# RATING REPORT

## Aspin Pharma (Private) Limited

**REPORT DATE:**
October 4, 2023

**RATING ANALYST:**
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

| RATING DETAILS | | | | |
|---|---|---|---|---|
| Rating Category | Latest Rating | | Previous Rating | |
| | Long-term | Short-term | Long-term | Short-term |
| **Entity** | A | A-1 | A | A-2 |
| **Rating Outlook (Entity)** | Stable | | Stable | |
| **Sukuk** | A | | A | |
| **Rating Outlook (Sukuk)** | Stable | | Stable | |
| **Rating Date** | *October 4, 2023* | | *September 30, 2022* | |
| **Rating Action (Entity)** | Upgraded | | Reaffirmed | |
| **Rating Action (Sukuk)** | Reaffirmed | | Reaffirmed | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2013** | **Group Chairman** Mr. Tariq Moinuddin Khan |
| **Private Limited Company** | **CEO:** Mr. Tariq Moinuddin Khan |
| **Key Shareholders (with stake 5% or more):** | **External Auditors:** Grant Thorton Anjum Rahman |
| *Aitkenstuart Pakistan (Private) Limited ~100%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)**<br>**https://docs.vis.com.pk/docs/CorporateMethodology.pdf** |

| APPLICABLE RATING SCALE(S) |
|---|
| **VIS Issue/Issuer Rating Scale:**<br>**https://docs.vis.com.pk/docs/VISRatingScales.pdf** |

# Aspin Pharma (Private) Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

*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.

## Group Profile

Aitkenstuart is the holding arm of OBS Group, through which it owns five pharmaceutical companies namely, AGP Limited, Aspin Pharma (Pvt.) Limited, OBS AGP (Pvt.) Limited, OBS Pharma (Pvt.) Limited and OBS Pakistan (Pvt.) Limited. OBS Group is one of Pakistan's leading corporations in the healthcare segment with a strong presence in Pakistan and the region. At present, OBS ranks amongst the top ten local pharmaceutical groups in Pakistan with a group turnover of ~Rs.19,000 mln in CY22. The Group currently operates with five (5) manufacturing facilities, four of which are located in Karachi and one in Lahore. Out of the five manufacturing facilities, four are dedicated to pharmaceutical production, while one is dedicated to nutraceutical production.

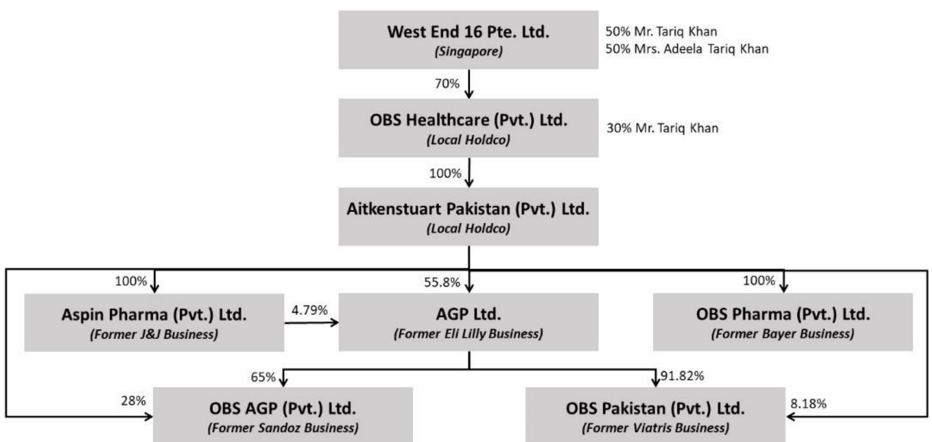


*Figure 1 Group structure*

## Industry Review

The pharmaceutical sector encompasses the development, manufacturing, and marketing of branded and generic pharmaceuticals. Additionally, companies provide contract development and manufacturing services to other firms, covering the entire drug development and manufacturing process.

In CY22, Pakistan's pharmaceutical industry achieved revenue of ~Rs.705 bln, marking a ~14.3% YoY growth from the previous year's ~Rs.616 bln. The sector's landscape is dominated by the top 100 local and multinational companies, collectively commanding ~97.2% of the market share, while over 500 other companies constitute the remaining ~3%.

The industry is notably shaped by regulatory dynamics, with the Drug Regulatory Authority of Pakistan (DRAP) governing drug pricing and product introduction. Moreover, the sector imports ~95% of its raw material including Active Pharmaceutical Ingredients (APIs), thereby exposing the sector to exchange rate variability. With regulatory pricing constraints, currency depreciation has the potential to trigger significant shifts in manufacturing costs, ultimately impacting the sector's overall financial performance.

## Company Profile

Aspin Pharma (Private) Limited ('APL' or 'the Company') was incorporated as a private limited company on 14 December 2013. The registered office of the Company is situated at Plot No.10 & 25, Sec-20, Korangi Industrial Area, Karachi. The Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Private) Limited (parent company) as shown in the figure above. Principal activities of the Company include import, marketing, export, distribution, wholesale and manufacturing of all kinds of pharmaceuticals.

Aspin Pharma caters for a diverse array of therapeutic areas, such as, Gastroprokinetics, Anthelmintics, Anti-fungal, Motility Inhibitors, etc. Some of its leading products include:

*Table 1 Major products and their uses*

| 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. |

## The Sukuk

APL 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. Structure of the instrument is as follows:

- Tenor: six years inclusive of one year grace period.
- Twenty equal quarterly installments, starting from the fifteenth month of the issue date.
- Quarterly profit payments with a floating rate of 3-Month KIBOR plus a spread of 1.50% p.a.
- Date of maturity at end-Nov'23.
- Security: pari-passu charge on all present and future fixed assets of the company inclusive of a 15% margin over and above the issue size.

## Key Rating Drivers

**Low business risk due to non-cyclical industry dynamics; however, exchange rate risks and regulatory constraints persist.**

Being a non-cyclical industry, the pharmaceutical sector enjoys consistent demand driven by population growth, prevalent diseases, emerging health issues, and suboptimal hygiene standards in the country. As such, the sector's business risk is regarded as 'low' by VIS.

The pharmaceutical industry in Pakistan faces regular profitability pressures due to a stringent regulatory framework that includes reliance on the DRAP for approval of new products and pricing increases.

Moreover, industry's substantial reliance on imported raw materials translates to a significant portion of product costs tied to foreign currency. This exposes the Company to exchange rate vulnerabilities.

**Ratings incorporate group's expertise and operational history.**

Under Aitkenstuart's ownership, the Company gains the advantage of being a vital component of a prominent healthcare conglomerate. Currently, OBS holds a significant position among the top ten local pharmaceutical groups in Pakistan, boasting a substantial group turnover of approximately Rs.19,000 mln in CY22. They have a long successful track record of operations in the sector.

**Consistent sales, however, margins under pressure.**

The Company's financials have continued to report growth in sales in recent years. Net sales in CY22 were reported at Rs.4,573 mln (CY21: Rs.40,73 mln, CY20: 3,392 mln), as a result of volumetric growth as well as consistent price increases. However, prevailing economic conditions have contributed to margin decline during 1HCY23. Deteriorating exchange rates have elevated raw material costs and strained gross profit. Management expects recent price hike approval by DRAP to help margins recover to their normal levels by the end of CY23.

Moreover, to counter the impact of foreign exchange rate fluctuations, the Company has adopted a strategy of extending its inventory reserves from the prior three months to a duration of up to six months. This is intended to cater to any supply constraints as well as currency fluctuations. Maintenance of margins in the long run will remain important for ratings.

**Concentration risk is present, brand value provides comfort.**

The portfolio continues to exhibit concentration risk, as the top five brands collectively constitute around 66% of the total revenue. Among these, Motilium has maintained its position as the leading contributor, accounting for 29% of revenue in CY22, a slight decrease from 33% in CY21. Nevertheless, these products hold prominent positions in their respective product segments, boasting substantial market shares that partly compensates for the concentration risk of the portfolio.

**Sound debt coverage and capitalization profile.**

The company's liquidity, capitalization, and coverage profile signify a well-rounded financial position. The debt profile has demonstrated consistent enhancement due to regular sukuk repayments. Company leverage and gearing ratios have improved slightly to 0.8x (CY21: 0.9x) and 0.4x (CY21: 0.7x) in CY22, respectively. In 1HCY23, Aspin Pharma utilized its short-term lines in order to bridge the gap in working capital to cushion possible pressure on liquidity as a result of current economic circumstances.

Moreover, the Company demonstrated a significant improvement in its Funds from Operations (FFO), increasing from Rs.486.4 mln in CY21 to Rs.944.6 mln in CY22. This upturn in funds is reflected in the Debt Servicing Coverage Ratio (DSCR), which climbed from 0.8x in CY21 to 1.6x in CY22. Heightened FFO was supported by an increase in Profit Before Tax (PBT) as a result of the Company's steps to contain its operating costs.

**Maintenance of liquidity metrics in line with assigned ratings to remain a key rating driver.**

APL's liquidity position is underpinned by a short cash conversion cycle, along with strong short-term borrowing coverage. While Company has recently increased its short-term inventory levels in response to a depreciating rupee, which has consequently resulted in buildup of payables. Nonetheless, management expects this to streamline by the year-end. Maintenance of liquidity metrics in line with assigned ratings will remain a key rating consideration going forward.

## Aspin Pharma (Private) Limited — Appendix I

<table>
<tr><th colspan="6">REGULATORY DISCLOSURES</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Aspin Pharma (Private) Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Pharmaceutical</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity & Sukuk Rating</td></tr>
<tr><td rowspan="17">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5">Rating Type: Entity</td></tr>
<tr><td>04-10-2023</td><td>A</td><td>A-1</td><td>Stable</td><td>Upgraded</td></tr>
<tr><td>30-09-2022</td><td>A</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>06-10-2021</td><td>A</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>19-10-2020</td><td>A</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>03-10-2019</td><td>A</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>14-12-2018</td><td>A</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>18-10-2017</td><td>A</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td colspan="5">Rating Type: Sukuk</td></tr>
<tr><td>04-10-2023</td><td>A</td><td></td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>30-09-2022</td><td>A</td><td></td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>06-10-2021</td><td>A</td><td></td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>19-10-2020</td><td>A</td><td></td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>03-10-2019</td><td>A</td><td></td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>14-12-2018</td><td>A</td><td></td><td>Stable</td><td>Final</td></tr>
<tr><td>18-10-2017</td><td>A</td><td></td><td>Stable</td><td>Preliminary</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">APL had issued a Rs.1,500m Sukuk for refinancing a Rs.1,000m long-term loan and funding operations. The Sukuk was issued in Nov'17 with a six-year tenor including a one-year grace period. Repayment term included twenty equal quarterly installments, starting from the fifteenth month. The instrument is set to mature in end-Nov'23. Quarterly profit payment pricing was set at 3-Month KIBOR plus a 1.50% p.a. spread. The Sukuk was secured by a pari-passu charge on all current and future fixed assets, with a 15% margin over the issue size.</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
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<tr><td rowspan="3">Due Diligence Meetings Conducted</td><td>S.No.</td><td>Name</td><td colspan="2">Designation</td><td>Date</td></tr>
<tr><td>1</td><td>Mr. Hafiz Asim</td><td colspan="2">Financial Controller</td><td rowspan="2">28th August 2023</td></tr>
<tr><td>2</td><td>Mr. Khalid Rauf</td><td colspan="2">Senior Manager Finance</td></tr>
</table>