RATING REPORT

Macter International Limited

REPORT DATE:

April 20, 2022

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	*April 20 22*		*January 15' 21*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** EY Ford Rhodes, Chartered Accountants
Listed Public Limited Company	**Chairman of the Board:** Mr. Amanullah Kassim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Asif Misbah
Misbah Family – 70.51%	
SAAS Enterprises (Private) Limited – 14.04%	
Frieden Management (Private) Limited – 6.61%	
M&N Impex (Private) Limited – 6.61%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (August, 2021)   ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

Macter International Limited (Macter)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

In 1992, Macter International Limited (Macter) was incorporated as a private limited company. Subsequently, it was converted into a public limited company in 2011. In 2017, Macter was listed on Pakistan Stock Exchange Limited. Registered office of the company is located in Karachi, Pakistan.

Profile of Chairman
Mr. Amanullah Kassim holds M.B.B.S degree from Sindh Medical College Karachi and possesses extensive experience in management of a private business group. He is also engaged with social charities and serves as the President of Kiran Patient Welfare Society & Zubaida Machiyara Trust.

Profile of Chief Executive Officer
Mr. Asif Misbah has been associated with Macter since 1994. He holds MBA degree from Institute of Business Administration, Karachi.

Macter International Limited ('Macter' or 'the Company') is engaged in manufacturing and marketing of pharmaceutical products. The business activities of the Company can be broadly segregated into two major segments - branded generics and contract manufacturing. Majority shareholding of the Company is vested with Misbah Family, while the remaining shareholding is held by SAAS Enterprises (Private) Limited, other institutions and general public. Senior management of the Company comprises experienced individuals having significant experience in the pharmaceutical sector.

The Company has total annual capacity of ~89m units (on a single shift basis) for drug production in the form of tablets, capsules, syrups, suspensions, dry powder, injections, ointments, creams, drops and inhalers. The Company has two production facilities located at SITE in Karachi. Macter also undertakes toll manufacturing for renowned multinational companies, which comprised 1.5% of the Company's net sales in FY21.

Business risk is considered low given non-cyclicality of the sector albeit being a strictly regulated sector, profitability is sensitive to changes in exchange rate

As a non-cyclical sector, the pharmaceutical industry features stable demand and lower sensitivity of revenues and profitability to economic changes. Further, population growth, increase in income levels, high disease incidents, emergence of new diseases and poor hygiene levels are some of the factors which will continue to drive the demand for pharma products in the country. VIS has assessed the sector's business risk as 'low'.

Nevertheless, the stringent regulatory framework, including dependence on Drug Regulatory Authority of Pakistan (DRAP) for approvals related to launch of new products and pricing increase, tends to create profitability pressures. Moreover, access to raw material is an issue as majority is sourced from overseas with only about 15% of the raw material being locally produced. As a result, a significant portion of the product costing is foreign currency denominated, which exposes pharmaceutical companies to exchange rate risk.

DRAP has recently formulated a policy to promote manufacturing of raw material for production of medicines wherein the pharma companies will get early issuance of licenses and approval for loans through one window solution. These policy level changes are aimed at paving the way for increasing domestic raw material production and reducing exchange rate risk of the sector going forward.

Product portfolio continued to increase with coverage of more therapeutic areas

Macter has continued to enhance its product range and portfolio and is now present in 81 therapeutic areas through its 183 products. Product concentration in sales has improved as top 5 products consist of 24% and 30% of the net sales in FY21 and H1'FY22 respectively (FY20: 45%). Going forward, brand creation is a key component of management's strategy. Management launched 4 new products in FY21 as part of this strategy and further new products are in pipeline.

Strong Marketing, Sales and Distribution Network

The Company maintains a comprehensive sales network covering ~ 33,000 physicians and 35,000 pharmacies. A separate team of 700 field force (FF) officers caters to specialist doctors to enhance the quantum of prescription business. Moreover, business intelligence tools to facilitate timely decision making are also used to enhance sales. Sales channels include street sales (over the counter and prescription medicines), institutional business (tender), toll manufacturing and export sales; majority of the sales of the Company emanate from the street sales segment.

Sales broadly remained intact while the gross margins witnessed uptick in FY21 and H1'FY22 after normalization of supply chain disruptions

During FY21, net sales of the Company came in at Rs. 5.1b (down by 7% YoY). This was mainly due to the exceptionally high public tender business in FY20, which receded in FY21. Nevertheless, given change in business mix towards direct prescription sales, gross margins depicted improvement in FY21.

In H1'FY22, Macter posted a topline of Rs. 2.5b, being in line with what was posted in SPLY. Gross margins improved further, given further shift in sales mix towards prescription sales. Going forward, sales is forecasted to grow in the range of 10-15% while margins are anticipated to stay strong during the rating horizon.

Table 1: P&L (Extract)

	FY20	FY21	H1'FY21	H1'FY22
Net Sales	5,528	5,142	2,541	2,551
Gross Profit	2,037	2,115	1,011	1,140
Operating Profit	**295**	**460**	**188**	**286**
Finance Cost	232	129	74	26
Profit Before Tax	**63**	**331**	**114**	**260**
Profit After Tax	**15**	**257**	**75**	**196**
Gross margin	*36.9%*	*41.1%*	*39.8%*	*44.7%*
Operating margin	*5.3%*	*8.9%*	*7.4%*	*11.2%*
Net margin	*0.3%*	*5.0%*	*2.9%*	*7.7%*

Adequate liquidity profile and improved capitalization mainly as a result of proceeds from right issuance

During FY21, the Company incurred routine capex of Rs. 260m for facility upgrades. The capex was funded through long term borrowings and internal cash. With the rebound in business activity after supply chain disruptions the Company's short term borrowings notably declined in FY21 as depicted in Table 2 below. Resultantly, capitalization indicators depicted improvement. During H1'FY22, the Company has raised Rs. 1.1bn through right issuance in

order to finance debt repayment, working capital cycle, capex and new product launches. Utilization of right proceeds resulted in a decline in overall debt levels, which ultimately improved the gearing of the Company. The Company has paid dividend of Rs. 74m and Rs. 91.6m in FY21 and HY'FY22, which translates in a payout ratio of 29% and 47%.
Funds from Operations (FFO) amounted to Rs. 513m in FY21, being driven by improvement in profitability and lower finance cost. Cash flow coverage indicators, including FFO/Debt and Debt Service Coverage Ratio (DSCR) have also improved on a timeline. Going forward, FFO is forecasted to remain healthy on the back of anticipated growth in business volumes.

As per management, the Company plans to incur capital expenditure of ~Rs. 1-2b, over the next 2-3year period, to be financed by a mix of internal cash flows and debt. Nevertheless, as per management, the Company's gearing will be maintained below 0.2x though the rating horizon.

Table 2: Balance Sheet (Extract)

	FY20	**FY21**	**H1'FY22**
Long term debt (Inc. current maturity)	697	905	291
Short term debt	883	382	14
Total debt	1,580	1,287	305
Total Liabilities	**2,790**	**2,369**	**1,536**
Total Equity	**1,168**	**1,350**	**2,529**
Total Assets	**3,958**	**3,719**	**4,066**
FFO	119	513	366
DSCR (x)*	*1.06*	*2.50*	*1.78*
Gearing (x)	*1.35*	*0.95*	*0.12*
Leverage (x)	*2.39*	*1.76*	*0.61*

**Annualized*

Macter International Limited Appendix I

FINANCIAL SUMMARY					(in Rs. Millions)
BALANCE SHEET		Jun'19	Jun'20	Jun'21	Dec'21
Property, plant and equipment		1,232.8	1,332.9	1,448.4	1,554.5
Stock-in-Trade		773.2	1,038.1	984.3	1,263.1
Trade Debts		580.7	762.6	513.2	511.7
Cash & Bank Balances		142.6	129.7	82.0	79.3
Total Assets		3,210.6	3,957.7	3,718.8	4,065.7
Trade and Other Payables		625.2	979.5	781.1	923.1
Long Term Debt (Including Lease)		397.6	696.7	905.1	291.1
Short Term Debt		790.7	883.5	381.7	13.9
Total Debt		1,188.3	1,580.1	1,286.8	305.0
Paid up Capital		391.4	391.4	391.4	458.1
Total Equity		1,193.9	1,167.7	1,349.5	2,529.2
INCOME STATEMENT	FY19	FY20	FY21	H1'FY21	H1'FY22
Net Sales	4,081.8	5,528.1	5,141.6	2,540.5	2,551.2
Gross Profit	1,732.9	2,037.4	2,114.8	1,010.6	1,140.4
Administrative Expenses	221.9	226.4	248.9	122.7	132.1
Distribution Costs	1,277.7	1,523.1	1,385.4	697.8	719.8
Profit Before Tax	122.6	62.5	330.8	114.2	260.0
Profit After Tax	106.4	14.9	257.0	74.5	196.2
RATIO ANALYSIS		FY19	FY20	FY21	H1'FY22
Gross Margin (%)		42.5%	36.9%	41.1%	44.7%
Net Margin (%)		2.6%	0.3%	5.0%	7.7%
FFO to Total Debt (%)*		12.7%	7.5%	39.9%	479.4%
FFO to Long Term Debt (%)*		37.9%	17.1%	56.7%	502.3%
Gearing (x)		1.00	1.35	0.95	0.12
Leverage (x)		1.69	2.39	1.76	0.61
Debt Servicing Coverage Ratio (x)*		1.35	1.06	2.50	1.78
Current Ratio		1.15	1.14	1.19	1.83
(Stock in trade + trade debts) / STD (x)		1.71	2.0	3.9	127.6
Return on Average Assets (%)*		3.4%	0.4%	6.7%	10.1%
Return on Average Equity (%)*		9.0%	1.3%	20.4%	20.2%

**Annualized*

RATING SCALE & DEFINITION Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Macter International Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see below)
Instrument Structure	n/a
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
20-Apr-22	A	A-2	Stable	Reaffirmed
15-Jan-21	A	A-2	Stable	Reaffirmed
17-Sep-19	A	A-2	Stable	Downgrade
1-June-18	A	A-1	Stable	Initial

Due Diligence Meetings Conducted

S. No	Name	Designation	Date
1	Syed Khalid Noor	Chief Financial Officer	April 8, 2022