RATING REPORT

Macter International Limited

REPORT DATE:

June 13th, 2023

RATING ANALYST:
Saeb Muhammad Jafri
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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	*June 13,2023*		*April 20, 2022*	
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 10% or more):	**Chief Executive Officer:** Mr. Asif Misbah
Swaleh Misbah Khan – 32.96%	
Asif Misbah – 32.94%	
SAAS Enterprises (Private) Limited – 14.04%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Macter International Limited (Macter)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

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's facility functions at an average capacity utilization of 45% between its various products. Macter has two production facilities located at SITE in Karachi. It produces three types of products: Pharmaceuticals, Biological and Consumer. The Company covers almost all therapeutic categories including Antibiotics, Anti-allergy, cardiovascular, Anti-viral etc.

Macter International Limited has a fully owned subsidiary incorporated in 2017 as Misbah Cosmetics (MCPL). The purpose of this company is to market high quality halal cosmetics. It is part of the Company's diversification strategy to balance the portfolio with higher margins products. Currently, all the products are imported which will be localized in the coming years, reportedly.

In FY22, two new directors, Mr. Sheikh Perwez Ahmed and Mr. Muhammad Ather Sultan, assumed office, succeeding outgoing directors Mr. Sohaib Umar and Mr. Muhammad Yahya Chawla, respectively. While more recently in February 2023, Mr. Tariq Wajid resigned from his directorial position, and has been filled by Mr. Jawwad Ahmed Farid.

Key Rating Drivers

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.

The rating finds comfort in the non-cyclical nature of the Company's industry. The pharmaceutical industry exhibits stable demand and low sensitivity to changes in the economy, thereby ensuring steady revenue and profitability. In addition, factors such as population growth, rising income levels, high disease incidence, emergence of new diseases, and inadequate hygiene practices are expected to sustain the demand for pharmaceutical products in the country.

The pharmaceutical industry in Pakistan faces profitability pressures due to a stringent regulatory framework that includes reliance on the Drug Regulatory Authority of Pakistan (DRAP) for approval of new products and pricing increases. Additionally, the Company faces challenges in accessing raw materials, with 145 out of 212 required ingredients sourced from overseas. This results in a significant portion of product costs being denominated in foreign currency, exposing the Company to exchange rate risks.

Discontinuation of low-margin products due to rising costs, inflation, and devaluation. However, product R&D continued to be the Company's main focus with introduction of several new products.

The Company is pursuing product portfolio rationalization, as with much of the rest of the industry, and is considering holding production for the time being of products with low or negative gross margin. This action was taken due to the rising costs of business, in light of the significant devaluation of the PKR against the dollar and persistently high inflation. The government has granted industry permission for a 20% increase in prices as CPI adjustments, half of the originally sought hike of 40%, to counter increasing input costs.

To maintain a competitive presence in the market, the Company has simultaneously introduced several new products. In FY22, Macter International Limited also launched several new products like Pegstim, Fertol, Macfer, Favivent, and Infazith, and in 1HFY23, the Company added Levosulpride, Tofacnet, Tavora, Amsart-H, and Papaya to its portfolio.

In FY22, the company's expansion into the cosmetics sector through its investment in Misbah Cosmetics encountered substantial obstacles due to increased import restrictions imposed by the government. These restrictions greatly hindered the company's ability to source a significant portion of its import-based product portfolio from foreign suppliers. However, management anticipates an improvement as import restrictions ease.

A shift to dollar-based revenue initiated; international expansion prioritized.

As a response to the prevailing economic situation in Pakistan, a strategic shift towards dollar-based revenue has been initiated by Macter International Limited. This entails a concerted effort to expand the Company's presence in international markets. To facilitate this objective, significant changes in higher management have been implemented for this purpose. Moreover, the Company is placing increased emphasis on research and development investments, particularly in advanced molecule projects, and is actively exploring opportunities to enter the vaccine development business. Recognizing the stringent regulatory barriers prevalent in many developed nations, the Company's management has opted to prioritize the expansion of its footprint in developing countries initially, with plans to subsequently extend operations to developed markets.

However, expanding into international markets and increasing R&D will pose significant challenges and incur substantial costs for the business, thereby limiting short-term margin growth potential.

Short and long-term debts were significantly reduced, strengthening finances.

Macter completed a rights issue of PKR 1.1 billion in FY22 to pay off short and long-term bank financing. As a result, the Company was able to reduce its short-term debt to zero and long-term debt to Rs. 343 million in FY22. This has significantly strengthened the Company's balance sheet and reduced its financial risk. The Company's gearing decreased from 1.00 in FY21 to 0.1 in FY22 and hovered at 0.2 in 9MFY23, while its leverage decreased from 1.8 in FY21 to 0.7 in FY22 and 9MFY23. This is a positive development and sheds substantial amount of financial risk off of the Company's financial position. Total debt stood at 467.9 million in 9MFY23, up from Rs. 343.8 million in FY22 but still significantly lower than Rs. 1,370.9 million in FY21. Management has put a debt ceiling of 30% on equity going forward.

Topline increased despite challenging economic circumstances. Gross and net margins improved due to higher export sales. However, foreign exchange risk remains prevalent.

In FY22, the Company experienced sales growth, rising from Rs. 5,141.6 million in FY21 to Rs. 5,311.2 million. The growth was primarily driven by higher prescription sales and increased demand for the gastrointestinal product 'Titan' which sees heightened demand during times of floods. Despite prevailing challenging economic circumstances, the Company managed to sustain or slightly improve its margins. Macter's gross margin increased from 41% in FY21 to 45% in FY22, while the net margin rose from 4% to 6%. These improvements were largely attributed to increased export sales, which contributed to higher gross margins. Moreover, lower debt led to a significant decline in finance costs, further supporting improved net margins. The contribution of export sales to gross sales rose from 2% in FY21 to 6% in FY22. However, the Company continues to face significant foreign exchange risks, as gross margins in 9MFY23 declined to 41.6% due to significant local currency volatility during the period.

Significant improvement in liquidity is reflected by higher current ratio and shorter cash conversion cycle, amid reduced short-term borrowing.

Macter's liquidity profile witnessed a significant improvement, as indicated by the increase in the current ratio from 1.2 in FY21 to 1.7 in FY22 and 9MFY23. The cash conversion cycle showed notable progress, maintaining around 41-42 days in FY22 and 9MFY23, compared to 61 days in FY21. This improvement can be attributed to the effective management of the collection period, which decreased from 45 days in FY21 to 28 days in FY22 and further improved to 21 days in 9MFY23. The company's short-term liquidity coverage profile has enhanced immensely due to improved liquidity, better cash conversion management, and a substantial reduction in short-term borrowing.

Macter International Limited — Appendix I

FINANCIAL SUMMARY					(in Rs. Millions)
BALANCE SHEET	FY19	FY20	FY21	FY22	9MFY23
Property, plant and equipment	1,232.8	1,332.9	1,448.4	1,735.1	1,958.5
Stock-in-Trade	773.2	1,038.1	984.3	1,260.4	1,701.0
Trade Debts	580.7	762.6	513.2	301.4	484.2
Cash & Bank Balances	142.6	129.7	82.0	212.7	42.2
Total Assets	3,210.6	3,957.7	3,718.8	4,438.5	4,861.4
Trade and Other Payables	625.2	979.5	781.1	1,234.9	1,278.6
Long Term Debt (Including Lease)	596.0	854.4	989.2	343.8	424.3
Short Term Debt	790.7	883.5	381.7	0.0	43.5
Total Debt	1,386.8	1,737.9	1,370.9	343.8	467.9
Paid up Capital	391.4	391.4	391.4	458.1	458.1
Total Equity	1,193.9	1,167.7	1,349.5	2,575.4	2,800.9
INCOME STATEMENT	FY19	FY20	FY21	FY22	9MFY23
Net Sales	4,081.8	5,528.1	5,141.6	5,311.2	5,209.6
Gross Profit	1,732.9	2,037.4	2,114.8	2,374.1	2,167.1
Administrative Expenses	221.9	226.4	248.9	298.6	266.8
Distribution Costs	1,277.7	1,523.1	1,385.4	1,537.3	1,407.6
Profit Before Tax	122.6	62.5	330.8	489.8	472.8
Profit After Tax	106.4	14.9	257.0	317.5	319.0
RATIO ANALYSIS	FY19	FY20	FY21	FY22	9MFY23
Gross Margin (%)	42%	37%	41%	45%	42%
Net Margin (%)	3%	0%	5%	6%	6%
FFO to Total Debt (%)*	11%	7%	150%	772%	117%
FFO to Long Term Debt (%)*	25%	14%	208%	772%	129%
Gearing (x)	1.2	1.5	1.0	0.1	0.2
Leverage (x)	1.7	2.4	1.8	0.7	0.7
Debt Servicing Coverage Ratio (x)*	1.2	1.0	1.2	3.6	3.2
Current Ratio	1.2	1.1	1.2	1.7	1.7
(Stock in trade + trade debts) / STD (x)	171%	204%	392%	0%	1112%
Return on Average Assets (%)*	3%	0%	7%	8%	9%
Return on Average Equity (%)*	9%	1%	20%	16%	16%

*Annualized

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 table 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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Due Diligence Meetings Conducted	See table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13-Jun-23	A	A-2	Stable	Reaffirmed
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	May 11,2023