



DataPro

CORPORATE RATING REPORT

POLYSMART PACKAGING LIMITED

Ground Floor, Foresight House
163-165 Broad Street,
By Marina Water Front
Lagos, Nigeria
☎ 234-802 220 5312, 8055303677
Email: info@datapronigeria.net
dataprong@gmail.com
Website: www.datapronigeria.com

November, 2024

POLYSMART PACKAGING LIMITED

Long-Term Rating:

BBB⁺

Short Term Rating: A2

Previous Rating: BBB

Rating Outlook: Stable

Trend: UP

Currency: Naira

Date Issued: 15 Nov., 2024

Valid Till: 14 Nov., 2025

Reference:

Abiodun Adeseyoju, FCA.

Abimbola Adeseyoju

Oladele Adeoye

This report is provided by DataPro subject to the terms & conditions stipulated in our Terms of Engagement

EXECUTIVE SUMMARY

	2023 N'000	2022 N'000	2021 N'000	2020 N'000	2019 N'000
Turnover	9,029,343	7,197,126	4,840,055	3,037,830	2,492,591
Pre Tax Profit	1,309,951	541,254	250,695	152,931	85,974
Equity	11,952,533	1,395,116	999,967	893,222	790,664
Fixed Asset	24,155,301	7,899,285	4,716,710	1,786,350	1,263,730
Total Asset	27,485,429	10,844,506	6,358,384	4,578,060	2,399,412
Long-term Debt	7,117,150	3,413,660	3,212,238	2,184,707	667,155

Rating Explanation

The Short-Term Rating of **A2** indicates *Fair Credit Quality* and adequate capacity for timely payment of financial commitments.

The Long-Term Rating of **BBB⁺** indicates *Slight Risk*. It shows Fair Financial Strength, Operating Performance and Business Profile when compared to the standard established by **DataPro**. This Company, in our opinion, has the ability to meet its ongoing obligations, but its financial strength is vulnerable to adverse changes in economic conditions.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information were obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

Positive Rating Factors:

- Good Revenue Potential
- Improved Profit Margin
- Experienced Management Team.

Negative Rating Factors:

- Macro-Economic Constraints
- Low Asset Utilization

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BACKGROUND

Polysmart Packaging Limited ("The Company") was incorporated on June 27, 2012 and began operations in January 2013.

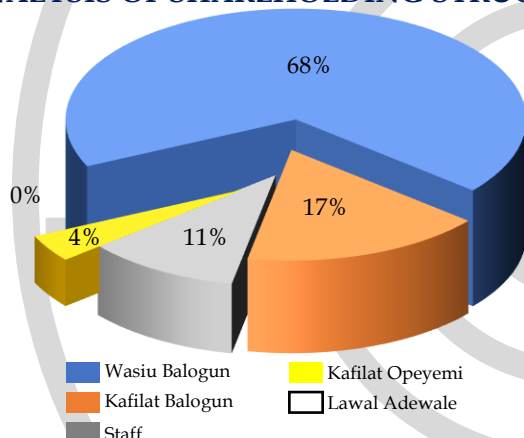
The Company specializes in the manufacturing of a wide range of polythene bags. It is reputed to be among the top 5 in the industry of about 250 active manufacturers. Its products include diverse grades and sizes of polythene. These are: shopping bags, fashion bags, packing bags for sachet water, poly bags and recycled plastic materials.

Its sustainable production process involves recycling waste polythene into granules, which are then used as raw materials for new products, demonstrating the Company's commitment to environmental responsibility.

By the end of 2023, the Company had established a distribution network spanning over 600 dealers across 21 states in Nigeria. It maintains a strong market presence in

Lagos, Ogun, Kano, Oyo, and Delta States. The Company's workforce is 584. Its primary manufacturing facility is located in Ota and Mowe areas of Ogun State, Nigeria. However, the corporate office is situated in Lagos, Nigeria.

ANALYSIS OF SHAREHOLDING STRUCTURE



Source: Polysmart Packaging Limited

The Company operates through three (3) Business Units namely: *Switch Recycling Innovation, Crystal Packaging, and Spring Polymers.*

The Company is largely owned by **Mr. Wasiu Abolaji Balogun**. He holds 67% of the total shares. Other key shareholders include **Mrs. Kafilat Opeyemi Balogun** and **Mr. Kehinde Adewale Lawal**.

DIRECTORS' PROFILE

The following served as directors during the year under review; **Mr. Rasheed Aderemi Kolarinwa - Chairman; Wasiu Balogun - GMD/Founder; Mrs. Kafilat Balogun; Mr. Kamar Bakrin; Mr. Akeem Oyewale and Mr. Mahmud Tukur.**

The Directors' profile is as follows:

- Name:** Mr. Rasheed Aderemi Kolarinwa
Position: Chairman
Education: •B.A - University of Toronto, Canada

Job Experience:

- MBA (In view) - Schulich School of Business, York University, Canada
- Capiflex Management Limited
- Sterling Bank
- IBTC Chartered Bank Plc
- Chartered Bank Plc
- International Merchant Bank, Nigeria Limited

- Name:** Wasiu Balogun
Position: Managing Director/CEO
Years of Experience: 22 years
Education:
 - B.Sc (Accounting) – University of Lagos
 - MBA- Manchester Business School, UK
 - Institute of Chartered Accountants of Nigeria (ICAN)**Job Experience:**
 - Access UK
 - Access Bank Plc
 - UBA Plc
 - Standard Trust Bank
 - CSL Stockbrokers
- Name:** Mr. Akeem Oyewale
Position: Non-Executive Director
Years of Experience: 15 years
Education:
 - B.Sc (Accounting)- University of Lagos
 - Institute of Chartered Accountants of Nigeria (ICAN)
 - Chartered Institute of Stockbroker
 - Chartered Institute of Taxation of Nigeria
 - Chartered Institute of Bankers of Nigeria**Job Experience:**
 - Marble Capital Limited
 - Stanbic IBTC Asset Management Limited
 - IBTC Stockbrokers Limited
- Name:** Mrs. Kafilat Balogun
Position: Non-Executive Director
Years of Experience: 20 years
Education:
 - B.Sc (Accounting)- University of Lagos**Job Experience:**
 - Polysmart Packaging Limited

- Name:** Mr. Kamar Bakrin
Position: Non-Executive Director
Years of Experience: 15 years
Education:
 - B.Sc (Agricultural Economics)- University of Ilorin
 - MBA- Columbia Business School
 - Institute of Chartered Accountants of Nigeria (ICAN)**Job Experience:**
 - Vios Equity Partner
 - Helios Investment Partners

- Oando Marketing
- Ocean & Holdings
- Boston Consulting Group
- Colgate Palmolive, South Africa
- KPMG

6. **Name:** Mr. Mahmud Tukur
Position: Non-Executive Director
Years of Experience: 18 years
Education: •B.Sc - University of Wales College, Cardiff, Wales
Job Experience: •Ecomarine Group
•Independent Energy Limited (IEL)
•Daddo Maritime Services Limited
•Bourbon
•Abumet Nigeria
•Eterna Plc

SECTOR REVIEW

Nigeria is one of the leading economies in Africa. It has a population in excess of 200 million. In the second quarter of 2024, the Country's GDP grew by 3.19% (year-on-year) in real terms. This growth rate is higher than the 2.51% recorded in the second quarter of 2023 and higher than the first quarter of 2024 growth of 2.98%.

According to National Bureau of Statistics, the performance of GDP in the second quarter was driven mainly by the Services sector. It recorded a growth of 3.79% and contributed 58.76% to the aggregate GDP.

In real terms, the Non-Oil sector grew by 2.80% during the second quarter of 2024. This rate was lower by 0.78% points compared to the rate recorded in the same quarter of 2023 which was 3.58% and relatively same with the 2.80% recorded in the first quarter of 2024. This sector was driven in the second quarter of 2024 mainly by Financial and Insurance (Financial Institutions); Information and Communication (Telecommunications); Agriculture (Crop production); Trade; and Manufacturing (Food, Beverage, and Tobacco), accounting for positive GDP growth.

According to the *National Bureau of Statistics (NBS)* the Manufacturing Sector comprises of thirteen activities. This sector in the second quarter recorded a real GDP growth of 1.28% (year-on-year). This was lower than Q2 of 2023 and Q1 of 2024 by 0.92% points and 0.22% points respectively. The growth rate of the sector on a quarter on-quarter basis declined by 15.16%. The Real contribution to GDP in the 2024 second quarter was 8.46%, lower than the 8.62% recorded in the second quarter of 2023 and lower than the 9.98% recorded in the first quarter of 2024.

Manufacturers in Nigeria are faced with lack of basic infrastructure, poor electricity supply, insecurity, inflation, inconsistent government policy and inability to access

funds for business expansion. There were several incentives to boost manufacturing in Nigeria. However, the sector remains highly underperforming as manufactured goods have constituted the biggest imports in Nigeria since the 1980s.

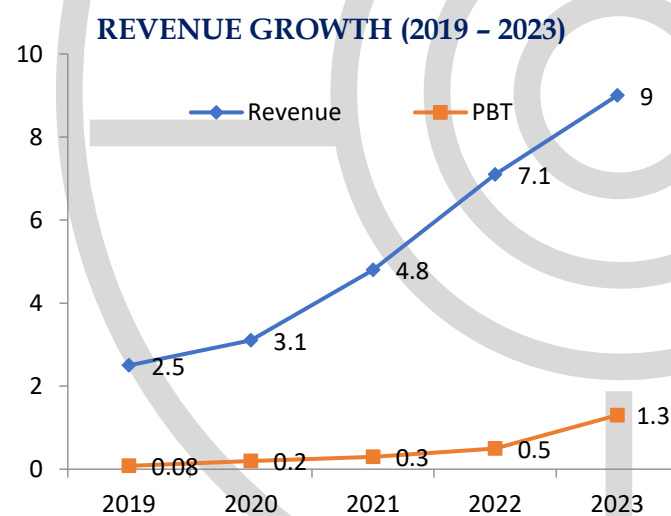
The Trade Sector grew by 0.70 % in the second quarter of 2024. However, this was 1.71% points lower than the rate recorded in Q2 of 2023 1.31%, and 0.53% points lower than Q1 2024 at 1.23% growth rate. The slow growth was largely due to scarcity of Foreign Exchange and erosion of purchasing power.

In view of high cost of inputs occasioned by spiraling energy and borrowing cost including hyper-inflation, operators are dealing with very challenging business environment. Consequently, critical success factor is dependent largely on ability of operators to pass the burden of rising cost to the consumers.

FINANCIAL PERFORMANCE

The financial analysis is based on the Financial Statements of the Company for the four years ended 31st December 2023.

EARNINGS PROFILE

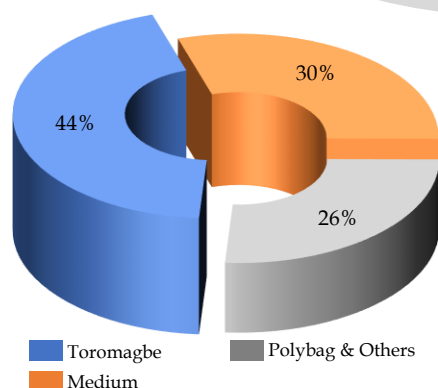


Source: Polysmart Packaging Limited

The Company has demonstrated consistent increase in Earnings over the reviewed period, with a significant growth of 25% from ₦7b (Yr.22) to ₦9b (Yr.23). This increase was primarily driven by growth in unit sold in the year under review.

The *Toromagbe* Bag Segment remained the primary contributor to Total Earnings, comprising 44% of Sales. Other segments such as Medium and Polybag contributed 30% and 26% respectively. Geographically, the Company's Revenue was generated from Nigeria, with South West accounting for 86% of Total Sales.

COMPOSITION OF REVENUE BY PRODUCT



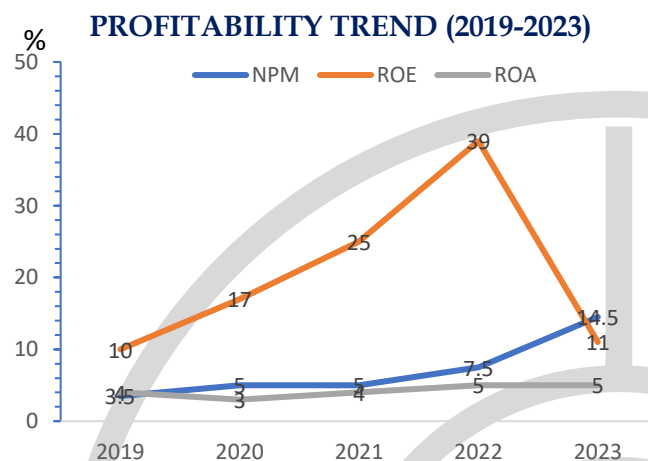
Source: Polysmart Packaging Limited

Cost of Sales increased during the year by 19% to ₦7.6b. This included raw materials purchased and consumed during the year. In absolute term, Gross Profit recorded 100% to ₦1.8b, leading to an

improvement in efficiency level. Gross Profit Margin grew from 13% (Yr. 22) to 20% (Yr. 23).

• PROFITABILITY

In the year 2023, Total Operating Expenses grew by 46% from ₦403m (Yr.22) to ₦587m (Yr.23). The Operating Expenses was solely derived from administration cost.



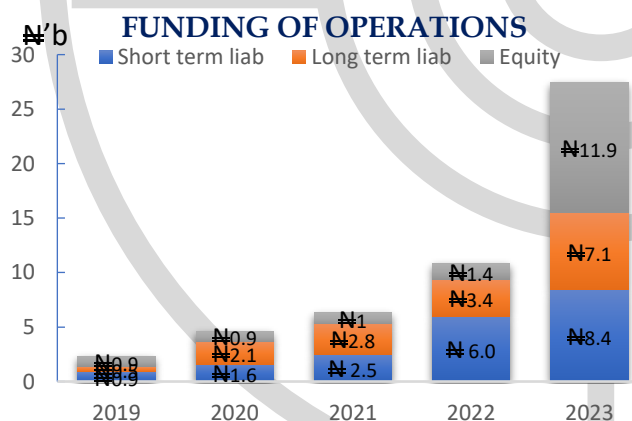
Source: Polysmart Packaging Limited

Finance Income contributed marginally to the growth in Net Profit recording an increase from ₦43m (Yr.22) to ₦81m (Yr.23).

On account of significant improvement in operating margin, Profit Before Tax surged by 142% to ₦1.3b (Yr.23). Therefore, Net Profit Margin grew from 8% (Yr.22) to 15%

(Yr.23).

• CAPITALIZATION



Source: Polysmart Packaging Limited

Equity appreciated significantly by 756% in the year 2023 to ₦11.9b (Yr. 23). This was driven majorly by growth in revaluation reserves. Profit retention also complemented the increase. However, Share Capital remained unchanged in the year 2023.

Total Assets increased remarkably by 142% in the year 2023. It grew from ₦10.8b (Yr. 22) to ₦27.4b (Yr. 23) due to the revaluation of

Property, Plants and Equipment as well as increase in Current Assets.

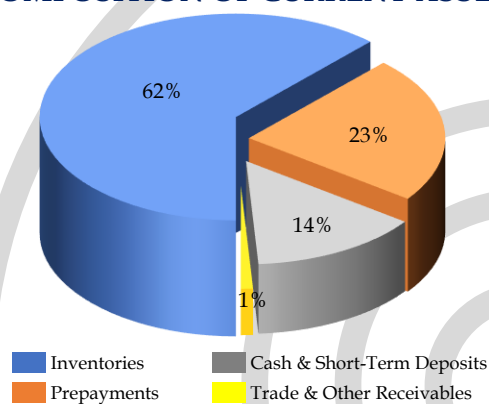
Total Liabilities was ₦15.5b (Yr.23) representing 63% growth compared with the prior year balance. The Group's Liabilities comprised of Non-Interest-Bearing Liabilities (43%) and Interest-Bearing Liabilities (57%). The Interest-Bearing components consisted of various Long and short-term loans acquired from the CBN, Financial Institutions and Commercial Banks. Interest rates on these loans fell within range of 9% to 21.5%.

The funding of operation provided by Equity was restricted to 44% in the year 2023. This was better than 13% recorded in the year 2022.

• ASSET UTILITY

The Company's extrusion capacity is about 7,500 tons per annum for Polyethylene (PE). The **Post-Consumer PE** waste recycling is in excess of 3,600ton per annum and **Food Grade PET** recycling capacity is 8,500tons per annum for Food Grade Flakes and Resin. It operates currently with 41 machines which translates to 3% of the Nigerian operating capacity. The Company is equally working on increasing Post Consumer PE recycling capacity to 7,500 tons from 3,600 tons by Q4 2024.

COMPOSITION OF CURRENT ASSETS



Source: Polysmart Packaging Limited

The Company is yet to fully utilize its installed capacity. The capacity utilization for packaging segment improved marginally from 65% (Yr. 22) to 68% (Yr. 23). Recycling for Non-Food Grade factory capacity utilization is 25% while Food Grade stood at 40%.

The Company's Assets for the year 2023 were mainly Non-Current in nature. This class of Assets includes Property, Plants & Equipment (99%)

and Investment (1%). The Investments relate to the FGN ₦150 billion 7-year **Ijarah Sukuk Issuance programme**.

Current Assets accounted for 12% of the Asset base during the year under review. It grew by 14% from ₦2.9b (Yr. 22) to ₦3.3b (Yr. 23) due to increases in Inventory and Prepayment. However, Cash and Investments declined from ₦887m (Yr.22) to ₦451m (Yr.23).

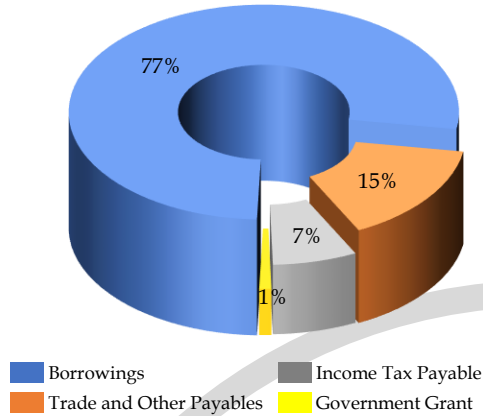
The ability of the Company to effectively utilize Assets to generate Revenue declined significantly from 66% (Yr. 22) to 33% (Yr. 23). However, profit generation efficiency considering Assets utilization remained relatively same at 5% in the years 2023 and 2022.

• LIQUIDITY

As at 31st December 2023, the Company grew its Total Liabilities significantly by 63% from ₦9.5b (Yr. 22) to ₦15.5b (Yr. 23). This was traced to Deferred Tax Liabilities which went up from ₦240m (Yr.22) to ₦4.3b (Yr.23).

The Company's Short-term Liabilities grew by 39% to ₦8.4b (Yr. 21). It consisted mainly of Interest-Bearing Borrowings.

COMPOSITION OF CURRENT LIABILITIES



Source: Polysmart Packaging Limited

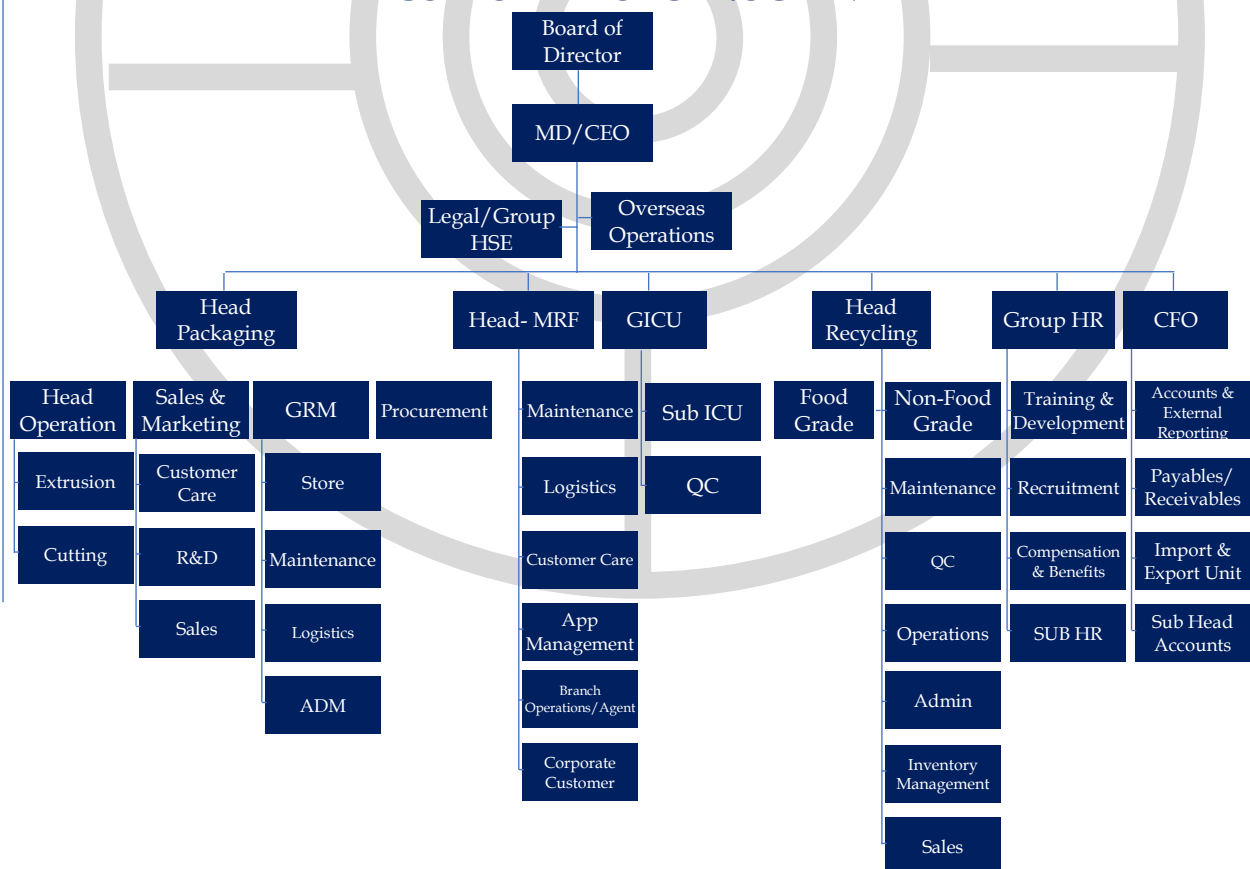
The Company recorded Working Capital deficits of ₦5b (Yr. 23) as against a deficit of ₦3b (Yr. 22), recording a Current Ratio of 40% (Yr. 23). This was less than 49% recorded in the year 2022. However, a positive cashflow of ₦442m was generated from its operations in the year 2023.

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by its Board which consists of the Chief Executive Officer (CEO) and Five (5) Non-executive Directors including the Chairman.

The Company's Corporate Organogram structure is as highlighted.

CORPORATE ORGANOGRAM



Source: Polysmart Packaging Limited

RISK FACTORS

In the course of our review, we observed the following significant risks.

- **EXCHANGE RATE RISK**

This is the risk of loss to income as a result of adverse movement in the Exchange Rate.

Based on our review, we observed that the company imports significant raw materials from outside Nigeria. This therefore exposes it to Exchange Rate risks while increasing its importation cost.

- **INTEREST RISK**

This is the risk of loss to income arising from adverse changes in interest rates.

Based on our review, the Company incurred interest bearing borrowings of ₦8.8b (Yr. 23). Therefore, adverse movement in interest rate could impair the Company's profitability.

- **CREDIT RISK**

This is the risk arising from the inability of counterparties to honour their obligations as at when due.

Based on our review, we observed that Cash and Short-term deposits as well as Trade and Other Receivables constituted a proportion less than 10% of Total Assets in the year 2023. Therefore, the Company exposure to credit risk is low.

FUTURE OUTLLOK

The Company is currently working on increasing its recycling capacity to 480ton monthly. This is to reduce its input cost by at least 30% as well as making its product more environmentally friendly.

CONCLUSION


The Company is an industry leader with significant market share. The Rating of the company is supported by its Good Revenue Potential, improved Profit Margin and Experienced Management Team.

Consequently, we assigned a Rating of **"BBB+"**

FINANCES

Financial Position as at

	Dec, 2023 N'000	Δ%	Dec, 2022 N'000	Δ%	Dec, 2021 N'000
Assets					
Non-Current Assets	24,155,301	205.79	7,899,285	67.47	4,716,711
Current Assets	3,330,128	13.07	2,945,221	79.40	1,641,673
TOTAL ASSETS	27,485,429	153.45	10,844,506	70.55	6,358,384
Liabilities					
Non-Current Liabilities	7,117,150	108.49	3,413,660	21.81	2,802,516
Current Liabilities	8,415,746	39.43	6,035,730	136.15	2,555,901
Total Liabilities	15,532,896	64.38	9,449,390	76.35	5,358,417
Equity					
Share Capital	130,000	0.00	130,000	0.00	130,000
Revaluation Reserves	9,673,265	#DIV/0!	-	-	-
Other reserves	337,872	0.00	337,872	0.00	337,872
Retained Earnings	1,811,396	95.35	927,244	74.26	532,095
Total Equity	11,952,533	756.74	1,395,116	39.52	999,967
TOTAL EQUITY AND LIABILITIES	27,485,429	153.45	10,844,506	70.55	6,358,384
Revenue	9,029,343	25.46	7,197,126	48.70	4,840,055
Profit Before Tax	1,309,951	142.02	541,254	115.90	250,695
Income Tax Expenses	(425,800)		(160,294)	47.13	(108,950)
Profit After Tax	884,151	132.08	380,960	168.76	141,745
Total Comprehensive Income for the year	884,151	132.08	380,960	168.76	141,745

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 15th November, 2024

For and on behalf of:
DataPro Limited
Ground Floor, Foresight House
By Marina Water Front
163/165 Broad Street, Lagos Island, Lagos.
Tel: 234-1-4605395, 4605396
Cell: 0805-530-3677
Email: info@datapronigeria.net, dataprong@gmail.com
Website: www.datapronigeria.net

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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long -term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	(<i>Superior</i>) Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	(<i>Excellent</i>) Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	(<i>Very Good</i>) Assigned to companies which have very good financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	(<i>Fair</i>) Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have an ability to meet their

current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator Meaning Explanation

BB	Moderate Risk	(<i>Marginal</i>) Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	(<i>Weak</i>) Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	(<i>Poor</i>) Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	(<i>Very Poor</i>) Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added “+” to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.