RATING REPORT

Macter International Limited

REPORT DATE:

August 02, 2024

RATING ANALYST:
Khawaja Zunain Arif
Zunain.arif@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-2
Rating Date	*August 02,2024*		*June 13,2023*	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	*Upgraded*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** A. F. Ferguson & Co., 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 – 32.94%	
Asif Misbah – 32.96%	
SAAS Enterprises (Private) Limited – 14.04%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates
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. Macter is one of the larger contract manufacturers in Pakistan particularly for the multinational companies offering a wide range of dosage forms: Oral solids and liquids, Parenterals (ampules and vials), Topicals, Metered dose Inhalers, Ear and Eye drops. Dedicated facilities are available for Cephalosporins, Penicillins & Biologics. The manufacturing operations meet international cGMP standards and are quality management system ISO 9001:2015, QC Lab ISO/IEC 17025:2017 certified. Pakistan Standard General Requirements for Halaal Health Care Products PS:5442-2019

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. Macter has two production facilities located at SITE in Karachi. The Company is a listed entity complying with best corporate governance practices.

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.

Industry Overview & Update:

The Pakistani pharmaceutical market comprises around 650 companies, with less than 26% being multinational. The industry contributes approximately 1% to the country's GDP and grew by 15% in the past year, reaching an estimated $3.04 billion. Local companies dominate the market with a 74% share, while multinationals hold 26%. The top 25 companies account for 74% of the market, and the top 50 make up 90%.

Around 11,000 drugs are actively marketed in Pakistan, sold through licensed pharmacies based on prescriptions. The Drug Regulatory Authority of Pakistan (DRAP) regulates the sector, handling medicine registration, manufacturing site approval, and setting Maximum Retail Prices (MRP).

The industry relies heavily on imports, with over 90% of raw materials imported and only 12% of Active Pharmaceutical Ingredients (API) produced locally. This reliance makes the sector vulnerable to currency devaluation, inflation, and rising utility costs. Price controls further squeeze profit margins, leading to the exit of some multinational companies. Although CPI-indexed pricing was introduced to mitigate this, it has limitations.

In February 2024, the government deregulated drug prices for medicines not on the National Essential Medicines List (NEML). Previously, price increases were capped based on the Consumer Price Index (CPI). Now, non-essential medicines can be priced without regulatory caps, potentially benefiting companies with a significant proportion of non-essential drugs

Key Rating Drivers

Ratings incorporate low business risk profile of the pharmaceutical sector

The rating finds comfort in the stable demand and low economic sensitivity of the pharmaceutical industry, ensuring steady revenue and profitability. Factors such as population growth, high disease incidence, emergence of new diseases, and inadequate hygiene practices are expected to sustain the demand for pharmaceutical products in the country.

However, the pharmaceutical industry in Pakistan faces profitability pressures due to a stringent regulatory framework, which includes reliance on the Drug Regulatory Authority of Pakistan (DRAP) for approval of new products and pricing increases. The Company also faces challenges in accessing raw materials, with many ingredients sourced from overseas (70-80%), resulting in a significant portion of product costs being denominated in foreign currency. This exposes the Company to exchange rate risks.

Recently in 2024, government has approved deregulation of drug prices not included in the National Essential Medicines List, which will allow companies autonomy to independently raise prices of non –essential drugs. This change further supports the business risk profile of the sector.

Topline growth in FY23 supported by new product and promotional campaigns
Turnover of the Company took a notable increase of 25% in FY23, after posting nominal growth in the last three years. The increase was primarily led by increase in core prescription sales on account of strong uptake of the company's recently launched Pegstim in Oncology as well as promotional campaigns for their leading brand Titan. Tender business also remained strong in FY23. Five new products were also launched in FY23 including Tofacnet in Rheumatology, Mac-Fer in Gynecology, Tavora in Anti-Fungal Respiratory, Amsart-H in Cardiothoracic care in Immunity booster General Medicine.

However, in 9MFY24, sales have slowed down compared to previous period mainly due to lower tender sales. Company had intentionally scaled down the low margin tender business because of rising costs, which had further squeezed business margins. The Company is now focusing on high margin low credit risk tender business.

Export business expansion underway

Company continues to pursue its strategic plan to diversify into exports. Accordingly, Company has planned to upgrade the plant to comply with the export requirements. An investment of Rs 1.2 b is being planned. We expect that this will provide the Company an opportunity to enhance margins.

Margins remain impacted
Pressure on the margins continued in FY23 and 9MFY24 on account of currency devaluation and inflationary pressures. Rising salaries, materials costs, higher utilities and fuel rates have constrained margins across the industry. Gross margins reduced to 40.73% in the 9MFY24. Net margins also remained subdued due to higher interest rates despite relatively low debt.

Nevertheless, as a result of higher revenue growth, bottom line profitability improved to Rs. 393m (FY22: 318m). In FY24, however, due to lower tender business, profitability is expected to remain range bound with no major uptick. Going forward, Company expects that new product pipeline is likely to contribute towards margin improvement.

Sound liquidity indicators

Liquidity profile of the Company remain sound with current ratio of 1.85x and short term borrowing coverage of 23x. The Company has improved its working capital cycle over time reducing it to less than 30 days cycle as of FY23. This has aided the Company to reduce its short-term borrowing. Debt servicing also remains strong at 4x.

Capitalization profile supported by low gearing

Low gearing and leverage levels of 0.15x and 0.66x as of 9MFY24 depict a sound capitalization profile, albeit low equity base remains a constraint. With the planned facility upgrade, we may see uptick in gearing levels however, the same is expected to remain within reasonable levels.

Macter International Limited Appendix I

Financial Summary						
Balance Sheet (PKR Millions)	FY19A	FY20A	FY21A	FY22A	FY23A	9MFY24M
Property, plant and equipment	1,232.84	1,273.16	1,448.42	1,679.34	2,052.47	1,880.07
Stock-in-trade	773.21	1,038.06	984.31	1,260.46	1,776.16	1,988.15
Trade debts	580.69	762.64	513.25	301.36	382.86	330.39
Cash & Bank Balances	142.58	129.75	81.99	212.73	54.38	1.83
Other Assets	481.26	754.10	690.80	984.61	657.54	999.10
Total Assets	3,210.58	3,957.71	3,718.77	4,438.50	4,923.41	5,199.54
Creditors	346.79	0.00	520.45	791.13	780.66	607.88
Long-term Debt (incl. current portion)	397.59	696.68	974.54	410.78	568.59	432.14
Short-Term Borrowings	790.74	883.47	381.70	0.00	0.00	37.47
Total Debt	1,188.33	1,580.15	1,356.24	410.78	568.59	469.61
Other Liabilities	481.49	1,209.83	492.55	661.24	703.46	995.23
Total Liabilities	2,016.61	2,789.98	2,369.24	1,863.15	2,052.71	2,072.72
Paid up Capital	391.44	391.44	391.44	458.11	458.11	458.11
Equity (excl. Revaluation Surplus)	1,193.94	1,167.72	1,349.51	2,575.36	2,870.69	3,126.84
Income Statement (PKR Millions)	FY19A	FY20A	FY21A	FY22A	FY23A	9MFY24M
Net Sales	4,081.75	5,528.14	5,141.62	5,311.25	6,680.40	5,416.69
Gross Profit	1,732.88	2,037.38	2,114.79	2,374.10	2,784.72	2,206.23
Operating Profit	242.17	294.91	459.88	528.29	618.21	382.83
Finance Costs	119.56	232.39	129.05	38.47	61.37	74.92
Profit Before Tax	122.61	62.52	330.83	489.82	556.84	307.91
Profit After Tax	106.44	14.92	257.01	317.54	392.87	280.89
Ratio Analysis	FY19A	FY20A	FY21A	FY22A	FY23A	9MFY24M
Gross Margin (%)	42.45%	36.85%	41.13%	44.70%	41.68%	40.73%
Operating Margin (%)	5.93%	5.33%	8.94%	9.95%	9.25%	7.07%
Net Margin (%)	2.61%	0.27%	5.00%	5.98%	5.88%	5.19%
Funds from Operation (FFO) (PKR Millions)	150.63	119.18	561.77	663.85	712.79	221.16
FFO to Total Debt* (%)	12.68%	7.54%	41.42%	161.61%	125.36%	62.79%
FFO to Long Term Debt* (%)	37.89%	17.11%	57.64%	161.61%	125.36%	68.24%
Gearing (x)	1.00	1.35	1.00	0.16	0.20	0.15
Leverage (x)	1.69	2.39	1.76	0.72	0.72	0.66
Debt Servicing Coverage Ratio* (x)	1.19	1.00	1.29	3.56	4.84	1.69
Current Ratio (x)	1.15	1.14	1.18	1.71	1.85	1.87
(Stock in trade + trade debts) / STD (x)	1.52	1.80	1.97	10.38	23.19	14.56
Return on Average Assets* (%)	3.55%	0.42%	6.70%	7.79%	8.39%	7.40%
Return on Average Equity* (%)	8.37%	1.26%	20.42%	16.18%	14.43%	12.49%
Cash Conversion Cycle (days)	62.44	86.21	86.18	24.55	28.99	54.91

REGULATORY DISCLOSURES
Appendix II

Name of Rated Entity	Macter International Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
02-Aug-24	A	A-1	Stable	Upgrade
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

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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS Credit Rating Company Limited (VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s)/ranking(s) mentioned in this report. VIS is paid a fee for most rating assignments. This rating/ranking is an opinion and is not a recommendation to buy or sell any securities. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	(see table below)

Serial Number	Name	Designation	Date
1	Shabbir Butt	Senior Manager Treasury and Finance	May 22,2024
2	Syed Naveed Rizvi	CFO	May 22, 2024