RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
October 06, 2021

RATING ANALYST:
Muhammad Tabish
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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 06, 2021*		*October 19, 2020*	
Rating Outlook	Stable		Stable	
Sukuk	A		A	

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)
VIS Entity Rating Criteria: Industrial Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Aspin Pharma (Private) Limited

OVERVIEW OF THE INSTITUTION

Aspin Pharma (Private) Limited (APL) was incorporated in Pakistan as a private limited company in 2013. APL 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.

RATING RATIONALE

Aspin Pharma (Private) Limited (APL) has been engaged in manufacturing and sale of pharmaceutical products since the past 6 years. APL is a wholly owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited, which is a wholly owned subsidiary of OBS Healthcare (Private) Limited. OBS group (Structure in Annexure to the Report) has strong presence in the pharmaceutical industry and currently operates in the country via three entities (AGP Limited, Aspin Pharma Private Limited and OBS AGP Private Limited). APL's capacity utilization has remained at moderate level of around 50%, based on two shifts, which indicates ample room to incorporate projected growth in sales.

Investment portfolio

Long-term investments comprise a 4.79% stake in AGP Limited (a related party). AGP limited is listed on PSX and reported net profit of Rs. 772m (2020: Rs. 1.6b; 2019: Rs. 1.4b) in HY21.

Key Rating Drivers

Business risk profile is supported by strong demand, favourable population demographics and non-cyclical nature of the industry.

Pakistan's pharmaceutical industry market size stands at Rs. 559b (as per IQVIA) in June'21, depicting ~19% growth over the previous year while the 4-Year CAGR for the period (FY17-21) stood at ~14%. Around 70% of total market size (in terms of value) constitutes local pharmaceutical firms and the remaining is shared by multinationals (MNCs). There are 733 registered Pharma companies including 16 MNCs while top 100 companies hold ~97% of total market share. Growing population, rising healthcare awareness (especially during the pandemic) and low average health expenditure per capita ($43 per capita compared with world's average of $100 per capita) translates into strong growth potential of the industry. In addition, revenues and profitability of pharmaceutical firms largely remain unaffected by the economic downturns due to non-cyclical nature of the sector with relatively inelastic demand. Hence, business risk is low. Nevertheless, regulatory risk including changes in pricing policies and sharp rupee devaluation (given 95% of basic raw material API is imported) remain key challenges for the sector.

Established distribution network with a leading pharmaceutical distribution company.

Muller & Phipps Pakistan (Private) Limited (M&P) being the primary distributor of APL is responsible for Pan Pakistan distribution of APL products. M&P's sound distribution infrastructure and extensive outreach, which comprises a comprehensive sales network covering over 40,000+ pharmacies is a competitive advantage. APL also has agreements with the institutional distributors to cater to institutional tender business.

Strong brand value of leading products while product concentration continues to remain on the higher side. Future business strategy is aligned to focus on continuous expansion of product range and therapeutic area coverage.

As per IMS, the overall market share of APL witnessed a slight decline to 0.68% (June'20: 0.80%; June'19: 0.74%) as at end-June'21. The product portfolio comprises 47 brands covering 6 segments including gastroenterology, paediatric, gynaecology, neurology, cardiology and general physician; and the sales team structure is aligned as per these specialty areas. Product concentration continues to remain on the higher side with top five brands (Motilium, Daktarin, Vermox, Imodium and Sibelium) accounting for around three-fifth of the total revenue.

Nonetheless, the flagship products are well-known brands within their respective product segments with high market share, which provides comfort to some extent. The future business strategy is aligned to focus on continuous expansion of product range and therapeutic area coverage in order to enhance sales and diversify product mix. Moreover, improving market share through strengthening customer relationship and marketing campaigns also remains the key focus area of the management. Since last review, 3 products have been added to the portfolio while one product is planned to be launched by Nov'21. Additionally, there are plans to launch 2 new teams in 2022 to cater to the antibiotics and dermatology segment.

Topline has registered a strong growth in the ongoing year and is targeted to cross Rs. 4b mark by end 2021.

Net sales of the company has witnessed a sizeable increase in the ongoing year, increasing to Rs. 3.1b (2020: Rs. 3.4b; 2019: Rs. 3.2b) during 8M'21. The growth is attributable to both increase in average selling prices as well as volumetric growth. Moreover, sales based customer targeting, increased customer coverage, team optimization and various other sales and marketing initiatives have led to consistent sales growth over the years. Going forward, revenue is expected to cross Rs. 4b mark in 2021 and the flagship products are expected to drive topline growth in the medium term.

Sizeable increase in gross margins in the ongoing year has translated to bottom-line profitability.

Gross margins have witnessed consistent improvement on a timeline basis (HY21: 62.3%; 2020: 58.2%; 2019: 56.0%; 2018: 48.7%) on account of improved product mix focusing on high margin products, efficient API procurement, re-negotiations of margins with the distributor and process improvement initiatives resulting in improved efficiencies. The considerable jump in gross margins along with contained marketing expenses and lower financial charges due to the decrease in debt levels and low interest rates has significantly supported the net margins in the ongoing year. Overall, the profitability profile is also supported by profit on bank deposits and dividends from its investment in AGP.

Healthy cash flow generation has resulted in strong liquidity profile. Debt coverage metrics are expected to remain strong going forward.

In line with the significant improvement in profitability, Funds flow from Operations (FFO) increased to Rs. 671.7m (2020: Rs. 498.6m; 2019: Rs. 352.6m) in HY21. As a result, FFO in relation to total and long-term debt improved to 66.3% (2020: 21.3%) while Debt Service Coverage Ratio (DSCR) improved to 1.85x (2020: 1.12x) in HY21. The improvement in debt coverage metrics was also supported by a reduction in debt levels, which was due to scheduled re-payments of long-term loans and lack of utilization of running finance lines.

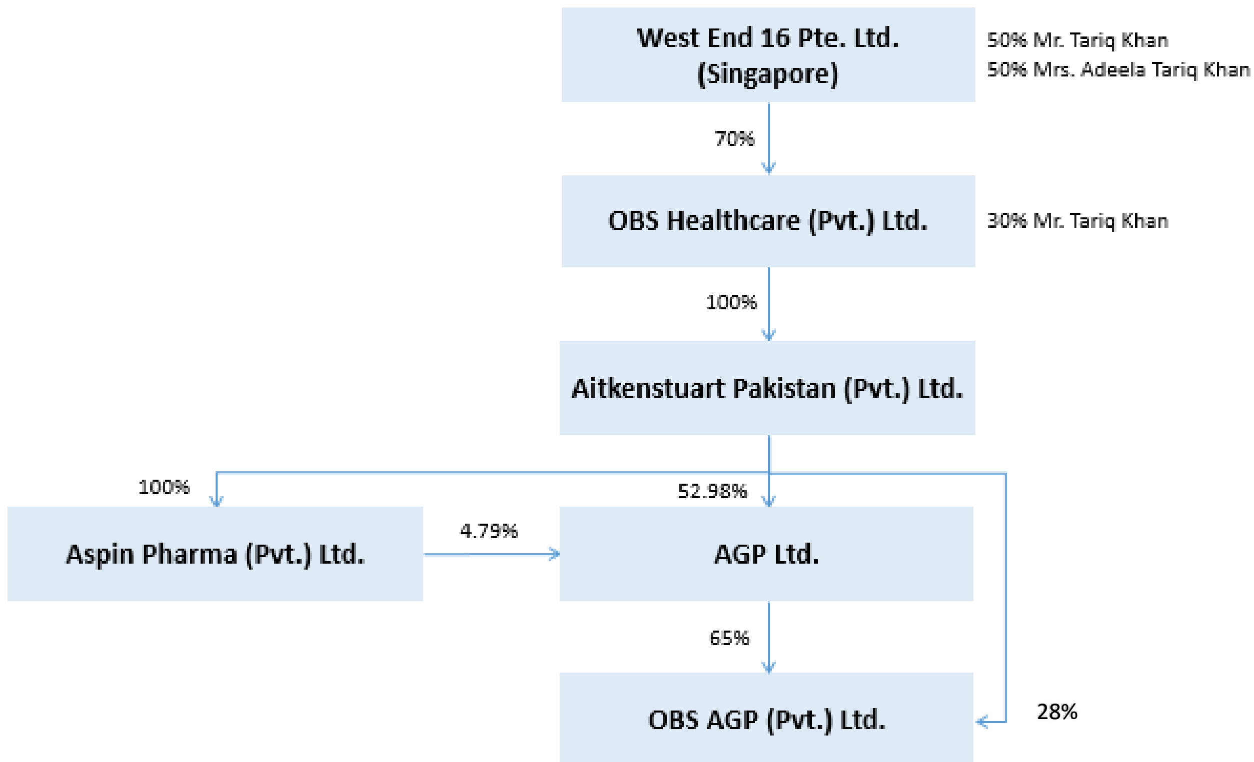
Leverage indicators have gradually improved and are expected to further improve with planned debt repayments.

The overall debt profile of the company is long-term in nature with total debt amounting to Rs. 2,025.7m (2020: Rs. 2,341.7m) as at end-HY21. Break-up of the long term debt as at June'21 is as follows:

Description	Actual Loan Amount	Principal Outstanding (As at June'21)
Sukuk (Rs. 1,500m)	1,500	750
Term Finance - 1 (Rs. 500m)	500	250
Term Finance - 2 (Rs. 1,150m)	1,150	1,035
Total	**3,150**	**2,035**

	The reduction in the quantum of debt on account of repayments along with growth in equity base due to profit retention, leverage indicators have gradually improved. Gearing and leverage ratios were reported at 0.71x (2020: 0.98x; 2019: 1.55x; 2018: 2.52x) and 0.94x (2020: 1.23x; 2019: 1.86x; 2018: 2.84x) respectively at end-HY21.Given that there is no major capex planned in the near future, the management does not envisage any increase in borrowings.

GROUP STRUCTURE — Annexure I



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				
06-10-2021	A	A-2	Stable	Reaffirmed
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				
06-10-2021	A		Stable	Reaffirmed
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

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<tr><td></td><td>conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</td></tr>
<tr><td>Due Diligence Meeting Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Muhammad Arsalan Batla</td><td>Senior Director - Finance</td><td rowspan="2">Sept 16, 2021</td></tr>
<tr><td>Mr. Abid Saleemi</td><td>Senior Commercial Director</td></tr>
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