RATING REPORT

Aspin Pharma (Private) Limited

REPORT DATE:
September 30, 2022

RATING ANALYST:
Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Entity Rating Date	*September 30, 2022*		*October 06, 2021*	
Entity Rating Outlook	Stable		Stable	
Sukuk	A		A	
Sukuk Rating Date	*September 30, 2022*		*October 06, 2021*	
Sukuk Rating Outlook	Stable		Stable	

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	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

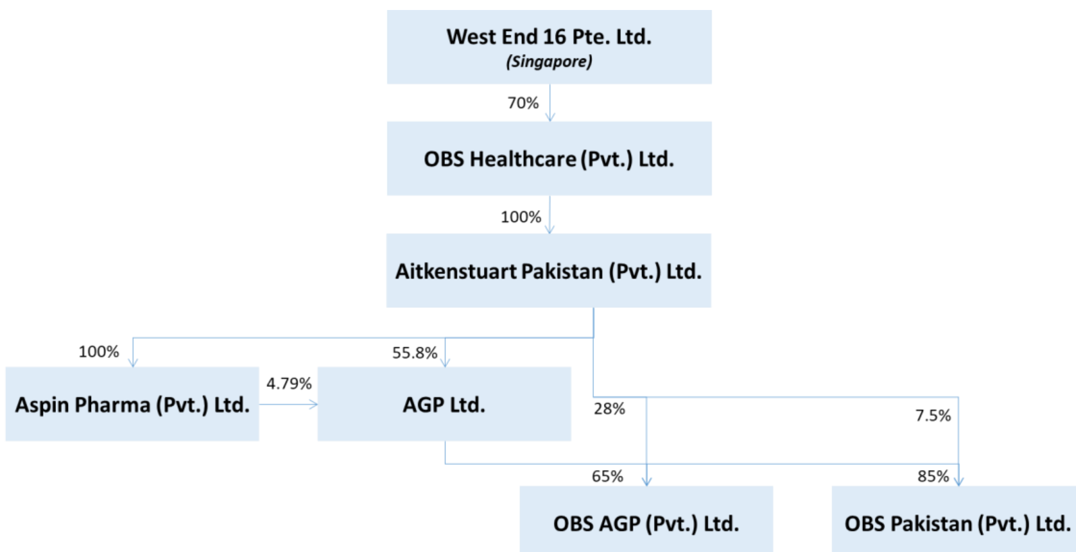
Aspin Pharma (Private) Limited (APL) was incorporated in Pakistan as a private limited company in 2013. APL is engaged in manufacture and sale of pharmaceutical products. The company is a wholly owned subsidiary of Aitkenstuart Pakistan (Private) Limited.

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 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).



OBS Pakistan is currently 100% owned subsidiary of Aikenstuart Pakistan (Pvt.) Limited. However, the shareholding pattern is expected to change as per above diagram by end of this year.

APL is currently operating under capacity (48%) which indicates ample room to incorporate projected growth in sales. APL operates through two business units. Unit I encompasses cardiology, gastroenterology and general physician business segments and Unit II comprises pediatric, gynecology, and neurology business divisions. Uses of major products offered by the company are mentioned below:

Products	Uses
MOTILIUM	Motilium contains a medicine called domperidone. This belongs to a group of medicines called 'dopamine antagonists'. This medicine is used in to treat nausea (feeling sick) and vomiting (being sick).
DAKTARIN	Daktarin 2% Cream is a medicine which is used in the treatment of fungal and associated bacterial infections of the skin. Skin infections may appear on the hands, feet, outer ear, trunk or groin and

	include athlete's foot, dhobie itch and intertrigo. Daktarin 2% Cream is also effective against infected nappy rash.
VERMOX	VERMOX (mebendazole) is an orally administered, synthetic anthelmintic available as chewable tablets. It is used for the treatment of patients two years of age and older with gastrointestinal infections caused by Ancylostoma duodenale (hookworm), Ascaris lumbricoides (roundworm), Enterobius vermicularis (pinworm), Necator americanus (hookworm), and Trichuris trichiura (whipworm).
IMODIUM	This medication is used to treat sudden diarrhea (including traveler's diarrhea). It works by slowing down the movement of the gut. This decreases the number of bowel movements and makes the stool less watery. Loperamide is also used to reduce the amount of discharge in patients who have undergone an ileostomy. It is also used to treat on-going diarrhea in people with inflammatory bowel disease.
SIBELIUM	Sibelium is a selective calcium antagonist. It prevents cellular calcium overload by reducing excessive transmembrane calcium influxes.

Investment portfolio

Long-term investments comprise a 4.79% stake in AGP Limited (a related party). AGP limited is listed on PSX and reported consolidated net profit of Rs. 1.8b (2020: Rs. 1.6b; 2019: Rs. 1.4b) in 2021.

Key Rating Drivers

Business risk is considered low given non-cyclicality of the sector albeit being a strictly regulated sector and high sensitivity of profitability with changes in exchange rate

As a non-cyclical sector, the pharmaceutical industry features stable demand and lower sensitivity of revenues and profitability to economic changes. Further, population growth, increase in income levels, high disease incidents, emergence of new diseases and poor hygiene levels are some of the factors which will continue to drive the demand for pharma products in the country. VIS has assessed the sector's business risk as 'low'.

Nevertheless, the stringent regulatory framework, including dependence on Drug Regulatory Authority of Pakistan (DRAP) for approvals related to launch of new products and pricing increase, tends to create profitability pressures. Moreover, access to raw material is an issue as majority is sourced from overseas with only about 15% of the raw material being locally produced. As a result, a significant portion of the product costing is foreign currency denominated, which exposes pharmaceutical companies to exchange rate risk.

DRAP has recently formulated a policy to promote manufacturing of raw material for production of medicines wherein the pharma companies will get early issuance of licenses and approval for loans through one window solution. These policy level changes are aimed at paving the way for increasing domestic raw material production and reducing exchange rate risk of the sector going forward. Current market of pharmaceutical industry is summarized in the table below:

Description	At end June'22	CAGR (2018-2022)
Market in PKR	Rs. 655.94b	15.16%
Market in US $	$3.70b	2.18%

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 acts as a competitive advantage. As per the management, M&P's coverage is better than other supply chain resources; they deal with both, retail and institutional chemists. APL also has agreements with the institutional distributors to cater institutional tender business.

Strong brand value of leading products while product concentration continues to remain on the higher side supports assigned ratings. 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 0.64% (June'21: 0.68%; June'20: 0.80%) as at end-June'22. The decline is on the back of higher demand of alternative products, mostly Covid19 medication. Ratings factor in medium to long-term licenses of 5-10 years which is renewed post culmination. The product portfolio comprises 42 brands covering 6 therapeutic areas including gastroenterology, pediatric, gynecology, neurology, cardiology and general physician. During the outgoing year, changes in organizational structure whereby each therapeutic business segment was assigned a separate sales team aided in growth of sales revenue of the company. Furthermore, market presence was further enhanced through hiring additional sales representatives consequently increasing per representative productivity across all business units. Furthermore, a Digital marketing Manager was also hired in the outgoing year who helped in developing content for marketing campaigns.

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.

As per management, APL has reached a customer base of 58,200 during HY22 (2021: 52,050) comparing favorably against top pharmaceutical companies in the country. 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, three products (Aspimox, Amlowell and Testiva) have been added to the portfolio while 3 more products (Colicare, Bactuar & Bzitic) are planned to be launched in the third quarter of 2022. Furthermore, till date around 12 SKUs of OBS have also been transferred in the name of APL garnering revenue growth, however a few (13 SKUs) are still under registration transfer status. As per management, the same are expected to generate revenue of Rs. 440m after transfer.

Healthy revenue growth in 2021 driven by higher average selling prices, volumetric growth (organic growth, launch of new products and transfer of OBS SKUs), increased customer coverage and various market penetration initiatives; similar trend is expected to continue going forward through organic growth along with strong new product pipeline.

Revenue of the company has witnessed a sizeable increase in the outgoing year, increasing to Rs. 4.1b (2020: Rs. 3.4b; 2019: Rs. 3.2b) during 2021 attributable to 75% volumetric growth and 25% pricing growth. Volumes enhancement was a product of increased customer coverage, sales team restructuring and optimization and various other sales and marketing initiatives. At end-June'22, net sales of the company were reported at Rs. 2.5b. Going forward, revenue is expected to follow similar trend given planned value added products in the pipeline and organic growth in the flagship products.

Although Gross Margins declined in 2021 due to higher raw material prices and elevated shipping costs, net profitability improved on the back of lower finance charges and significant growth in topline in the outgoing year.

Gross margins were reported slightly lower at 55.0% (2020: 58.2%; 2019: 56.0%; 2018: 48.7%) due to higher raw material prices and elevated shipping costs. Administrative costs have witnessed growth primarily due to higher salaries allocated to increased sales team and elevated travelling & lodging charges during the outgoing year. In 2021, other operating expenses decreased to normal levels after a write-off of fixed assets in 2020 (one-time expense). During 2021, finance charges sharply declined to Rs. 194.3m (2020: Rs. 333.9m) due to decrease in quantum of debt. Despite higher taxation charge, the company generated a higher profit after tax of Rs. 422.8m (2020: Rs. 292.9m) led primarily by topline growth in the outgoing year. Subsequently, net margin was reported higher at 10.4% (2020: 8.6%) in 2021. The company reported a net margin of 21.7% during HY22 on account of tax refunds, higher margins through efficient API procurement, re-negotiations of margins with the distributor and process improvement initiatives resulting in improved efficiencies. Furthermore, overall profitability profile was also supported by profit on bank deposits and dividend income from investment in AGP Limited. Going forward, management envisages profitability to improve in the backdrop of higher projected revenue and enhanced market penetration.

Improving liquidity profile on a timeline basis

In absolute terms, Funds from Operations (FFO) increased to Rs. 604.9m (2020: Rs. 498.6m; FY29: Rs. 352.6m) on account of higher overall profitability during 2021. Thus, in line with improvement in profitability during the same period along with reduced quantum of borrowings, both, FFO/Total Debt and FFO/Long term debt improved to 35.3% (2020: 21%; 2019: 13%). However, debt servicing declined to 0.96x during 2021 (2020: 1.12x; 2019: 0.94x). Debt servicing remained constrained in 2021 on account of higher current maturity of long-term debt. The same is projected to improve after repayment of outstanding borrowings. Current ratio was reported higher at 1.35x at end-June'22. Liquidity profile of the company was supported by short-term investments in mutual funds. Timely receipt of inter-group loans and advances is considered important to support the assigned ratings.

Leverage profile has improved on a timeline basis on account of profit retention and timely debt re-payment

Equity base of the Company was reported higher at Rs. 2.6b (2020: Rs. 2.4b; 2019: Rs. 1.9b) at end-Dec'21 on account of profit retention. However, growth in the same was limited in comparison to profit recorded in the outgoing year due to revaluation loss on long-term investment. The overall debt profile of the company was long-term in nature with total debt amounting to Rs. 1.7b (2020: Rs. 2.3b) as at end-2021. During HY22, the company employed running finances of Rs. 189.5m to cater working capital requirements. Break-up of the long term debt as at June'22 is as follows:

Description	Actual Loan Amount	Principal Outstanding (As at June'22)
Sukuk (Rs. 1,500m)	1,500	450
Term Finance - 1 (Rs. 500m)	500	-
Term Finance - 2 (Rs. 1,150m)	1,150	800
Total	**3,150**	**1,250**

The reduction in the quantum of debt on account of repayments along with growth in equity base due to profit retention has improved leverage indicators on a timeline basis. Gearing and leverage ratios were reported at 0.45x (2021: 0.66x; 2020: 0.98x) and 0.73x (2021: 0.91x; 2020: 1.23x) respectively at end-June'22. With no capex plans in the medium term, capitalization indicators are expected to commensurate with the assigned ratings over the rating horizon.

FINANCIAL SUMMARY *(amounts in PKR millions)* *Appendix I*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HY22**
Fixed Assets	1,799	1,776	1,812	1,846
Stock-in-Trade	641	611	470	483
Trade Debts	262	207	198	509
Cash & Bank Balances	1	649	36	120
Total Assets	5,428	5,351	4,979	5,521
Trade and Other Payables	453	511	510	702
Long Term Debt	2,741	2,342	1,714	1,250
Short Term Debt	195	-	-	189
Total Debt	2,936	2,342	1,714	1,440
Paid Up Capital	368	368	368	368
Total Equity	1,898	2,401	2,609	3,196
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**HY22**
Net Sales	3,172	3,392	4,073	2,493
Gross Profit	1,776	1,973	2,241	1,458
Profit Before Tax	353	436	633	741
Profit After Tax	250	293	423	541
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**HY22**
Gross Margin (%)	56.0%	58.2%	55.0%	58.5%
Net Margin (%)	7.9%	8.6%	10.4%	21.7%
FFO	353	499	605	593
FFO to Total Debt (%)	12%	21%	35%	41%
FFO to Long Term Debt (%)	13%	21%	35%	47%
Current Ratio (x)	1.2	1.5	1.3	1.3
(Stock+Trade Debts)/ Short term borrowing (%)	463%	NA	NA	523%
Debt Servicing Coverage Ratio (x)	0.9	1.1	0.96	1.66
Gearing (x)	1.55	0.98	0.66	0.45
Leverage (x)	1.86	1.23	0.91	0.73
ROAA (%)	5%	5%	8%	21%
ROAE (%)	15%	14%	17%	37%

RATING SCALE & DEFINITIONS Appendix II

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 III
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		
30-09-2022	A	A-2	Stable	Reaffirmed
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		
30-09-2022	A		Stable	Reaffirmed
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 instrument will mature at end-Nov'23. 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

<table>
<tr><td></td><td>guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</td></tr>
<tr><td>Disclaimer</td><td>Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For 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 2022 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. Hafiz Muhammad Asim</td><td>Financial Controller</td><td rowspan="2">August 18, 2022</td></tr>
<tr><td>Mr. Salauddin</td><td>Director Sales and Marketing</td></tr>
</table>
</td></tr>
</table>