

## RATING REPORT

### Highnoon Laboratories Limited

**REPORT DATE:**

January 24, 2025

**RATING ANALYST:**

Musaddeq Ahmed  
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RATING DETAILS				
Rating Category	Current Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity Rating</b>	A+	A1	A+	A1
<b>Rating Date</b>	January 24, 2025		September 20, 2023	
<b>Outlook/Rating Watch</b>	Positive		Positive	
<b>Rating Action</b>	Reaffirmed		Initial	

#### COMPANY INFORMATION

<b>Incorporated in March 1984</b>	<b>External auditors:</b> BDO Ebrahim and Co. Chartered Accountants
<b>Listed Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Tausif Ahmad Khan
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Dr. Adeel Abbas Haideri
<i>Mr. Tauqir Ahmed Khan – 11.84%</i>	
<i>Mr. Taufiq Ahmed Khan – 9.87%</i>	
<i>Pharmatec Investments Limited – 8.34%</i>	
<i>Mr. Tausif Ahmed Khan – 7.48%</i>	
<i>Mrs. Nosheen Riaz Khan (CDC) – 6.94%</i>	

#### 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>

**Highnoon Laboratories Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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*In 1984, Highnoon Laboratories Limited (HINOON) was incorporated as a private limited company. Subsequently, it was converted into a public limited company in 1995 and its shares were listed on Pakistan Stock Exchange Limited. Registered office of the Company is located in Lahore, Pakistan.*

**Profile of Board Chairman**

*Mr. Tausif Ahmad Khan is a graduate in Economics from the University of Oregon, USA. He actively contributes to the pharmaceutical industry and advises the government on healthcare services. He serves on various boards and engages in national and international pharmaceutical advancements.*

**Profile of CEO**

*Dr. Adeel Abbas Haideri, holds a bachelor's degree in medicine and surgery, with extensive experience in the pharmaceutical industry. He joined Highnoon as GM Marketing in 2007. Dr. Adeel has participated in sales, marketing, finance, and general management*

**Company Profile**

Highnoon Laboratories Limited ('Highnoon' or 'HINOON' or the 'Company') is a pharmaceutical company engaged in manufacturing, importing, and marketing of pharmaceutical products in Pakistan. Established in 1984 as a private limited company, it was listed on the Pakistan Stock Exchange as a public limited company in November 1995. The Company's registered office and manufacturing facility are located at 17.5 KM, Multan Road, Lahore, with its corporate office at Tricon Corporate Center, Jail Road, Lahore.

As per IQVIA, HINOON maintained its position as the 12<sup>th</sup> largest pharmaceutical company in Pakistan. As of Dec'23, the Company's market share stood at 2.55% with a 5-year Compound Annual Growth Rate (CAGR) of 21.0%. HINOON is a generic pharmaceutical manufacturer, producing and marketing a broad range of products across several therapeutic areas. The Company also has a significant presence in the anti-infective market through its subsidiary, Curexa. Major products include Combivair (Respiratory), Cyrocine (Anti-Infection), Tagipmet (Diabetic), Kestine (Anti-Allergy), and Ulsanic (Anti-Ulcerant).

Curexa Health Private Limited (the 'Subsidiary' or 'Curexa') focuses on antibiotic production, particularly cephalosporins. Its cGMP-compliant manufacturing facilities produce sterile powder for injections, oral suspension powder, and capsules for local and export markets. These products address therapeutic areas including respiratory, gastroenterology, urology, gynecology, and pediatrics. According to IQVIA, Curexa's key brands, Ceftra and CEFIA, reported sales of Rs. 667.0 mn and Rs. 431.7 mn, respectively, in 2023, reflecting approximately 7.0% growth.

Additionally, HINOON has an associate company, Route2Health (the 'Associate' or 'R2H'), which manufactures and markets herbal remedies and dietary supplements. R2H operates in Pakistan, Canada, and the UAE, with a USP-accredited manufacturing facility in Lahore.

**Auditors' Opinion**

The CY23 financial statements were audited by EY Ford Rhodes, Chartered Accountants, categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion on the financial statements.

At the conclusion of last year's Annual General Meeting (AGM), EY Ford Rhodes, Chartered Accountants, completed their tenure as the Company's auditors. Subsequently, HINOON appointed BDO Ebrahim & Co., Chartered Accountants, as its new auditor.

**Industry Update**

The Pakistani pharmaceutical market comprises around 650 companies, with less than 26.0% being multinational. The industry contributes approximately 1.0% to the country's GDP and grew by

*seminars and served on various boards.*

15.0% over the past year, reaching an estimated \$3.0 bn. Local companies dominate the market with a 74.0% share, while multinationals hold the remaining 26.0%. The top 25 companies account for 74.0% of the market, and the top 50 make up 90.0%. Approximately 11,000 drugs are actively marketed in Pakistan, and sold through licensed pharmacies based on prescriptions. The Drug Regulatory Authority of Pakistan (DRAP) regulates the sector, overseeing medicine registration, manufacturing site approvals, and the setting of Maximum Retail Prices (MRP).

The industry heavily relies on imports, with over 90.0% of raw materials sourced from abroad and only 10.0% of Active Pharmaceutical Ingredients (API) produced locally. This reliance exposes the sector to risks from currency devaluation, inflation, and rising utility costs. Price controls further compress profit margins, leading to the exit of some multinational companies. However, recently in February 2024, the government deregulated drug prices for medicines not listed on the National Essential Medicines List (NEMI). 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.

According to data from IQVIA, a healthcare analytics firm, Pakistan’s pharmaceutical industry recorded sales of Rs. 916.0 bn in FY24, reflecting a 24.0% year-on-year (YoY) increase in rupee terms. The fourth quarter of FY24 saw the highest-ever quarterly sales of Rs. 237.0 bn, representing a 25% increase compared to the same period last year (SPLY). Of this growth, approximately 20.0% was driven by price increases, while the remaining 5% resulted from volumetric gains. The price increase was influenced by the one-time price adjustment allowed by DRAP in May 2023 to absorb the significant rupee devaluation.

**Governance Framework**

Name	Position
<b>Mr. Tausif Ahmad Khan</b>	Chairman/Non-Executive Director
<b>Mr. Ghulam Hussain Khan</b>	Non-Executive Director
<b>Mr. Taufiq Ahmed Khan</b>	Non-Executive Director
<b>Mrs. Zainub Abbas</b>	Non-Executive Director
<b>Mr. Tariq Wajid</b>	Independent Director
<b>Mr. Romesh Elapata</b>	Independent Director
<b>Dr. Adeel Abbas Haideri</b>	CEO

At present, the Board of Directors (BoD) comprises seven members including Chairman of the Board and CEO. There are two independent directors, four non-executive directors, and one executive director, including a female representation on the Board.

Two board-level committees, the Board Audit Committee (BAC) and the HR & Remuneration Committee, are chaired by independent members in accordance with corporate governance best practices. Detailed examinations are carried out by the internal audit function which reviews adherence to internal control processes as well as compliance of procedures and reports its findings to the Board of Audit Committee.

The audit committee meets every quarter to discuss internal controls while the HR & Remuneration Committee meets semi-annually/annually to review board compensation and HR policies and

practices. The Board has duly complied with the Directors' Training Program requirement and the criteria as prescribed in the Listed Companies Corporate Governance Regulations, 2019.

### Key Rating Drivers

#### **Ratings incorporate low business risk of the pharmaceutical sector**

Ratings account for stable demand and low economic sensitivity of the pharmaceutical industry, which translates into steady revenue and profitability. Factors such as population growth, a high incidence of diseases, the emergence of new illnesses, 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, including the reliance on the Drug Regulatory Authority of Pakistan (DRAP) for the approval of new products and pricing increases. The Company also encounters challenges in accessing raw materials, with 70.0-80.0% of 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.

The recent deregulation of drug prices for Non-Essential Medicines provides companies with the autonomy to independently raise prices, which further supports the business risk profile of the sector.

#### **Sustained topline growth**

The Company's revenue increased by 22.8%, reaching Rs. 19,424.3 mn (CY22: Rs. 15,815.9 mn) in CY23, driven by higher volumetric sales. However, the gross margin decreased to 47.6% (CY22: 50.8%), due to high input costs driven by the impact of rupee devaluation and inflation in CY23.

During CY23, the Company's selling and distribution expenses increased due to higher sales promotion and advertising expenses. Similarly, the finance charges increased significantly due to an elevated policy rate, alongside higher borrowings during the year under review. Resultantly, HINOON's Profit after Tax (PaT) was largely sustained, while the net margin stood lower at 12.4% (CY22: 15.3%).

Moreover, in 9MCY24, HINOON's sales were reported higher at Rs. 16,956.1 mn (9MCY23: Rs. 14,896.0 mn), driven by sustained performance of established brands, with a gross margin of 49.5%. Revenue growth was also supported by the deregulation of non-essential drug prices in early 2024, given that 60% of the Company's product portfolio comprises non-essential medicines. While the finance costs amounted to Rs. 169.0 mn (9MCY23: Rs. 41.8 mn), strong topline performance and income from investments supported net profitability, with the net margin standing at 13.9%.

Going forward, with new products in the pipeline that will be gradually introduced to complement the existing product line, HINOON's ability to sustain growth and maintain margins while managing the rising costs will be important from ratings perspective.

#### **Rating draws comfort from the diverse therapeutic mix**

In CY23, the Alimentary T. & Metabolism segment sustained its momentum, contributing 29.0% (CY22: 29.0%) to the sales portfolio. This was followed by the Anti-Infectives, Respiratory, and

Cardiovascular therapeutic areas, which accounted for 24.0% (CY22: 23.0%), 18.0% (CY22: 20.0%), and 19.0% (CY22: 18.0%) respectively.

Key contributors to the Alimentary T. & Metabolism sales were Tagipmet and Ulsanic. Within the Anti-Infectives portfolio, Cyrocine and Ceftra were significant, together accounting for 43.0% of sales. The Respiratory segment achieved sales of Rs. 3.9 bn (CY22: Rs. 3.5 bn) in CY23, marking an ~11.4% increase; Combivair was prominent in this therapeutic area, contributing to 37.0% of Respiratory sales. The Cardiovascular category experienced a 25.0% growth, primarily driven by Triforge and Nebix.

### **Sound liquidity profile**

The Company has maintained a strong liquidity position over the years, with the healthy current ratio of 3.55x (CY22: 3.34x), driven by an increase in inventories, trade debts, and short-term investments. However, the net cash cycle remained relatively high due to a maintenance of high raw material buffer, aimed at managing procurement costs amid exchange rate volatility, and an extension in the collection period. Additionally, with higher operating profitability in CY23, Funds-from-Operations (FFO) increased to Rs. 2,808.0 mn (CY22: Rs. 2,425.9 mn). Historically, the Debt-Service-Coverage-Ratio (DSCR) has remained sound, albeit declining to 6.15x in CY23 (CY22: 18.55x). However, due to significant long-term financing obtained during the year, the FFO/Long-term debt and FFO/Total debt ratios declined to 2.26x (CY22: 8.71x) and 1.99x (CY22: 3.26x) respectively.

During 9MCY24, the current ratio remained at a comfortable level of 2.84x. FFO for 9MCY24 amounted to Rs. 2,803.4 mn, owing to higher profitability in third quarter of FY25. With settlement of a portion of long-term debt along with higher annualized FFO, the FFO/Long-term debt ratio improved to 3.70x. Additionally, HINOON's DSCR increased to 8.35x in 9MCY24 indicating sufficient cushion to the current portion of long-term liabilities due in the review period.

Going forward, effective management and debt service ability will remain important from ratings perspective.

### **Conservative capital structure**

As of Dec'23, HINOON's total equity increased to Rs. 9,596.7 mn (Dec'22: Rs. 7,445.2 mn), despite a dividend payout of Rs. 837.7 mn, driven by higher profitability. Long-term debt (incl. of current maturity), increased to Rs. 1,244.9 mn (Dec'22: Rs. 278.7 mn), driven by a loan obtained from Meezan Bank Limited amounting Rs. 700.0 mn to address long-term financing requirements. The leverage ratio and gearing ratios increased slightly to 0.51x (CY22: 0.43x) and 0.16x (CY22: 0.10x), respectively.

As of Sep'24, HINOON's equity base further expanded, while total debt reduced with the repayment of long-term debt, and no short-term borrowings were outstanding at end-Sep'24. This led to a slight improvement in the gearing ratio to 0.11x.

Going forward, the Company plans to secure additional financing for its Quaid-e-Azam Business Park project, intended for constructing a new facility on the 12 acres land. Effective management of capitalization metrics will remain important for supporting the assigned rating.

**Highnoon Laboratories Limited**

**Appendix I**

<b>Financial Summary</b>					
<b>Balance Sheet (PKR Millions)</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22A</b>	<b>CY23A</b>	<b>9MCY24M</b>
Property, plant and equipment	1,456.76	1,389.81	1,702.15	2,951.78	3,818.52
Right-of-use Assets	0.00	0.00	356.47	564.45	0.00
Intangible Assets	0.00	21.19	35.84	32.29	29.21
Long-term Investments	200.00	200.00	200.00	200.00	200.00
Stock-in-trade	0.00	2,315.94	3,776.28	4,650.30	3,890.21
Trade debts	322.55	582.34	1,330.34	2,120.42	3,133.74
Short-term Investments	1,093.85	2,059.74	1,338.89	2,168.79	2,408.97
Cash & Bank Balances	823.20	812.05	287.32	204.34	1,176.22
Other Assets	2,737.51	659.01	1,612.82	1,133.46	1,389.85
<b>Total Assets</b>	<b>6,633.87</b>	<b>8,040.08</b>	<b>10,640.11</b>	<b>14,025.83</b>	<b>16,046.72</b>
<b>Creditors</b>	<b>679.01</b>	<b>0.00</b>	<b>660.13</b>	<b>861.81</b>	<b>1,373.35</b>
Long-term Debt (incl. current portion)	522.78	360.89	278.66	1,244.86	1,011.32
Short-Term Borrowings	0.00	0.00	464.51	163.89	0.00
<b>Total Debt</b>	<b>522.78</b>	<b>360.89</b>	<b>743.17</b>	<b>1,408.75</b>	<b>1,011.32</b>
Other Liabilities	945.90	1,916.57	1,791.56	2,158.57	3,294.78
<b>Total Liabilities</b>	<b>2,147.69</b>	<b>2,277.46</b>	<b>3,194.86</b>	<b>4,429.13</b>	<b>5,679.45</b>
Paid up Capital	346.15	380.76	418.84	529.83	529.83
Revenue Reserve	3,726.12	4,990.53	6,659.68	8,167.53	8,969.49
Other Equity (excl. Revaluation Surplus)	0.00	0.00	0.00	0.00	0.00
Sponsor Loan	0.00	0.00	0.00	0.00	0.00
<b>Equity (excl. Revaluation Surplus)</b>	<b>4,072.27</b>	<b>5,371.29</b>	<b>7,078.52</b>	<b>8,697.36</b>	<b>9,499.32</b>
<b>Income Statement (PKR Millions)</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22A</b>	<b>CY23A</b>	<b>9MCY24M</b>
Net Sales	10,697.63	13,000.78	15,815.93	19,424.26	16,956.09
Gross Profit	5,121.17	6,415.59	8,030.08	9,254.47	8,396.08
Operating Profit	1,945.84	2,399.08	3,399.90	3,439.06	3,451.50
Finance Costs	24.11	26.95	54.40	136.47	169.05
Profit Before Tax	1,921.73	2,372.13	3,345.50	3,302.59	3,282.45
Profit After Tax	1,420.73	1,808.02	2,417.17	2,403.02	2,360.06
<b>Ratio Analysis</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22A</b>	<b>CY23A</b>	<b>9MCY24M</b>
Gross Margin (%)	47.87%	49.35%	50.77%	47.64%	49.52%
Operating Margin (%)	18.19%	18.45%	21.50%	17.70%	20.36%
Net Margin (%)	13.28%	13.91%	15.28%	12.37%	13.92%
Funds from Operation (FFO) (PKR Millions)	1,986.83	1,869.06	2,425.90	2,808.03	2,803.44
FFO to Total Debt* (%)	380.05%	517.90%	326.43%	199.33%	369.61%
FFO to Long Term Debt* (%)	380.05%	517.90%	870.56%	225.57%	369.61%
Gearing (x)	0.13	0.07	0.10	0.16	0.11
Leverage (x)	0.53	0.42	0.43	0.51	0.60
Debt Servicing Coverage Ratio* (x)	9.19	7.45	18.55	6.15	8.35
Current Ratio (x)	3.78	3.87	3.34	3.55	2.84
(Stock in trade + trade debts) / STD (x)	-	-	11.12	41.70	-
Return on Average Assets* (%)	21.42%	24.64%	25.88%	19.48%	20.93%
Return on Average Equity* (%)	34.89%	38.29%	37.72%	29.77%	34.59%
Cash Conversion Cycle (days)	-33.44	58.07	149.40	156.33	143.24

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts



REGULATORY DISCLOSURES				Appendix II	
<b>Name of Rated Entity</b>	Highnoon Laboratories Limited				
<b>Sector</b>	Pharmaceutical				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	24-Jan-25	A+	A1	Positive	Reaffirmed
	20-Sep-23	A+	A1	Positive	Initial
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
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<b>Due Diligence Meetings Conducted</b>	<b>S. No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1.	Mr. Awais Mahmood	Head of Finance	19 <sup>th</sup> November, 2024	
	2.	Ms. Saba Sultan	Manager Accounts		