RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
October 19, 2020

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 19, 2020*		*October 03, 2019*	
Rating Outlook	Stable		Stable	
Sukuk	A		A	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2013	**External auditors:** EY Ford Rhodes (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
- Aitkenstuart Pakistan (Private) Limited – 100%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Aspin Pharma (Private) Limited

RATING RATIONALE

Aspin Pharma (Private) Limited (APL) is engaged in manufacturing and sale of pharmaceutical products. The company initiated its commercial operations in Jul'2015 after acquiring Johnson & Johnson's pharmaceutical brands and production facility in Karachi. APL is a wholly owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited. The parent company is a part of OBS Group. 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. 754.8m (1H2019: Rs. 743.1m) during 1H2020. Capacity utilization of APL is at moderate level and indicates ample room to incorporate projected growth in sales. Average capacity utilization of the company was 40% in HY20.

Key Rating Drivers

Business risk of the sector is low due to non-cyclical nature of industry, growing demand and favourable population demographics

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. Growing population, increase in income levels, high disease incidence coupled with emergence of new diseases and poor hygiene levels continue to support growth in demand for pharmaceutical products in the country. Hence, business risk is considered low. However, dependence on Drug Regulatory Authority of Pakistan (DRAP) for regulatory approvals pertaining to increase in prices and introduction of new products along with impact of rupee devaluation on margins continue to remain key risk factors. Recent amendments in the Drug Pricing Policy 2018 include introduction of a timeframe of 30 days for DRAP to review the increase in drug prices proposed by the manufacturers and reduction in timeline for decisions on hardship cases from 180 to 120 days.

Association with a leading pharmaceutical distribution company provides an established distribution network to APL

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 distribution network comprising of central warehouses, depots and service centers and vast coverage of retail customers is a competitive advantage. The company maintains a comprehensive sales network covering ~ 53,000 physicians and more than 40,000 pharmacies. During 2020, APL has also entered into agreements with institutional distributors, which will allow the company to cater to institutional tender business.

Flagship products have strong brand value and high market shares within respective product categories. However, concentration in product portfolio exists. 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

As per IMS, overall market share of APL increased to 0.80% (HY19: 0.74%) during Q2-2020. Motilium, Daktarin, Vermox, Imodium and Sibelium continue to remain the flagship products of the company. All these flagship products have significant market share within respective product categories. Product wise concentration risk exists as revenue from the five flagship products contribute more than half of the company's topline. With inclusion of the product portfolio comprising 22 products acquired from OBS Pakistan (Private) Limited and launch of 7 new products in 2019, diversity in product portfolio and

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 pharmaceutical products. The company is a wholly owned subsidiary of Aitkenstuart 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.

therapeutic area coverage has increased. As per the management, re-alignment of sales team structure as per specialty areas (gastroenterology, diabetes, gynecology, pediatrics, and cardiovascular diseases) during 2020 will improve market penetration of different products going forward. Nevertheless, flagship products are expected to drive the topline of the company in the medium term.

Sizeable growth in topline is projected over the rating horizon. Margins are expected to improve on account of projected price increases, improved efficiencies and better product mix. Resultantly, profitability is expected to show healthy growth

Topline of the company registered growth vis-à-vis the corresponding periods in the preceding years as net sales were reported higher at Rs. 3.2b (2018: Rs. 2.2b) and Rs. 2.2b (HY19: Rs. 1.5b) during 2019 and HY20, respectively. Amalgamation of the 22 products sold by OBS to APL last year along with two prices increases allowed by DRAP contributed to increase in sales during 2019. Volumetric growth was the primary reason for the growth in sales during HY20.

Gross margins witnessed improvement to 56.0% (2018: 48.7%) and 56.5% (HY19: 54.3%) in 2019 and HY20, respectively. Improved product mix due to focus on high margin products and cheaper sourcing of raw materials contributed to improvement in gross margins. Higher gross margins also translated to improved net margins (HY20: 12.8%; 2019: 7.9%; 2018 7.4%). Going forward, management expects APL to record healthy sales increase over the rating horizon with new product pipeline along with organic growth from existing products. Moreover, efforts to further rationalize distribution costs coupled with reduction in finance costs are expected to support improvement in profitability profile going forward. Any adverse movement in raw material prices, especially on account of rupee devaluation, beyond levels that can be passed on to customers may impact margins and cash flows.

Liquidity profile is considerable manageable given the improving cash flows due to higher profitability. With increasing debt repayments over the rating horizon, achieving projected turnover and cash flows is important for maintaining sound debt servicing ability

With improvement in the bottom-line profitability in the outgoing year 2019, Funds flow from Operations (FFO) increased to Rs. 357.0m (2018: Rs. 157.8m). With reduction in overall debt level, FFO in relation to long term debt and total debt was reported higher at 13.0% (2018: 5.1%) and 12.2% (2018: 4.2%), respectively. Due to sizeable current maturity of debt, debt service coverage ratio decreased to 0.95x (2018: 1.52x). With further increase expected in debt repayments over the rating horizon, the company has unutilized running finance lines which can be utilized in case of shortfall. Moreover, the management also has the option of liquidating investments (AGP Limited) in case of any shortfall. Achieving projected turnover and cash flows is important for maintaining sound debt servicing ability.

Leverage indicators have improved on timeline basis on account of repayment of debt but are still on the higher side

Total interest bearing debt of the company amounted to Rs. 2,838.1m (2019: Rs. 2,935.9b; 2018: Rs. 3,734.3b) at end-HY20, out of which 89.1% constitutes long term debt. Long term debt comprises sukuk, two term finance facilities acquired from commercial bank and lease liabilities. With reduction in the quantum of debt on account of repayments along with growth in equity base due to profit retention, leverage indicators have declined on a timeline basis. Gearing and leverage ratios were reported at 1.37x (2019: 1.55x; 2018: 2.52x) and 1.66x (2019: 1.86x; 2018: 2.84x) respectively at end-HY2020. Going forward, the management does not envisage any further increase in borrowings as the management does not envisage any major capex plans. Ratings remain dependent on reduction in leverage indicators on a timeline basis.

RATING SCALE & DEFINITIONS 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		
19-10-2020	A	A-2	Stable	Reaffirmed
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		
19-10-2020	A		Stable	Reaffirmed
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.

Disclaimer

Due Diligence Meetings Conducted

S.No	Name	Designation	Date
1	Mr. Muhammad Arsalan Batla	Senior Director - Finance	September 30, 2020
2	Mr. Mahmood Ahmed	Senior Commercial Director	September 30, 2020