

RATING REPORT

OBS AGP (Private) Limited

REPORT DATE:

August 25, 2023

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	August 25, 2023		June 17, 2022	
Rating Action (Entity)	Reaffirmed		Reaffirmed	
Rating Action (Sukuk)	Reaffirmed		Final	

COMPANY INFORMATION

Incorporated in 2020	Group Chairman Mr. Tariq Moinuddin Khan
Private Limited Company	CEO: Mr. Muhammad Kamran Mirza
Key Shareholders (with stake 5% or more):	External Auditors: EY Ford Rhodes Chartered Accountants
<i>AGP Limited- 65%</i>	
<i>Aitkenstuart Pakistan (Private) Limited- 28%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.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 on 30 July 21 following acquisition of 22 pharmaceutical products from Sandoz AG.

Profile of Group Chairman:

Mr. Tariq Khan is the founder and sponsor shareholder of OBS Group. Under his leadership, in a short span of 17 years, OBS has grown to become Pakistan's 8th largest pharmaceutical company.

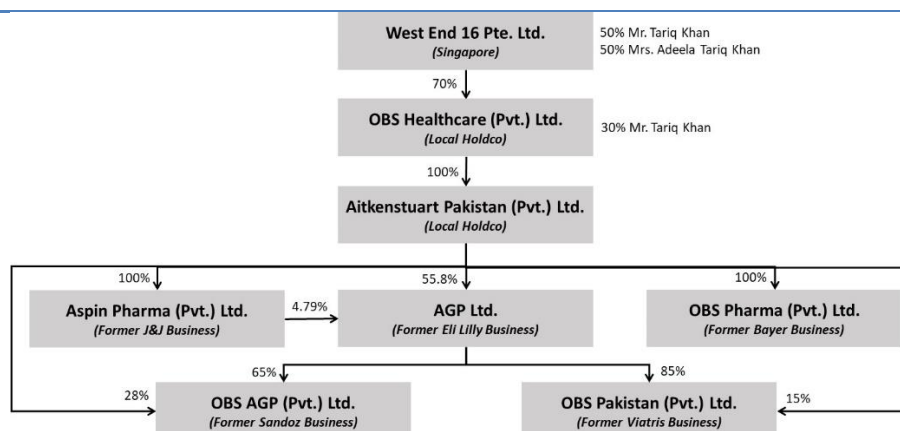
Company Profile

In January 2021, OBS AGP (Pvt.) Limited entered into an asset purchase agreement with Sandoz AG to acquire 22 pharmaceutical brands (55 SKUs) of Sandoz Business Division in Pakistan. The total capital requirement for the acquisition was estimated at Rs. 3,700m. The acquisition was concluded through OBS AGP (Private) Limited, which was a Special Purpose Company (SPC) established for the acquisition. OBS AGP is now a subsidiary of AGP and commenced operations on July 30, 2021. Currently the transfer of Marketing Authorizations of almost all products is completed. Around 70% of manufacturing is now in-house and being done at the sponsor's facility.

In CY22, OBS AGP recorded revenue of Rs.4,572 mln with Azomax leading the sales with Rs. 2,905mln, contributing ~64% to overall revenue. Other major products include Zatofen, Amoxi-Clav, Ternelin and Nocid. While major therapeutic areas that the Company covers include Anti-Infectives, Oncology, Respiratory System, Musculo-Skeletal System and Alimentary T.& Metabolism. Anti-Infective contributed ~70% to overall revenue in CY22.

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, Spasler-P 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 illustration below has strong presence in the pharmaceutical industry in Pakistan and currently has 5 companies as part of its group (AGP Ltd, Aspin Pharma, OBS AGP, OBS Pakistan and OBS Pharma). The group's manufacturing facilities are located in Karachi and Lahore.



The Sukuk:

OBS AGP issued a Privately Placed and Secured Islamic Certificates Issue (“Sukuk” or the “Issue” or the “Transaction”) of Rs. 2,600m. The funds were used to finance the acquisition of certain brands from Sandoz AG. Terms of the Sukuk are as follows:

1. Repayable in quarterly instalments commenced from 15 October 2022.
2. Over the term of 5 years including one year grace period.
3. These carry profit rate of 3 months KIBOR + 1.55% per annum.
4. Security:
 - a. Secured against the present and future fixed assets of AGP Limited to the extent of Rs. 2,600 million.
 - b. The charge is secured through pledge of shares of AGP Limited held by Aitkenstuart Pakistan (Private) Limited to the extent of Rs. 1,400 million.
 - c. In addition, AGP has provided corporate guarantee for the entire principal amount of the Sukuk.

Key Rating Drivers

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

As a non-cyclical sector, the pharmaceutical industry features stable demand and lower sensitivity of revenues and profitability to economic changes. Further, population growth, 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. As such, the sector’s business risk is regarded as ‘low’.

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

Moreover, high dependence on imported raw materials also results in a significant portion of product costs being denominated in foreign currency, exposing the Company to exchange rate risks.

Strong sponsor support.

The assigned ratings draw confidence from the established market position and long track record of the Parent Company (AGP) in the pharmaceutical industry. This leads to the availability of operational, managerial, and financial support for OBS AGP from AGP. In 2022, AGP achieved an annual turnover of Rs. 10.26 billion (compared to Rs. 7.42 billion in CY21), showing continuous growth in sales. However, inflation and significant devaluation of the local currency impacted profitability. Ratings also consider AGP's healthy cash flows and a low-leveraged capital structure. AGP's equity base stood at Rs. 10.22 billion at the end of 2022 (compared to Rs. 9.49 billion in CY21).

Sukuk rating is supported by provision of corporate guarantee of AGP Limited, Sensitizing AGP Limited financials with potential interest rate and exchange rate variability continues to provide adequate coverage to the instrument.

High concentration risk.

In 2022, a significant portion (64%) of sales came from the Azomax brand. Additionally, therapeutic classes such as Systemic Anti-Infectives dominated the sales contribution ~70%.

Management is actively making efforts to address this risk by introducing new products and increasing marketing efforts across a diverse range of brands and therapeutic classes. However, these efforts may lead to higher marketing expenses, potentially weakening the Company's profitability. Going forward, maintaining a balance between risk mitigation and profitability will be critical for OBS AGP.

Liquidity profile and debt servicing capacity strained.

The Company's profitability has been adversely impacted due to recent rise in interest rates and severe exchange rate fluctuations, which have resulted in higher financial charges and cost of goods sold. As a result, OBS AGP cashflows deteriorated, constraining its coverages. DSCR for CY22A declined to 1.5x, from 1.9x in CY21 and is projected at 1.0x for CY23P since principal repayments of the Sukuk have commenced. While Current Ratio for CY22A was at 0.9x, down from 1.5x in CY21 primarily due to current maturities of the Sukuk. Management expects both metrics to improve as sales increase; driven by volumes and a recently approved price hike by the Drug Regulatory Authority of Pakistan (DRAP).

Going forward, achievement of projected plans along with improvement in liquidity and debt servicing coverage will remain important for ratings.

OBS AGP (Private) Limited
Appendix I

REGULATORY DISCLOSURES		Appendix I			
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
	<u>Rating Type: Entity</u>				
	08-25-2023	A	A-1	Stable	Maintained
	06-17-2022	A	A-1	Stable	Reaffirmed
	05-03-2021	A	A-1	Stable	Initial
	<u>Rating Type: Sukuk</u>				
	08-25-2023	A+	-	Stable	Reaffirmed
	06-17-2022	A+	-	Stable	Final
	05-03-2021	A+	-	Stable	Initial
	Instrument Structure	OBS AGP (SPC) issued a Privately Placed and Secured Islamic Certificates Issue (“Sukuk” or the “Issue” or the “Transaction”) of Rs. 2,600m. The funds were 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 months 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. Security structure of Sukuk entails a pari-passu charge on fixed assets of AGP (PKR 2,600mn inclusive of a margin of 20%), margin is covered through pledge of shares of AGP held by APP (PKR 1,400mn inclusive of a margin of 53.57%) and corporate guarantee from AGP of up to PKR 2,600mn covering the entire principal amount.			
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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Shahzaib Tariq	CFO	19-July-2023	
	2.	Muhammad Usama Ansari	Finance Manager		