RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
October 07, 2019

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Date	*October 03, 2019*		*December 14, 2018*	
Rating Outlook	Stable		Stable	
Sukuk	A		A	
Rating Action	Reaffirmed		Final	

COMPANY INFORMATION	
Incorporated in 2013	**External auditors:** EY Ford Rhodes & 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
- Aitken Stuart Pakistan (Private) Limited – 100%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.vis.com.pk/kc-meth.aspx

Aspin Pharma (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Aspin Pharma (Private) Limited (APL) was incorporated in Pakistan as a private limited company in 2013. ASPL is engaged in manufacture and sale of pharmaceuticals. The company is a wholly owned subsidiary of Aitken Stuart Pakistan (Private) Limited.

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.

RATING RATIONALE

Aspin Pharma (Private) Limited (APL) is a pharmaceutical company engaged in manufacturing and sale of pharmaceutical products. The company commenced its commercial operations in July'2015 after acquiring J&J's production facility in Karachi. APL is a wholly owned subsidiary of Aitken Stuart Pakistan (Private) Limited with shareholding previously held by OBS Pakistan (Private) Limited (OBS)); although the sponsor remains the same. Recently, OBS sold off a sizeable portion of the Company's product portfolio to another pharmaceutical company while remaining products have been transferred to APL; this is projected to translate into a Rs. 700m increase in annual turnover for APL. Capacity utilization of the company has remained on the higher side under single shift extended hour operation.

APL holds 4.79% stake in AGP Limited (a related party). AGP limited is listed on the Pakistan Stock Exchange and reported profit after tax of Rs. 743.1m (1H2018: Rs. 676.5m) during1H2019. The company has announced an interim dividend of Rs. 1.25/share which will support profitability going forward.

Key Rating Drivers

Business risk profile is supported by non-cyclical nature of the industry and steady demand growth.
Given the non-cyclical nature of the sector with relatively stable (inelastic) demand, revenues and profitability of pharmaceutical industry are likely to remain unaffected by the economic downturns. Sales of the sector are supported by geographical diversification, growing population, growth in income levels and continuous emergence of new diseases. Thus the business risk of the sector is considered to be low. However, delays in regulatory approvals for increase in product prices and introduction of new products, impact on margins of rupee devaluation and significant dependence on Drug Regulatory Authority of Pakistan (DRAP) continue to remain the key rating sensitivities.

Established distribution network with a leading pharmaceutical distribution company.
Muller & Phipps Pakistan (Private) Limited (M&P) is the distributor of APL and is responsible for Pan Pakistan distribution of APL products. M&P's extensive outreach through its widespread and growing network of 119 locations comprising of central warehouses, depots and service centers and vast coverage of retail customers touching 32,400 pharmacies and 50,000 outlets across Pakistan is a competitive advantage.

High relative market share and strong brand value of leading products. Concentration in product portfolio and therapeutic area coverage. Business strategy has been aligned to focus on expanding and diversifying product portfolio. In this regard, a number of new products have been launched while further product launches are in the pipeline.
Overall market share of APL stood at 0.74% as per IMS Q2-2019. APL's product mix comprises some of the well-known brands within the respective product segment. Motilium, Daktarin, Vermox, Imodium and Sibelium continue to remain the flagship products of the company while product concentration risk is considered on the higher side.

Presently, product portfolio largely covers a single therapeutic category (alimentary tract & metabolism) indicating room for diversification. Therefore to enhance sales and diversify product mix, management envisages launch of drugs within diverse chronic therapeutic category (diabetes, hepatitis-C, gynecology and cardiovascular diseases) and line extension within existing product lines. In this regard, 4 new products were launched in 2018. The same trend is expected to continue in the ongoing year with introduction of 8 new products in the ongoing year. Moreover, 22 products have been transferred from OBS to APL and will be manufactured by the Company post approval of DRAP.

Strong double digit growth in sales projected over the rating horizon. Despite rupee devaluation, margins should remain strong on account of lower API prices. Resultantly, profitability is projected to show healthy growth

Topline of the company amounted to Rs. 2.2b (2017: Rs. 1.9b) in 2018, growing at a rate of ~15.7% vis-à-vis industry growth of 14% for the same period. In HY2019, net sales registered a sizeable increase vis-à-vis comparable period in the preceding year (HY19: Rs. 1.5b; HY18: Rs. 1.1b). Increase in sales was due to one-off increase in prices allowed by DRAP (in addition to allowed CPI increase) and growth in volumes. Sales will be supported by increase in product portfolio from OBS.

On the cost front, overall operating expenses have increased on a timeline basis primarily on account of sizeable growth in marketing and distribution expenses related to new product launches over time. During HY2019, finance cost increased considerably by ~38% on the back of increasing interest rate regime compared to same period last year. Going forward, management expects APL to record healthy sales increase over the rating horizon with strong new product pipeline along with organic growth from existing products. Any adverse movement in raw material prices, including on account of rupee devaluation, beyond levels that can be passed on to customers may impact margins and cash flows.

Liquidity profile is considered manageable given improving cash flows. In the backdrop of increasing debt repayments over the rating horizon, achieving projected turnover and cash flows is important for maintaining sound debt servicing ability. Comfort is drawn from liquidity buffer carried on the balance sheet.

With significant reduction in bottom-line profitability in the outgoing year 2018, Funds flow from Operations (FFO) decreased to Rs. 157.8m (2017: Rs. 326.7m). As a result, FFO in relation to long term and total debt were reported considerably lower at 5.1% (2017: 10.5%) and 4.2% (2017: 9.3%), respectively. Debt servicing coverage ratio (DSCR) stood at 1.53x (2017: 1.00x) in 2018. However, higher turnover and improved margins have resulted in some improvement in liquidity metrics in the ongoing year. In the backdrop of increasing debt repayments over the rating horizon, achieving projected turnover and cash flows is important for maintaining sound debt servicing ability. Comfort is drawn from liquidity buffer (bank deposit of Rs. 1b as at end-August 2019) carried on the balance sheet.

Leverage indicators have declined on a timeline basis but continue to remain elevated.

Total interest bearing debt of the company amounted to Rs. 3,295.8m (2018: Rs. 3,734.3m) as at end-HY2019; out of which 88.6% constitutes long term debt. Total annual principal repayments stand at Rs. 400m for the next two years. Break-up of the long term debt as at end-HY2019 is given below:

Loan Type	Sukuk	Term Finance	LTFF
Amount	Rs. 1.5b	Rs. 1.15b	Rs. 500m
Term rate	3M KIBOR + 1.50%	6M KIBOR + 1.00%	3M KIBOR + 1.75%
Repayments starts on	February 2019	June 2021	March 2019
Payments	Quarterly payments	Semi-annual payments	Quarterly payments
Maturity Date	November 2023	December 2025	December 2023

Leverage indicators on account of significantly higher debt levels have remained elevated over the last two years. Gearing and leverage ratios were reported at 2.37x (2018: 2.52x) and 2.77x (2018: 2.84x) respectively at end-HY2019. Ratings remain dependent on timeline reduction in leverage indicators.

RATING SCALE & DEFINITION Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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 II

Name of Rated Entity	Aspin Pharma (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
03-10-2019	A	A-2	Stable	Reaffirmed
14-12-2018	A	A-2	Stable	Reaffirmed
18-10-2017	A	A-2	Stable	Initial
RATING TYPE: SUKUK				
03-10-2019	A		Stable	Reaffirmed
14-12-2018	A		Stable	Final
18-10-2017	A		Stable	Preliminary

Instrument Structure

APL has issued a Privately Placed and Secured Islamic Certificates Issue ("Sukuk" or the "Issue" or the "Transaction") of Rs. 1,500m. The funds were used to refinance the existing long-term loan of the company which stood at Rs. 1,000m (as of June 30, 2017), and remaining proceeds were utilized for funding capital expenditure and business operations of the company.

The issue has 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.

The Sukuk is secured by a pari-passu charge 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

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.

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