RATING REPORT

OBS AGP (Private) Limited

REPORT DATE:
June 17, 2022

RATING ANALYSTS:

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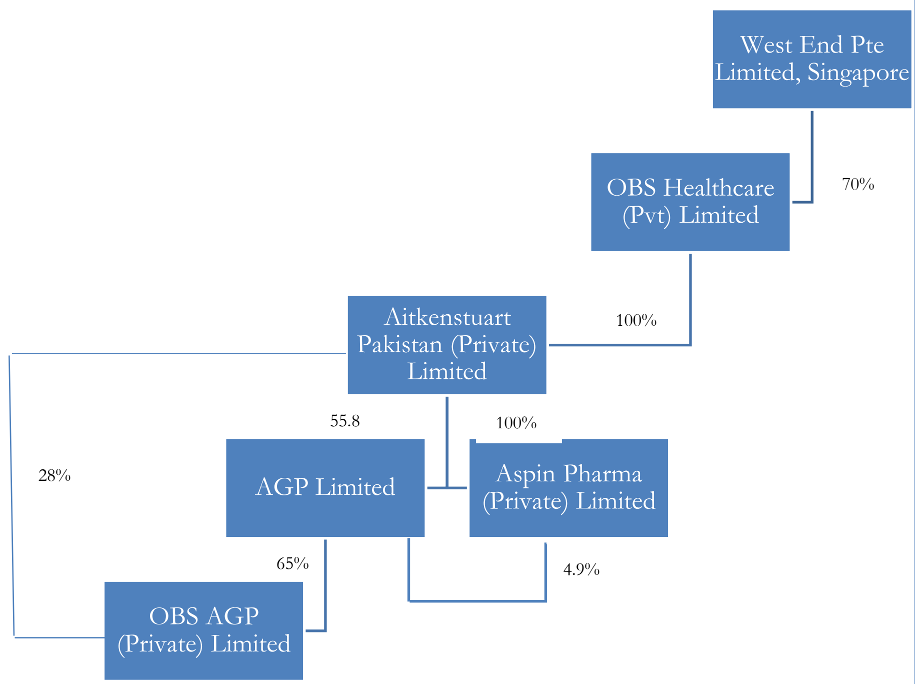
RATING DETAILS				
Rating Category	**Latest Rating**		**Initial Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook (Entity)	Stable		Stable	
Sukuk	A+		A+	
Rating Outlook (Sukuk)	Stable		Stable	
Rating Date	June 17, 2022		May 3, 2021	
Rating Action (Entity)	Reaffirmed		Initial	
Rating Action (Sukuk)	Final		Preliminary	

COMPANY INFORMATION	
Incorporated in 2020	**Board Chairman** Mr. Kamran Nishat
Private Limited Company	**MD & CEO (Parent Company):** Mr. Muhammad Kamran Mirza
Key Shareholders (with stake 5% or more):	**External Auditors:** EY Ford Rhodes Chartered Accountants
AGP Limited- 65%	
Aitkenstuart Pakistan (Private) Limited- 28%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)   https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

OBS AGP (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
OBS AGP (Private) Limited, was incorporated in November'2020. The Company is a subsidiary (65%) of AGP Limited. Ultimate parent company is West End 16 Pte Limited, Singapore. *The Company commenced business on30 July'21following acquisition of 22 pharmaceutical products from Sandoz AG.* **Profile of Chairman:** *Mr. Kamran Nishat is currently the Managing Director & Chief Executive Officer of Muller & Philips Pakistan (Private) Limited. He is a Chartered Accountant and a fellow member of ICAP. He is currently a member of Finance & Taxation at the*	**Sponsor Profile** AGP Limited (AGP) is a public listed local pharmaceutical company engaged in manufacturing and marketing of medicines (of its own brands and under licensing arrangements with other companies) for over three decades. Few recognized brands include Rigix, Ceclor, Osnate-D, Anafortan, Keflex etc. Major shareholding of the company (~55.8%) is held by Aitkenstuart Pakistan (Private) Limited (APPL) which is a wholly owned subsidiary of OBS Healthcare (Private) Limited. OBS group as explained in the illustrationbelow has strong presence in the pharmaceutical industry and currently operates in the country via three companies (AGP Limited, Aspin Pharma Private Limited) and OBS AGP (Private) Limited. Manufacturing facilities of both companies are located in Karachi.  In January 2021, OBS AGP (Pvt.) Limited entered into an asset purchase agreement with Sandoz AG to acquire 22 pharmaceutical brands (55SKUs) of Sandoz Business Division in Pakistan. The total capital requirements for the acquisition was estimated at Rs. 3,700m. The acquisition was concluded through OBS AGP (Private) Limited, which was a Special Purpose Vehicle (SPV) established for the acquisition. OBS AGP

American Business Council.

is now a subsidiary of AGP and commenced operations on July 30, 2021. Currently the transfer of Marketing Authorizations is under process with Drug Regulatory Authority of Pakistan (DRAP) with approvals in hand for 8 brands (14 SKUs including Azomax). Upon the transfer of MAs, majority of the local portfolio (including Azomax) is planned to be produced at AGP's manufacturing facilities while a small proportion of the local products will continue to be manufactured via third-party toll manufacturing. Commissioning of production of Azomax at AGP Limited is expected by December'22. At present, ~7.5% of the portfolio (mainly oncology products) is directly imported and the same arrangement will continue.

OBS AGP distributes its products through Muller & Phipps Pakistan (Pvt) Limited which is the largest pharmaceutical distributor in the country. They have presence in 950+ town with 67 depots and over 900 owned vans.

Key Rating Drivers

Strong sponsor strength along with financial support available from the ultimate holding company lends comfort.

Assigned ratings take comfort from the Parent Company's (AGP) established market position, long track record in the pharmaceutical industry and the resulting operational, managerial and financial support available to OBS AGP (Both from AGP and cash available at the holding Company level). AGP had an annual turnover of Rs. 7.4b (as at Dec 31, 2021) with continuous growth recorded in sales and improvement in profitability profile Ratings incorporate AGP's healthy cash flows and low leveraged capital structure. AGP's equity base amounted to Rs. 9.5b (2020: Rs. 8.2b) at end-2021.

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 economic downturns. Sales of the sector are supported by geographical diversification, growing population and continuous emergence of new diseases. Thus the business risk of the sector is considered to be on the lower side. Regulatory risk including changes in pricing policies and sharp rupee devaluation (a major portion of raw material is imported) remain key challenges for the sector.

Despite concentrated product portfolio and therapeutic coverage, strong market presence provide comfort to the ratings

Product portfolio being acquired caters primarily to 6 broad therapeutic segments; of which top three are Anti-infective (79%), Respiratory System (8%) and Oncology (6%), which cumulatively represent around 87% of revenue base. As per management, future business strategy will focus on volumetric sales growth of existing as well as introduction of new additional SKUs belonging to various therapeutic classes.

In line with projections, product-wise concentration in sales is considered to be on the higher end with around 69% of revenues emanating from one brand- Azomax. Of the other brands, top leading revenue generating drugs include Zatofen (8.5%), Amoxi-Clav (5.4%), Ospamox (2.5%) and Ternelin (2.4%) in 5M2021. Therapeutic area coverage of OBS AGP includes antacid, anti-depressant, respiratory, anti-infective, cardiology, muscle spasm, NSAID, oncology and bone diseases. Among the different therapeutic classes, Anti-Infective category contributes the highest estimating to 79.0% of the total revenue. However, Azomax and Zatofen provide comfort to the product concentration risk holding significant market share of 31.5% and 73.9%, respectively. Going forward, the management aims to expand the product portfolio in the oncology and anti-infective categories.

Gradual growth in profitability indicators is expected on the back of expected increase in prices and uptick in volumetric sales through planned increase in market penetration and introduction of new products

During the five-month period ended Dec'21, topline of the company was reported at Rs. 1.9b. . As per last year's projections, the company targeted 5M revenue of Rs. 1.6b which has been over achieved primarily due to volumetric increase. Growth in future sales is also expected to emanate from increase in prices along with volumetric growth (conservative projected unit growth has been assumed) through planned increase in market penetration and introduction of new products led by focused marketing and sales efforts. In 5M2021, Gross Margins stood at 49.2% with projected target of 50.5% by year-end 2022. Going forward, gross margins are expected to increase going forward on the back of achievement of economies of scale through local manufacturing of major product. Support will also be drawn from gradual shift towards local sourcing of API.

Finance costs amounted to Rs. 115.8m during 5M2021 with the same projected to increase on account of uptick in benchmark rates in the ongoing year dragging overall profitability profile of the company. Net margin was reported at 14.9% at end-Dec'22. Despite increase in finance cost, higher revenues and gradual increase in gross margins is expected to support overall profitability profile.

Liquidity indicators provide adequate cushion to the timely repayments. Pressure on coverages may arise over next financial year due to increase in finance charges. Internal cash generation and timely reduction in debt expected to result in improvement in leverage indicators.

Cash flow coverages against outstanding obligations are considered adequate with coverage of 37% in 5M2021. In 2022, impact of rising interest rates is expected to reduce coverage to 20%. Debt servicing ability is also projected to report on the lower side given commencement of Sukuk payment from October'22 onwards. Improvement in the liquidity profile is considered important from a ratings perspective.

Equity base of the company was reported at Rs. 1.4b at end-Dec'22. Management of rising interest related costs is considered important. Comfort to the Sukuk ratings is drawn from the establishment of a rental payment reserve account wherein the rental amount (interest payment) of one upcoming installment shall always be available. In addition, corporate guarantee by AGP for the entire principal amount of the Sukuk is also available. Leverage and Gearing ratios were reported at 2.2x and 1.9x, respectively at end-Dec'21. The same are projected to improvepost 2022 on account of internal cash generation and timely reduction in debt level. Ratings remain dependent on maintaining sound debt servicing cushion and reduction in leverage indicators in line with projections.

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	OBS AGP (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Entity & Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		Rating Type: Entity		
06-17-2022	A	A-1	Stable	Reaffirmed
05-03-2021	A	A-1	Stable	Initial
		Rating Type: Sukuk		
06-17-2022	A+	-	Stable	Final
05-03-2021	A+	-	Stable	Initial

Instrument Structure	OBS AGP (SPV) intends to issue a Privately Placed and Secured Islamic Certificates Issue ("Sukuk" or the "Issue" or the "Transaction") of Rs. 2,600m. The funds will be used to finance the acquisition of certain brands from Sandoz AG. The issue has a tenor of five years inclusive of one year grace period. The principal will be redeemed by the company in sixteen equal quarterly installments, starting from the fifteen month of the issue date. The issue offers quarterly profit payments with a base rate of 3-Month KIBOR plus a spread of 1.55% per annum. The Sukuk is secured by a pari-passu charge on fixed assets of AGP and pledge of shares of AGP held by APPL.
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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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Kamran Mirza	CEO	April 08, 2022
2.	Shazaib Tariq	CFO	
3	Shahzad Mughal	Country Head	
4.	Mobin Abdul Razzak	Financial Analyst	