RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
October 24, 2017

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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	October 18, 2017	
Sukuk	A	
Rating Action	Preliminary	

COMPANY INFORMATION

Incorporated in 2013	**External auditors:** Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Tariq Moinuddin Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Tariq Moinuddin Khan
OBS Pakistan (Pvt.) Limited – 70%	
Other shareholders – 30%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) [***http://www.jcrvis.com.pk/kc-meth.aspx***](http://www.jcrvis.com.pk/kc-meth.aspx)

Aspin Pharma (Private) Limited (APL)

OVERVIEW OF THE INSTITUTION

Aspin Pharma (Private) Limited (APL) was incorporated in Pakistan as a private limited company in 2013. Majority shares (70%) of APL are held by OBS Pakistan (Pvt.) Limited (OBS) which is a part of OBS Group while remaining stake is held by other shareholders.

Profile of Chairman & CEO

Mr. Tariq Moinuddin Khan is founder and CEO of OBS Group. He carries over three decades of domestic and international professional experience. Mr. Khan is a graduate of Concordia University Canada and acquired Certified Public Accountant designation from USA.

Financial Snapshot

Total Equity: June 2017: Rs. 1,187.2m, December 2016: Rs. 1,068.1m

Net Profit: June 2017: Rs. 119.0m, December 2016: Rs. 256.6m

RATING RATIONALE

In October 2014, APL entered into an asset purchase agreement with Johnson & Johnsons Pakistan (Pvt.) Limited (J&J) for acquisition of J&J's production facility in Karachi and marketing rights of its products. The company's facility has an installed annual capacity of 21.9m units. During 2016, capacity utilization was 81.8% under single shift with extended hour operation. As per management, the company operates on double shift during summer season when demand is at its highest while single shift operations are undertaken in the winter season.

With significant turnover in J&J's sales force following its acquisition, fresh hiring was undertaken by the company. Currently, head count of sales force stands at 131 spread across 32 cities reaching around 12,500 doctors. Over the medium term, management plans to further augment sales team to 200 individuals, increase outreach to over 20,000 doctors and further enhance performance of existing sales force.

Distribution: Muller & Phipps Pakistan (Private) Limited (M&P) is the distributor of APL and is responsible for Pan Pakistan distribution of APL products. M&P has vast experience in pharmaceutical distribution /marketing services and has coverage of around 32,400 pharmacies across Pakistan.

Product Portfolio and Therapeutic Area Coverage: The company operates in seven therapeutic segments through 13 products. Leading revenue generating drugs are Motilium, Daktarin, Vermox, Imodium and Sibelium. Product portfolio largely covers a single therapeutic category (alimentary tract & metabolism) indicating room for diversification. Currently, the topline is largely driven by treatments for acute therapeutic classes. Therefore, to further enhance stability in sales, management envisages launch of drugs within diverse chronic therapeutic category (diabetes, hepatitis-C and hypertension) and line extension within existing product lines. In this regard, eight new products are in the pipeline for which regulatory approval is awaited. JCR-VIS believes that a more diversified pharma business profile is only expected to emerge over the medium term.

Market Share: Overall market share of APL stood at 0.65% at end-2016. Top 4 products accounting for 87% of total sales have high relative market share (Motilium: 27.9%[1]), (Daktarin: 53.9%), (Vermox: 37.2%) and (Imodium: 88.3%) and enjoy strong brand value.

Business Risk: JCR-VIS considers pharmaceutical sector as low business risk given the relatively stable demand and demographic profile of the country. Key sector risks include regulatory risk (delay in new product approvals), rupee depreciation and significant dependence on DRAP for approval of hardship cases.

Profitability: During FY17, APL's net sales outperformed industry peers and increased by 18.5% vis-à-vis industry growth of 7.8% during same period. Motilium has historically accounted for around half of annual turnover. Moreover, top three products represented around three-fourth of gross sales during the outgoing year. Therefore, product concentration in sales is on the higher side. Increase in volumetric sales and change in product mix towards high margin products translated into improved gross margins and profitability. Going forward, profitability is projected to grow on the back of higher turnover from both existing and new products. Any adverse movement in raw material prices, including on account of rupee depreciation, beyond levels that can be passed on to customers may impact margins and cash flows.

Liquidity and Capitalization: With an improvement in profitability, Funds flow from operations (FFO) has witnessed a noticeable increase with debt servicing coverage at around 1(x) while capex plans will be funded through borrowings. APL is in process of issuing a Sukuk of up to Rs. 1,500m (inclusive of a Green Shoe Option of Rs. 250m). The funds will be used to refinance the existing long-term loan of the company and fund capital expenditure plans. Given extended repayment period on the Sukuk (6 years) vis-à-vis existing loan (3 years), debt servicing is expected to improve post Sukuk issuance. Capitalization levels have improved on the back of higher equity and repayment of debt. Gearing is projected to remain lower than 1(x) over the rating horizon.

[1] IMS Data Plus MAT June 2017 secondary sales data. All market share data of the subsequent products are from this source.

RATING SCALE & DEFINITION

Appendix I

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 II
Name of Rated Entity	Aspin Pharma (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Rating
Rating History	see below
Instrument Structure	APL is in the process of issuing a Rated, Privately Placed and Secured Islamic Certificates Issue ("Sukuk" or the "Issue" or the "Transaction") of up to Rs. 1,500m (inclusive of a Green Shoe Option of Rs. 250m). The funds will be used to refinance the existing long-term loan of the company which stands at Rs. 1,000m (as of June 30, 2017), and remaining proceeds will be utilized for funding capital expenditure and business operations of the company. The proposed issue will have a tenor of six years inclusive of one year grace period. The principal will be redeemed by the company in twenty equal quarterly installments, starting from the fifteenth month of the issue date. The issue offers quarterly profit payments with a floating rate of 3-Month KIBOR plus a spread of 1.50% p.a. (around 75bps lower interest rate as compared to existing loan). The transaction shall be secured by a ranking charge (which will be upgraded to First Pari Passu within 120 days of the issue date) on all present and future fixed assets of the company inclusive of a 15% margin over and above the issue size.
Statement by the Rating Team	JCR-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	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
18-10-2017	A	A-2	Stable	Initial
RATING TYPE: SUKUK				
18-10-2017	A		Stable	Preliminary