

# RATING REPORT

## OBS AGP (Private) Limited

### REPORT DATE:

October 31, 2024

### RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A1	A	A1
Outlook/Rating Watch (Entity)	Stable		Stable	
Sukuk	A+	-	A+	-
Outlook/Rating Watch (Sukuk)	Stable		Stable	
Rating Date	October 31, 2024		August 25, 2023	
Rating Action (Entity)	Reaffirmed		Reaffirmed	
Rating Action (Sukuk)	Reaffirmed		Reaffirmed	

### 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  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>  
 Rating the Issue  
<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.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.*

**Profile of Group Chairman:**

*Mr. Tariq Khan is the founder and sponsor shareholder of OBS Group. Under his leadership, in a span of 18 years, OBS has grown to become Pakistan's 8th largest pharmaceutical company.*

**Profile of CEO:**

*Mr. Muhammad Kamran Mirza holds an undergraduate degree in commerce and an MBA from the Institute of Business Management (IoBM). He has over 14 years of experience in financial markets, focusing on sell-side and buy-side investment advisory. Before joining OBS Group in 2018, he served as EVP and Head of Investment Banking at JS Bank and currently holds board positions at*

**Company Profile**

OBS AGP (Private) Limited ("OBS AGP" or the "Company") was incorporated as a private limited company on November 12, 2020. The principal activities of the Company include the import, marketing, export, dealership, distribution, wholesale, trading, and manufacturing of various pharmaceutical products. On July 14, 2021, AGP Limited became the parent company of OBS AGP by acquiring ~65% of its shareholding through the subscription of ordinary rights shares. Aitkenstuart Pakistan (Private) Limited holds ~28% of the shareholding as the intermediary parent company, while West End 16 Pte Limited, Singapore, is the ultimate parent company.

In July 2021, OBS AGP completed the acquisition of 22 pharmaceutical products from Sandoz AG. The products acquired belong to various therapeutic classes, including anti-infectives and oncology. Well-established brands such as Zatofen, Ternelin, and Axcin were part of this acquisition. Additionally, OBS AGP was granted exclusive licenses to use brands such as Amoxi-Clav, Azomax, and Ospamox in the general medicine category, and Paclitaxel and Gemcitabine in the oncology segment within Pakistan. Since the acquisition, 9 new brands have been added to the product portfolio.

**Auditors' Report**

The CY23 financial statements were audited by EY Ford Rhodes Chartered Accountants, categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion on the financial statements.

**Industry Update**

The Pakistani pharmaceutical market comprises around 650 companies, with less than 26.0% being multinational. The industry contributes approximately 1.0% to the country's GDP and grew by 15.0% over the past year, reaching an estimated \$3.0 bn. Local companies dominate the market with a 74.0% share, while multinationals hold the remaining 26.0%. The top 25 companies account for 74.0% of the market, and the top 50 make up 90.0%. Approximately 11,000 drugs are actively marketed in Pakistan, and sold through licensed pharmacies based on prescriptions. The Drug Regulatory Authority of Pakistan (DRAP) regulates the sector, overseeing medicine registration, manufacturing site approvals, and the setting of Maximum Retail Prices (MRP).

*several OBS Group companies.*

The industry heavily relies on imports, with over 90.0% of raw materials sourced from abroad and only 10.0% of Active Pharmaceutical Ingredients (API) produced locally. This reliance exposes the sector to risks from currency devaluation, inflation, and rising utility costs. Price controls further compress profit margins, leading to the exit of some multinational companies. However, recently in February 2024, the government deregulated drug prices for medicines not listed on the National Essential Medicines List (NEML). Previously, price increases were capped based on the Consumer Price Index (CPI). Now, non-essential medicines can be priced without regulatory caps, potentially benefiting companies with a significant proportion of non-essential drugs.

According to data from IQVIA, a healthcare analytics firm, Pakistan's pharmaceutical industry recorded sales of Rs. 916.0 bn in FY24, reflecting a 24.0% year-on-year (YoY) increase in rupee terms. The fourth quarter of FY24 saw the highest-ever quarterly sales of Rs. 237.0 bn, representing a 25% increase compared to the same period last year (SPLY). Of this growth, approximately 20.0% was driven by price increases, while the remaining 5% resulted from volumetric gains. The price increase was influenced by the one-time price adjustment allowed by DRAP in May 2023 to absorb the significant rupee devaluation.

### **Sponsor Profile**

AGP Limited (AGP) is a publicly listed pharmaceutical company in Pakistan that has consistently grown by manufacturing and marketing products under licensing arrangements with several reputable multinational pharmaceutical companies, as well as developing and marketing its own brands. Some of its well-recognized brands include Rigix, Ceclor, Osnate-D, Anafortan, and Keflex. The majority shareholding of the company (~55.8%) is held by Aitkenstuart Pakistan (Private) Limited (APPL), a wholly owned subsidiary of OBS Healthcare (Private) Limited.

Following its acquisition, AGP focused on growth, process efficiency, and productivity, leading to significant improvements in the business. The company's revenue stands at Rs. 13.9 bn in CY23 (CY22: Rs. 10.3 bn), representing a YoY growth of 35.0%. Moreover, total equity was reported to be Rs. 10.9 bn (Dec'22: Rs. 10.2 bn), while total debt amounted to Rs. 3.5 bn (Dec'22: Rs. 785.7 mn) by end-Dec'23. Subsequently, AGP's gearing and leverage ratios stood strong at 0.32x (CY22: 0.08x) and 0.57x (CY22: 0.25x) respectively in CY23.

The OBS Group, comprising five companies holds a strong position in Pakistan's pharmaceutical industry: AGP Ltd, Aspin Pharma, OBS AGP, OBS Pakistan, and OBS Pharma. The Group's operations are supported by five manufacturing facilities, four located in Karachi and one in Lahore. Of these facilities, four are focused on the production of pharmaceuticals, while one is dedicated exclusively to the production of nutraceuticals.

### **Key Rating Drivers**

#### **Ratings incorporate low business risk of the pharmaceutical sector**

Ratings account for stable demand and low economic sensitivity of the pharmaceutical industry, which ensures steady revenue and profitability. Factors such as population growth, a high incidence of diseases, the emergence of new illnesses, and inadequate hygiene practices are expected to sustain the demand for pharmaceutical products in the country.

However, the pharmaceutical industry in Pakistan faces profitability pressures due to a stringent regulatory framework, including the reliance on the Drug Regulatory Authority of Pakistan (DRAP) for the approval of new products and pricing increases. The Company also encounters challenges in accessing raw materials, with 70.0-80.0% of ingredients sourced from overseas. This results in a significant portion of product costs being denominated in foreign currency, exposing the Company to exchange rate risks.

The recent deregulation of drug prices for Non-Essential Medicines provides companies with the autonomy to independently raise prices, which further supports the business risk profile of the sector.

#### **Revenue growth driven by higher prices**

In CY23, the Company's revenue increased by ~10.6%, primarily due to higher unit prices, further supported by an increase in sales volumes. During the period, OBS AGP introduced five new products. Sales were dominated by therapeutic classes, namely Systemic Anti-Infectives, contributing ~66.7% to overall revenue (CY22: ~70.4%) in the review period.

#### **Enhanced profitability profile**

The gross margin rose to 55.0% (CY22: 47.4%) in CY23, following government approval for price increases of up to 14.0% for essential medicines and 20.0% for non-essential medicines.

Marketing and selling expenses increased in CY23 due to higher sales promotion efforts, while finance charges rose as a result of an elevated monetary policy rate. Despite these increased expenses, improved gross profitability resulted in an increase in Profit after Tax (PAT), with the net margin rising to 10.1% (CY22: 8.4%).

In 6MCY24, the Company reported revenue of Rs. 2,769.7 mn (6MCY23: Rs. 2,117.2 mn). The gross margin stood at 49.4% in 6MCY24, while elevated

marketing expenses related to sales promotion efforts for new products led to a reduction in the net margin to 7.4%.

Going forward, improvement in profitability, will remain a key driver of the Company's ratings.

### **Managing product concentration continues to be a pivotal factor in the ratings assessment**

In 6MCY24, the top five products contributed ~86.4% of total sales (CY23: ~81.5%), indicating a high level of product concentration. Of these, the Azomax brand accounted for ~63.4% of total sales (CY23: ~60.6%; CY22: 63.5%), followed by Zatofen at ~10.2% (CY23: ~10.8%).

To mitigate this concentration risk, management is actively introducing new products and enhancing marketing efforts across a broader range of brands and therapeutic categories. However, these initiatives may result in higher marketing expenses, which could impact the Company's profitability in the medium term.

### **The liquidity profile remains constrained, with further improvement being a key consideration from a ratings perspective**

The Company's liquidity position, reflected in its current ratio falling below 1.0x, is under pressure primarily due to the increased current liabilities arising from its debt-financed acquisition. The use of debt has significantly raised short-term liabilities, including the current portion of loans and higher accounts payable, which has driven down the current ratio. Additionally, the acquisition has strained the Company's working capital, as the newly acquired business has yet to generate sufficient cash flow to offset the increased liabilities. This situation may continue until the acquisition is fully integrated and operational synergies are realized.

However, during the review period, the Company's liquidity profile was supported by improved cashflow coverage metrics. Funds from Operations (FFO) increased by ~58.1%, reaching Rs. 669.0 mn (CY22: Rs. 423.1 mn), driven by higher profitability. As a result, the Debt-Service-Coverage-Ratio (DSCR) improved to 1.00x (CY22: 0.77x). The FFO/Total Debt ratio slightly increased to 0.27x (CY22: 0.17x), alongside an improvement in the FFO/Long-term Debt ratio to 0.36x (CY22: 0.17x), due to the repayment of long-term debt. While projections indicate pressure on debt servicing, comfort is provided by unutilized working capital lines and the working capital support pledged by the parent company.

**Capitalization indicators improve driven by debt repayment and expansion in equity base**

As of Dec'23, OBS AGP reported equity of Rs. 1,978.6 mn (Dec'22: Rs. 1,667.5 mn), owing to profit retention. During the review period, the Company also paid dividends totaling Rs. 200.0 mn. Despite an increase in short-term financing, total debt (incl. current maturity) declined to Rs. 2,446.2 mn (Dec'22: Rs. 2,513.3 mn) due to repayments of long-term debt by end-Dec'23. As a result, the gearing ratio improved to 1.24x (CY22: 1.51x) in CY23. With equity growth exceeding the rise in total liabilities, the Company's leverage ratio stood at 1.72x (CY22: 1.82x).

By Jun'24, equity further increased to Rs. 2,033.1 mn, while long-term debt continued to decrease due to scheduled repayments. Consequently, the gearing ratio improved to 1.11x, and the leverage ratio reduced to 1.44x in 6MCY24. Continued improvement in the equity base will remain important for balance sheet strengthening.

**OBS AGP (Private) Limited**
**Appendix I**

<u>Financial Summary</u>			
<b>Balance Sheet</b> (PKR Millions)	<b>CY22A</b>	<b>CY23A</b>	<b>6MCY24M</b>
Property, plant and equipment	162.25	176.29	244.61
Stock-in-trade	397.70	309.33	284.47
Trade debts	322.81	613.16	427.44
Cash & Bank Balances	45.68	24.34	40.03
Other Assets	3,767.91	4,259.42	3,959.28
<b>Total Assets</b>	<b>4,696.35</b>	<b>5,382.54</b>	<b>4,955.83</b>
Creditors	141.12	380.90	231.56
Long-term Debt (incl. current portion)	2,513.28	1,848.13	1,702.34
Short-Term Borrowings	0.00	598.02	552.34
<b>Total Debt</b>	<b>2,513.28</b>	<b>2,446.15</b>	<b>2,254.68</b>
Other Liabilities	374.45	576.95	436.47
<b>Total Liabilities</b>	<b>3,028.85</b>	<b>3,404.00</b>	<b>2,922.71</b>
Paid up Capital	100.00	100.00	100.00
Equity (excl. Revaluation Surplus)	1,667.50	1,978.55	2,033.11
<b>Income Statement</b> (PKR Millions)			
	<b>CY22A</b>	<b>CY23A</b>	<b>6MCY24M</b>
Net Sales	4,571.47	5,056.99	2,769.75
Gross Profit	2,165.01	2,783.28	1,369.15
Operating Profit	926.68	1,321.14	538.57
Finance Costs	398.62	549.61	246.26
Profit Before Tax	528.06	771.53	292.31
Profit After Tax	385.24	511.05	204.56
<b>Ratio Analysis</b>			
	<b>CY22A</b>	<b>CY23A</b>	<b>6MCY24M</b>
Gross Margin (%)	47.36%	55.04%	49.43%
Operating Margin (%)	20.27%	26.13%	19.44%
Net Margin (%)	8.43%	10.11%	7.39%
Funds from Operation (FFO) (PKR Millions)	423.06	669.00	260.83
FFO to Total Debt* (%)	16.83%	27.35%	23.14%
FFO to Long Term Debt* (%)	16.83%	36.20%	30.64%
Gearing (x)	1.51	1.24	1.11
Leverage (x)	1.82	1.72	1.44
Debt Servicing Coverage Ratio* (x)	2.18	1.00	0.87
Current Ratio (x)	0.87	0.77	0.65
(Stock in trade + trade debts) / STD (x)	-	1.54	1.29
Return on Average Assets* (%)	8.20%	10.14%	7.91%
Return on Average Equity* (%)	23.10%	28.03%	20.40%
Cash Conversion Cycle (days)	64.69	48.63	33.07

\*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II	
<b>Name of Rated Entity</b>	OBS AGP (Private) Limited					
<b>Sector</b>	Pharmaceutical					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity & Sukuk Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<u>Rating Type: Entity</u>					
	10-31-2024	A	A1	Stable	Reaffirmed	
	08-25-2023	A	A1	Stable	Reaffirmed	
	06-17-2022	A	A1	Stable	Reaffirmed	
	05-03-2021	A	A1	Stable	Initial	
	<u>Rating Type: Sukuk</u>					
	10-31-2024	A+	-	Stable	Reaffirmed	
	08-25-2023	A+	-	Stable	Reaffirmed	
	06-17-2022	A+	-	Stable	Final	
	05-03-2021	A+	-	Stable	Initial	
	<b>Instrument Structure</b>	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%), 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. Moreover, one upcoming rental payment shall, at all times, be available in a rental payment reserve account.				
	<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	1.	Mr. Shahzaib Tariq	CFO			
	2.	Mr. Bosco Firmin	Dep. GM Investments	Sept 27, 2024		
	3.	Mr. Aaqib Siddiqui	Sr. Manager Finance			