 as the Commercial Paper (CP) Notes raised during the year were treated as discounted instruments. The difference between the face and discount value of these CP Notes stood at ₦72.4 million, translating (hypothetically) to a finance cost to revenue ratio of 0.5%, which was still way below our 5% threshold. Overall, the Company reported a pre-tax profit margin of 17.1% in FYE 2023, which was over 400 basis points higher than the previous year's margin.

SLC's return on average assets (ROA) and return on equity (ROE) ratios increased to 14% and 37% respectively in FYE 2023 (2022: 13.6% and 27.4%), and were in line with our benchmarks for the industry. The Company's three-year (2021 – 2023) weighted average ROA and ROE ratios of 14.2% and 32% respectively, further highlight the relative stability in its profitability levels despite input cost pressures and the price elasticity of demand for its products.

**Figure 3: ROA & ROE (2021 – H1'2024)**



Saro Lifecare's unaudited accounts for the six months ended 30 June 2024 showed revenue of ₦7.5 billion, which represented about a third of the revenue forecast for the year. The Company's pre-tax profit margins fell to 9.3% to reflect the time lag between the rapid depreciation of the naira and the price adjustments implemented during the period. Therefore, Saro Lifecare's annualised ROA and ROE ratios moderated to 8.8% and 14% respectively. Looking ahead, management expects a rebound in the Company's profitability metrics as it continues to adapt its product pricing to sufficiently offset rising input and operating costs. Also, we expect the increased operational efficiency from the local sourcing of critical inputs to have some positive impact on the Company's overall costs and profit margins.

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

<sup>3</sup> These include intellectual property payable at 5% of EBITDA, management fee payable at 2.5% of revenue and Promoter's salary, which is based on business performance and measured by the Company's profit before tax

## CASH FLOW

Saro Lifecare Limited generates cash from selling in-home pest control and personal care products to customers across Nigeria. The Company's sales are predominantly on a cash or prepayment basis, although hypermarkets are granted trade credit of up to 30 days. The pre-approved credit limits are based on their volume sales and past credit history. SLC also offers similar credit terms to its sister company, Saro Agrosiences, for products distributed on its behalf under the subsisting indirect sales arrangement. Saro Lifecare has maintained an average collection period of 23 days over the last three years (2021 – 2023), thus reinforcing its efficient collection strategy.

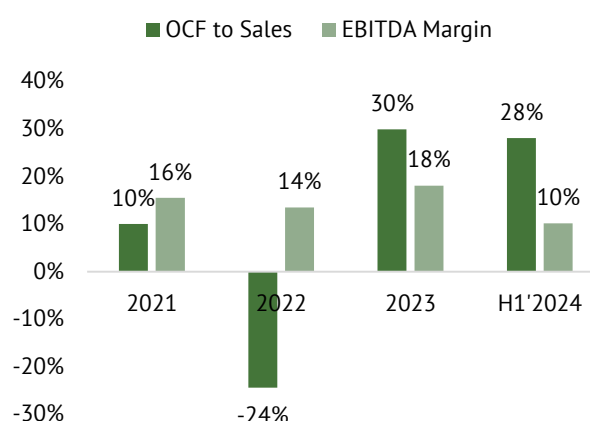
During the financial year ended 31 December 2023, Saro Lifecare's operating cash flow (OCF) rebounded to a positive of ₦4 billion, compared to the prior year's negative of ₦2.7 billion to reflect the higher earnings and better working capital management during the year. The Company's EBITDA rose sharply to ₦2.4 billion in FYE 2023 (2022: ₦1.5 billion) to reflect the expanded scale as well as the positive impact of its hedging strategy on profit margin. SLC also recorded a positive change in its working capital as the marked reduction in advance payment to equipment suppliers (following the completion of its aerosol manufacturing plant in Q2'2023) and an increase in trade payables more than neutralised the higher inventory levels and related party receivables as at year-end.

The OCF in FYE 2023, which represented 29.9% of the revenue for the year, was more than sufficient to meet short-term loan obligations (totalling ₦2.6 billion) and dividend payment of ₦0.5 billion, thus reinforcing its adequate capacity to meet maturing debt obligations. Similarly, SLC's cumulative OCF over three years (2021 – 2023) was sufficient to cover the cumulative interest and dividend payments over the same period.

Saro Lifecare posted an operating cash flow of ₦2.1 billion in the six months ended 30 June 2024 (unaudited) to reflect the sustained demand for its products, which is supported in part by its competitive pricing and aggressive route-to-market strategies. Based on its strong brand acceptance, we believe that Saro Lifecare has sufficient headroom to grow its earnings and operating cash flows through operational efficiency and appropriate product pricing despite worsening economic headwinds. Therefore, we expect the Company to continue to generate sufficient cash flow from its core operations to meet maturing debt obligations as and when due.

In our view, Saro Lifecare Limited's overall cash flow position is good and sustainable.

Figure 4: OCF to Sales Ratio vs EBITDA Margin (2021 – H1'2024)



## LIQUIDITY PROFILE

As at 30 June 2024 (unaudited), Saro Lifecare Limited's liquidity position from both internal sources (unrestricted cash and liquid inventories<sup>4</sup>) and undrawn short-term facilities stood at ₦12.9 billion and ₦6.8 billion respectively. This is in addition to the strong financial support from Saro Group evidenced by the continuous intercompany advances, which provide considerable liquidity support to the Company. The sizeable cash balances and the contingency funding support from Saro Group and other lenders, underpin the Company's good liquidity profile.

## FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

In line with its procurement strategy, SLC maintains a high inventory of critical input materials to hedge against price volatilities and stockout risks caused by persistent currency depreciation and lingering global supply chain disruptions. As at 31 December 2023, Saro Lifecare Limited's trading assets increased to ₦10.6 billion (2022: ₦8.7 billion) with inventory alone accounting for about 84% of this amount. The other components of the Company's trading assets as at FYE 2023 were amounts due from related parties (9%), advance payment to suppliers (3%), deposits for letters of credit (2%), trade receivables (1%) and other debtors & prepayments (1%). With the material devaluation of the naira, which has triggered an upsurge in the invoice prices of imported raw materials, we expect Saro Lifecare's investments in trading assets to remain elevated.

As at FYE 2023, SLC's spontaneous financing more than doubled to ₦6.8 billion (2022: ₦2.6 billion) following an increase in raw material purchases, which were settled after year-end. This is in addition to the intercompany advance from Saro Investment Limited and other working capital support from unsettled royalty on intellectual properties, management fees and bonuses payable to the Promoter. The Company's spontaneous financing was insufficient to fund its trading assets, resulting in a working capital need of ₦3.7 billion as at year-end. Saro Lifecare Limited has consistently posted working capital needs over the last three years partly due to the unfavourable trade terms with suppliers as the purchases are either on a prepayment or cash basis. However, management believes that this payment method has continued to help the Company manage its exposure to foreign currency risks.

Figure 5: Working Capital Surplus/(Deficiency)



As at FYE 2023, Saro Lifecare's long-term assets decreased by 7.5% to ₦1.1 billion as the depreciation charge and disposals surpassed new additions to property, plant and equipment (PPE) during the year. As at the same date, the Company's long-term funds, which were wholly equity, grew to ₦6.2 billion (2022: ₦5.2 billion) to

<sup>4</sup> In arriving at the liquid (inventory) assets, we applied a 10%, 20% and 30% haircuts on the Company's finished goods, work-in-progress and raw materials, respectively.

underline the higher profit accretion in the review period. The Company's long-term funds were sufficient to cover its long-term assets, leaving a working capital of ₦5.1 billion, which was more than sufficient to cover the working capital need. Therefore, Saro Lifecare posted an overall working capital surplus of ₦1.3 billion as at FYE 2023.

Despite the sustained investments in inventory, the Company posted an overall working capital surplus of ₦3.2 billion in the six months ended 30 June 2023 (unaudited) on the back of the higher profit accretion, which further enhanced its equity funding buffer. Looking ahead, management expects the localization of critical inputs with the commissioning of the aerosol manufacturing plant to improve the Company's inventory and working capital management.

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

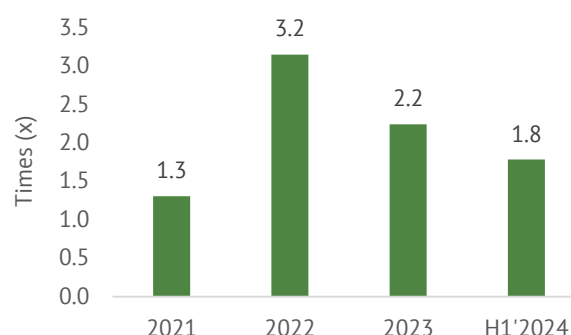
## LEVERAGE

As at 31 December 2023, Saro Lifecare Limited's total liabilities soared by 93% to ₦10.1 billion and comprised non-interest bearing (68%) and interest-bearing liabilities (32%). The bulk of the interest-free liabilities were payables to suppliers and related entities as well as unsettled Promoter's emoluments and salaries, while the interest-bearing debts were short-term loans obtained from various non-bank financial institutions to support the Company's working capital needs. The loans, with tenors between 179 and 270 days, were at an average interest rate of 24%, which was slightly below the market rate. The bulk of the loan proceeds were yet to be utilized to fund the Company's letter of credit and Form M bids, hence the huge cash and cash equivalent balances as at FYE 2023. SLC has since utilized the loan proceeds to settle its suppliers and the short-term loans were paid off in January 2024. Therefore, the Company had no interest-bearing debt as at 30 June 2024 (unaudited).

As at FYE 2023, the Company's adjusted total assets (excluding unutilised loan proceeds held as cash and cash equivalent) increased by 19.5% to ₦12.4 billion and were funded by equity (50%) and liabilities (50%), thus depicting a balanced equity cushion. With the increased working capital pressure caused by rising input costs, we expect Saro Lifecare to continue to explore other external funding sources to support its operations. Notwithstanding, we do not anticipate a significant deterioration in the Company's equity cushion considering the strong earnings forecasts and healthy profit retention ratio.

Saro Lifecare Limited's net debt (total liabilities less cash and equivalents) to EBITDA ratio fell to 2.2x in FYE 2023 (2022: 3.2x) to reflect the improvement in earnings during the year, while its net debt to total assets ratio as at the same date moderated by 800 basis points to 50.6% to underline its low leverage position.

**Figure 6: Net debt to EBITDA ratio (2021 – H1'2024)**



In the absence of external loans as at 30 June 2024 (unaudited), Saro Lifecare Limited has continued to maintain low leverage ratios exemplified by net debt to total assets and total debt to equity ratios of 22.5% and 59.1% respectively. Based on its strong earnings forecasts and hedging strategies (forward buying of raw materials) to reduce the adverse impact of foreign exchange risk on its operations, we anticipate a steady reduction in the Company's overall leverage metrics.

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

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## OUTLOOK

The steady rise in input and energy costs have continued to weigh on the overall profitability of most players in the in-home pest control and personal care segments of the consumer goods industry in Nigeria, especially as these operators struggle to fully pass on the cost increases to consumers. This is largely due to the low switching costs and availability of substitutes. Agusto & Co believes that the eventual path to success for consumer goods brands in Nigeria lies in their ability to better manage business costs through improved operational efficiency whilst embarking on significant import substitution and local sourcing of input materials to minimise the cost pressures caused by currency devaluation and other external shocks.

Saro Lifecare Limited estimates revenue of ₦22.7 billion in FYE 2024, which translates to a 69.5% year-on-year growth rate on the back of its favourable product mix and expanding distribution channels. The Company expects its gross profit and pre-tax profit margins to remain modest at 40.6% and 12.9% respectively. We expect the sustained cost pass-through pricing import substitution strategies to somewhat shield SLC's overall profitability from economic headwinds of rising inflation and persistent currency devaluation.

Based on the strong earnings forecast and the fact that the bulk of its sales are on a cash basis, we expect Saro Lifecare's good operating cash flow and liquidity positions to be sustained. However, we expect the additional funding pressure from the devaluation-induced higher purchase price of imported and locally sourced inputs to continue to weigh on SLC's overall short-term funding. Based on management's cautious stance on the uncontrolled accumulation of external loans and the use of internal funding sources for business expansion, we expect the Company to continue to maintain a low debt profile.

Given consumers' contracting disposable income and the intense price competition within the consumer goods market in Nigeria, Saro Lifecare intends to optimise its route-to-market strategy with increased investments in its retail distribution networks whilst sustaining its import substitution (local sourcing of critical inputs) initiatives. Based on its leading position in the in-home pest control market and its efficient procurement process, we believe that Saro Lifecare is well-positioned to deepen its market penetration in Nigeria and capture the growth opportunities that exist within its product range.

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

## FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME	31-DEC-21		31-DEC-22		31-DEC-23		30-JUN-24 UNAUDITED	
	₦'MNS		₦'MNS		₦'MNS		₦'MNS	
TURNOVER	8,356	100.0%	11,107	100.0%	13,386	100.0%	7,529	100.0%
OPERATING PROFIT	684	8.2%	457	4.1%	1,860	13.9%	382	5.1%
INTEREST EXPENSE	-		-		-		(3)	0.0%
PROFIT BEFORE TAXATION	1,216	14.6%	1,408	12.7%	2,284	17.1%	698	9.3%
TAX (EXPENSE) BENEFIT	(396)	-4.7%	(463)	-4.2%	(770)	-5.8%	-	
PROFIT AFTER TAXATION	820	9.8%	944	8.5%	1,514	11.3%	698	9.3%
DIVIDEND	(375)	-4.5%	(410)	-3.7%	(472)	-3.5%	-	
<b>PROFIT RETAINED FOR THE YEAR</b>	<b>445</b>	<b>5.3%</b>	<b>534</b>	<b>4.8%</b>	<b>1,042</b>	<b>7.8%</b>	<b>698</b>	<b>9.3%</b>
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-		886	
PROFIT RETAINED B/FWD	1,485		1,931		2,465		3,506	
<b>PROFIT RETAINED C/FWD</b>	<b>1,931</b>		<b>2,465</b>		<b>3,506</b>		<b>5,090</b>	

STATEMENT OF FINANCIAL POSITION	31-DEC-21		31-DEC-22		31-DEC-23		30-JUN-24 UNAUDITED	
	₦'MNS		₦'MNS		₦'MNS		₦'MNS	
ASSETS								
CASH & EQUIVALENTS	1,250	16.5%	502	4.8%	4,659	28.6%	3,190	20.0%
TOTAL TRADING ASSETS	5,277	69.6%	8,718	83.8%	10,556	64.7%	11,430	71.6%
TOTAL LONG TERM ASSETS	1,050	13.9%	1,180	11.3%	1,092	6.7%	1,340	8.4%
TOTAL ASSETS	7,577	100.0%	10,399	100.0%	16,306	100.0%	15,960	100.0%
GROWTH	10.4%		37.2%		56.8%		-2.1%	
LIABILITIES & EQUITY								
TOTAL INTEREST BEARING LIABILITIES (TIBL)	-		2,592	24.9%	3,267	20.0%	-	
TOTAL NON-INTEREST BEARING LIABILITIES	2,945	38.9%	2,641	25.4%	6,831	41.9%	5,926	37.1%
TOTAL LIABILITIES	2,945	38.9%	5,233	50.3%	10,098	61.9%	5,926	37.1%
SHAREHOLDERS' EQUITY	4,632	61.1%	5,166	49.7%	6,208	38.1%	10,033	62.9%
TOTAL LIABILITIES & EQUITY	7,577	100.0%	10,399	100.0%	16,306	100.0%	15,960	100.0%

CASH FLOW STATEMENT FOR Y/E	31-DEC-21	31-DEC-22	31-DEC-23	30-JUN-24 UNAUDITED
	₦'MNS	₦'MNS	₦'MNS	₦'MNS
OPERATING ACTIVITIES				
POTENTIAL OPERATING CASH FLOW	895	1,038	1,653	3,894
CASH FROM (USED BY) SPONTANEOUS FINANCING	19	(305)	4,191	(905)
CASH FROM (USED BY) WORKING ASSETS	(74)	(3,441)	(1,838)	(874)
CASH FROM (USED IN) OPERATING ACTIVITIES	839.9	(2,707.1)	4,006.0	2,114.8
INTEREST PAID	-	-	-	(3)
DIVIDEND PAID	(375)	(410)	(472)	
OCF AFTER PAYMENTS TO PROVIDERS OF FINANCING	465	(3,117)	3,534	2,112
CASH FROM (USED IN) INVESTING ACTIVITIES	(181)	(224)	(51)	(314)
CASH FROM (USED IN) FINANCING ACTIVITIES	249	2,592	674	(3,267)
CHANGE IN CASH INC/(DEC)	533	(748)	4,157	(1,469)
OPENING CASH & MARKETABLE SECURITIES	717	1,250	502	4,659
CLOSING CASH & MARKETABLE SECURITIES	1,250	502	4,659	3,190

**Saro Lifecare Limited**

KEY RATIOS	31-DEC-21	31-DEC-22	31-DEC-23	30-JUN-24 UNAUDITED
<b>PROFITABILITY</b>				
SALES GROWTH	16%	33%	21%	12%
OPERATING PROFIT MARGIN	8%	4%	14%	5%
RETURN ON ASSETS (PRE-INTEREST PRE-TAX)	16%	14%	14%	9%
RETURN ON EQUITY (PRE-TAX)	26%	27%	37%	14%
<b>CASH FLOW</b>				
OCF AS % OF RETURNS TO PROVIDERS OF FINANCING	224%	-660%	848%	64047%
OCF AS % OF SALES	10%	-24%	30%	28%
<b>WORKING CAPITAL</b>				
WORKING CAPITAL NEED (DAYS)	102	200	102	267
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	-	69	-	-
<b>LEVERAGE</b>				
INTEREST BEARING DEBT TO EQUITY	-	50%	53%	-
NET DEBT AS % OF AVERAGE TOTAL ASSETS (EXCLUDING CASH & REVALUATION SURPLUS)	27%	59%	51%	22%
NET DEBT TO EBITDA COVERAGE (TIMES)	1.3	3.2	2.2	1.8
<b>NET ASSETS/(LIABILITIES) IN FCY</b>				
NET EXPOSURE TO CURRENCY RISK (\$'000)	-	-	-	-
<b>OTHER ADDITIONAL INFORMATION</b>				
STAFF COSTS (N'MILLION)	311	412	521	322
AVERAGE NUMBER OF STAFF	55	52	52	67
STAFF COST PER EMPLOYEE (N'MILLION)	6	8	10	5
CAPITAL EXPENDITURE (N'MILLION)	187	233	45	317
DEPRECIATION AND AMORTISATION (N'MILLION)	82	94	140	66
EBITDA (N'MILLION)	1,298	1,502	2,424	767
AUDITORS	ERNST & YOUNG	ERNST & YOUNG	ERNST & YOUNG	N/A
OPINION	CLEAN	CLEAN	CLEAN	N/A

## RATING DEFINITIONS

<b>Aaa</b>	A company with the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>Aa</b>	A company with very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
<b>A</b>	A company with good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
<b>Bbb</b>	A company with satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
<b>Bb</b>	A company with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>B</b>	A company with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
<b>C</b>	A company with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
<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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