RATING REPORT

OBS Pakistan (Private) Limited

REPORT DATE:
April 18th, 2023

RATING ANALYST:
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RATING DETAILS		
	Current Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Sukuk	A+	A+
Rating Date	*April 18, 2023*	Sep 23, 2022
Rating Outlook	Stable	Stable
Rating Action	Preliminary	Preliminary

COMPANY INFORMATION	
Incorporated in 2021	**Board Chairman (Parent Company):** Mr. Tariq Moinuddin Khan
Private Limited Company	**MD & CEO (Parent Company):** Ms. Nusrat Munshi
Key Shareholder:	**External Auditors: Grant Thornton**
AGP Limited- 67.57% as of April 14, 2023	

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

OBS Pakistan (Private) Limited

OVERVIEW OF THE INSTITUTION

OBS Pakistan (Private) Limited (OBS-Pak), was incorporated in December'2021. At end-June'22, the Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited. Ultimate parent company is West End 16 Pte Limited, Singapore. OBS Pak will ultimately become a subsidiary of AGP Limited prior to the issuance of the Sukuk,

The Company is expected to commence operations from the second quarter of 2023 following the acquisition of 17 pharmaceutical brands from Viatris Inc. and Pfizer Pakistan.

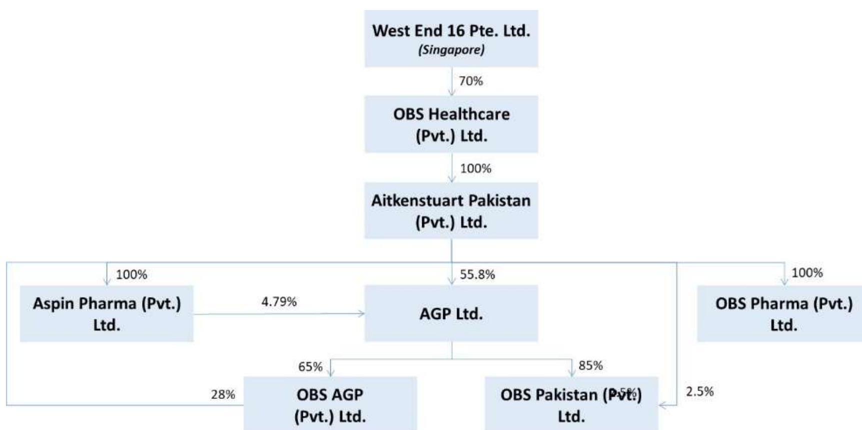
Profile of Board Chairman:

Mr. Tariq Moinuddin Khan is the founder and CEO of OBS Group. He carries over four decades of domestic and international professional experience. Mr. Khan is a graduate of Concordia University Canada and acquired Post Graduate Diploma from McGill University and Certified Public Accountant designation from USA.

RATING RATIONALE

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 illustration below has strong presence in the pharmaceutical industry and currently operates in the country via three companies i.e. AGP Limited, Aspin Pharma Private Limited and OBS AGP (Private) Limited. AGP Limited has 3 manufacturing facilities while Aspin Pharma Private Limited has one. All of OBS Group manufacturing facilities are located in Karachi. The ultimate shareholding structure post-acquisition is as follows:



Purpose of the SPV and Financing Structure

Revised Financing Cost Rs. 9.6b	Sukuk of Rs. 3.6b	Bilateral Facility of Rs. 3.6b	Equity investment of Rs. 2.4b
Pattern of Shareholding of OBS Pakistan (Pvt.) Limited			
Existing		**Prior to Acquisition**	
Aitkenstuart Pakistan (Pvt.) Limited	99.98%	AGP Limited	85%
Mr. Tariq Moinuddin Khan	0.01%	Aitkenstuart Pakistan (Pvt.) Limited	2.5%
Mr. Muhammad Kamran Mirza	0.01%	Other Shareholders	12.5%

OBS Pakistan (Private) Limited (OBS-Pak) was formed as an SPV in December'2021 and entered into an asset purchase agreement in June'22 with Viatris Inc. and Pfizer Inc. Initially, it was negotiated to acquire 18 pharmaceutical brands (25 active SKUs) currently being marketed by Pfizer Pakistan Limited at a total acquisition cost of Rs 12,906m (USD $54m). However, the same has been revised after renegotiations. Now 17 pharmaceutical brands of Viatris Inc. are being purchased from Pfizer Pakistan Limited at a total cost of Rs. 9,000m (USD $30m) to be paid in weekly installments over a period of ~8 months, for which total capital requirements including required capex has been estimated at Rs. 9,600m. The acquisition will be 75% financed by debt resources (Rs. 7.2b) and the remaining through equity injection (Rs. 2.4b). The debt to equity ratio remains unchanged. The renegotiated price is calculated at an exchange rate of PKR 300/USD. OBS Pak was incorporated as a 100% owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited. Prior to transaction closure, equity was injected into OBS-Pak and the ultimate shareholding structure will be changed to AGP Limited (85%), Aitkenstuart Pakistan (Pvt.) Limited (2.5%) and other shareholders (12.5%).

OBS-Pak commenced operations in April 2023. The company is now going through a 2 years transition period during which the transfer of Marketing Authorizations (MA) will take place. During the transition period, OBS-Pak will source all locally manufactured/imported products from Pfizer Pakistan Limited. Upon the transfer of MAs, it has been planned to commence local manufacturing of majority products at AGP's manufacturing facilities for which sufficient capacity is available and AGP will incur minimum capex to commence the operations.

The debt portion will be arranged through the issuance of a Sukuk instrument for which amount has been revised to Rs. 3.6b and a debt facility of up to Rs. 3.6b. The tenor of both facilities has been extended to 7 years with a grace period of 18 months. Sukuk specific terms as per the indicative term sheet include:

- Interest rate applicable on the Sukuk shall be the 3M KIBOR plus 1.60% (previously 1.75%) spread with principal payment to be redeemed over 22 quarters (previously 18 quarters). Profit payment will also be made quarterly in arrears with the first profit payment being due 3 months from the disbursement date;
- Security Structure entails exclusive hypothecation charge on future fixed assets of OBS-Pak;
- Pledge of AGP's shares by Aitken Stuart Pakistan (Pvt.) Limited, the major shareholder, of AGP inclusive of 40% security margin;
- Corporate Guarantee from AGP for the Outstanding Issue Amount plus Profit;
- Collection Account to be maintained under lien in which all revenue of OBS-Pak will flow;
- Financing Payment Account (FPA) to be filled in with upcoming installment amount (Principal + Profit) 2 working days prior to installment due date. The

FPA shall be reset to zero after settlement of each installment and shall be replenished in the same manner subsequently.

Upon commencement of business operations, OBS-Pak plans to distribute its products through Muller & Phipps Pakistan (Pvt) Limited which is the largest pharmaceutical distributor in Pakistan. They have presence in 950+ town with 67 depots and over 900 owned vans. Moreover, this would significantly enhance the availability of the acquired brands across the country.

Key Rating Drivers

Strong sponsor strength along with financial support

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 Pakistan (Both from AGP and projected cash available at the holding Company level). AGP had an annual consolidated turnover of Rs. 14.5b (2021: Rs. 9.3b) in 2022 with continuous growth recorded in sales and sufficient liquidity profile. Ratings incorporate AGP's healthy cash flows and low leveraged capital structure on a consolidated and stand-alone basis. AGP's consolidated equity base amounted to Rs. 11.1b (2021: Rs. 10.2b) at end-2022.

AGP Standalone (Rs. In m)	**CY21**	**CY22**
DSCR	2.8	3.1
FFO	1,985	1,671
Debt Servicing (consolidated)	(607)	(605)
Capex (consolidated)	(479)	(914)
Amount left	898	152
AGP Consolidated (Rs. In m)	**CY21**	**CY22**
DSCR	3.1	2.3
FFO	2,337	2,049
Debt Servicing	(607)	(605)
Capex	(479)	(914)
Amount left	1,251	530

AGP Limited Consolidated (Rs. In m)	CY21	CY22
Net Sales	9,316.8	14,458.8
Gross Margin (%)	54.3%	50.7%
Net Margin (%)	19.8%	11.8%
PAT	1,846.0	1,704.8
FFO to Total Debt (%)	75.3%	62.3%
Gearing (x)	0.31	0.30
Leverage (x)	0.46	0.49
DSCR	3.12	2.30
Consolidated FFO	2,337.4	2,049.0
Debt Servicing	(606.8)	(604.8)
Capex	(479.4)	(914.2)
Total Debt	3,103.2	3,288.6
Total Equity	10,161.3	11,131.1

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, however, currency volatility will continue to impact margins. Sales of the sector are supported by geographical diversification, growing population and continuous development of new products to treat 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; Cardiology, Anti- Hypertensive, Anti- Epileptics, Ocular Hypertension and Urinary Incontinence. In line with current sales of the products with Pfizer, around 77% of the outgoing year revenue contribution is expected to originate from locally manufactured products, while imported products will contribute to the remaining 23% of the revenue base.

In line with actual sales mix during the last two years (2021 and 2022), projected product-wise concentration in sales will continue to be on the higher end with around 57% of revenues emanating from one brand- Norvasc followed by Zoloft(13%) and Lyrica(6.3%). Comfort is drawn from Norvasc and Cardura possessing sizeable share of 48% and ~100%, respectively in FY22.As per the management, future business strategy will focus on volumetric sales growth of existing brands) as well as introduction of new SKUs and combinations.. Revenue growth projected for the transition period also draws comfort from the supply prices being locked under the agreement with Viatris and Pfizer.

The Company will focus on enhancing sales by appointing M&P as the primary distributor, enhancing the team strength, increasing the number of cities under coverage, enhancing marketing and promotional activities and new product launches.

Gradual growth in profitability indicators is expected on the back of expected increase in prices and uptick in volumetric sales planned through line extensions and new product launches over the rating horizon.

Projected growth in revenue is expected to emanate from increase in prices along with volumetric growth (conservative approach to projected unit growth has been assumed) planned through organic growth and line extensions in the current product portfolio over the rating horizon. Actual and projected gross margins of the product portfolio compare favorably to other pharmaceutical players as all products command high margins with Norvasc having the highest sales contribution as well as highest margin. As per the company's revised financial projections, GMs are projected to reduce to 71% after accounting for currency devaluation. While risk of variation in product pricing is mitigated through pre-agreed product costs locked in during the 2- year's transition period, currency volatility risk will continue to prevail. The Company has projected higher selling and administrative expenses along with elevated finance costs due to borrowings. However, the management projects gradual improvement in the same through timely reduction in finance charges. Achieving projected profitability levels post the locked margin transition period is considered important from a ratings perspective.

Adequate projected debt servicing over the rating horizon, further supported by Corporate Guarantee. Liquidity indicators also depict improvement over the long-term. Projected profit retention and annual debt repayments are expected to result in improvement in leverage indicators.

With overall debt quantum reducing, cash flow coverages depict improvement. . Debt servicing also remains adequate with DSCR ranging between 1.2-1.5x over the rating horizon, however, the same shall remain exposed to interest rate and exchange rate volatility impact. However, debt repayment capacity is enhanced through corporate guarantee of AGP for the entire principal and profit amount of the Sukuk and remains a key rating driver. Improvement in the liquidity profile is considered important from a ratings perspective.

Equity base of the company is projected to stand at Rs. 3.2b at end-Dec'23 after equity injection for the acquisition. With elevated debt levels to finance the acquisition, leverage and gearing levels are expected to report on the higher side. However, the same are expected to gradually decrease through augmentation in equity base by profit retention. Ratings remain dependent on maintaining sound debt servicing cushion and reducing leverage indicators in line with projections over the rating horizon.

OBS Pakistan (Private) Limited Appendix I

FINANCIAL SUMMARY *(Rs. in millions)*				
BALANCE SHEET- PROJECTED	**9MCY23**	**CY24**	**CY25**	**CY26**
Property, plant and equipment	206.7	313.0	412.2	505.5
Stock-in-Trade	179.1	244.8	219.6	275.8
Trade Debts	333.4	427.7	527.8	639.2
Cash & Bank Balances	361.2	874.2	1,207.3	1,995.7
Total Assets	10,520.1	11,299.4	11,806.7	12,855.9
Trade and Other Payables	107.4	183.6	292.9	367.7
Short Term Debt	-	-	-	-
Long Term Debt	7,142.1	6,824.1	5,524.3	4,224.5
Total Debt	7,142.1	6,824.1	5,524.3	4,224.5
Total Liabilities	7,306.9	7,055.3	5,855.6	4,621.6
Paid Up Capital	2,400.0	2,400.0	2,400.0	2,400.0
Total Equity	3,213.2	4,244.1	5,951.0	8,234.3
INCOME STATEMENT- PROJECTED	**9MCY23**	**CY24**	**CY25**	**CY26**
Net Sales	3,042.0	5,204.2	6,421.7	7,777.5
Gross Profit	2,170.5	3,715.0	4,640.2	5,540.7
Operating Profit	1,721.8	2,726.2	3,420.0	4,063.0
Profit Before Tax	1,054.2	1,349.5	2,358.4	3,218.7
Profit After Tax	812.8	1,030.9	1,706.9	2,283.2
RATIO ANALYSIS- PROJECTED	**9MCY23**	**CY24**	**CY25**	**CY26**
Gross Margin (%)	71.4%	71.4%	72.3%	71.2%
Net Margin (%)	26.7%	19.8%	26.6%	29.4%
Net Working Capital	391.0	15.7	323.6	1,213.7
Funds from Operations (FFO)	856.0	1,101.1	1,803.4	2,403.9
FFO to Total Debt (%)	12.0%	16.1%	32.6%	56.9%
FFO to Long Term Debt (%)	12.0%	16.1%	32.6%	56.9%
Current Ratio	1.8	1.0	1.2	1.7
Gearing (x)	2.22	1.61	0.93	0.51
Leverage (x)	2.27	1.66	0.98	0.56
Debt Servicing Coverage Ratio (x)	2.28	1.46	1.21	1.51
(Stock in trade + Trade debts) / Short term borrowings (%)	2.00	3.00	4.00	5.00
Return on Average Assets (%)	7.7%	9.4%	14.8%	18.5%
Return on Average Equity (%)	25.3%	27.6%	33.5%	32.2%

RATING SCALE & DEFINITION 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	OBS Pakistan (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		Rating Type: Sukuk		
23-09-2022	A+	-	Stable	Preliminary
18-04-2023	A+	-	Stable	Preliminary

Instrument Structure	OBS Pakistan (SPV) intends to issue a Rated, Secured and Privately Placed/DSLR Listed Sukuk Issue of up to Rs. 3.6b. The funds will be used to finance the acquisition of 17 pharmaceutical brands from Viatris Inc. which are currently marketed by Pfizer Pakistan. The tenor of the Sukuk will be 7 years with a grace period of 18 months. The issue offers quarterly profit payments with a base rate of 3-Month KIBOR plus a spread of 1.60% per annum. The Sukuk is secured with exclusive hypothecation charge on future fixed assets of OBS-Pak, pledge of AGP's shares inclusive of 40% security margin, corporate guarantee of AGP on the principal and profit payments, lien on collection account through which all revenue would flow and formation of a Financing Payment Account (FPA) in which upcoming installment (profit+ principal) will fall 2 working days prior to the due date.
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.	Bosco Firmin	Dep. General Manager Investments & New Ventures (OBS Group)	March 27, 2023