RATING REPORT

OBS Pharma (Private) Limited

REPORT DATE:
July 3, 2023

RATING ANALYST:
Saeb Muhammad Jafri
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Rating Category	Current Rating Long-term
Bank Loan Rating	A+(blr)
Rating Date	*July 03, 2023*
Rating Outlook	Stable
Rating Action	Preliminary

COMPANY INFORMATION	
Incorporated in 2022	**Board Chairman:** Mr. Tariq Moinuddin Khan
Private Limited Company	**CEO:** Mr. Muhammad Kamran Nasir
Key Shareholder:	
Aitkenstuart Pakistan (Pvt.) Limited – 99.98%	

APPLICABLE METHODOLOGY(IES)

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

VIS Bank Loan Rating Criteria Methodology (November 2018)
https://docs.vis.com.pk/docs/BLR112018.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

OBS Pakistan (Private) Limited

OVERVIEW OF THE INSTITUTION

OBS Pharma (Pvt.) Limited ("Company") was incorporated on November 18, 2022, as a Special Purpose Company ("SPC") to acquire pharmaceutical brands and a manufacturing facility from Bayer. The Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited. Ultimate parent company is West End 16 Pte Limited, Singapore.

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

OBS Pharma Private Limited

OBS Pharma (Pvt.) Limited ("the Company") is a Special Purpose Company ("SPC"), created to acquire pharmaceutical brands and a manufacturing facility from Bayer. The Company is a wholly owned subsidiary of Aitkenstuart Pakistan (Pvt.) Limited. Ultimate parent company is West End 16 Pte Limited, Singapore. On November 21, 2022, the Company entered into an agreement with Bayer AG and its affiliates for the above-mentioned acquisition. The cumulative revenue of the target products, which predominantly comprise women's healthcare and dermatology products, stood at PKR 5,177mn in CY22 (CY21: PKR 4,277mn). Renowned brands such as Ciproxin, Gravibinan, Travocort, and Primolut N are included in the portfolio. Among the brands being transferred, 10 hold leading positions in their respective molecular categories. Furthermore, along with the target products, the rights to manufacture two brands of Greenstar Social Marketing (Femi-Ject and Nova-Ject), currently produced by Bayer PK, are also being passed on by Bayer.

The acquired manufacturing facility, located at Plot 108, Quad-e-Azam Industrial Estate, Lahore, spans 3 acres. All target products, with the exception of Ciproxin and Resochin, which are produced by Novartis Pharma Pakistan Limited, are manufactured in this facility belonging to Bayer PK. The total cost of acquisition is PKR 7,000mln.

The proposed capital structure of the Company will consist of 75% debt, amounting to PKR 5,250mn, and 25% equity, which totals PKR 1,750mn. The debt portion will be sourced through a syndicated Musharaka agreement, while the Equity segment will be provided by Aitkenstuart, who will subscribe to Company shares through a rights issue. Equity injection will occur on a pro rata basis prior to each Musharaka facility drawdown.

Recent sales performance of the target products are as follows:

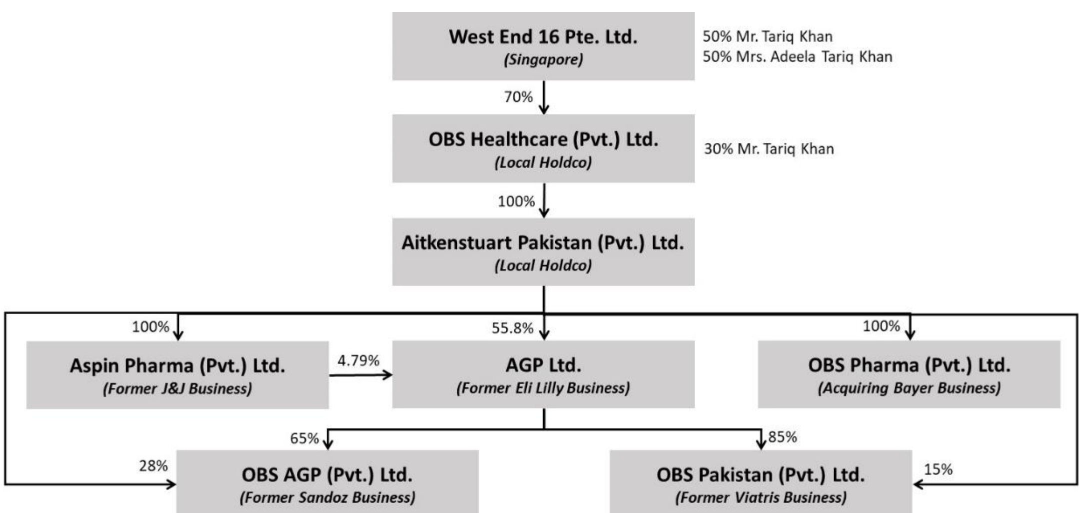
S.No.	Brank	Indication	Market Rank	Net Sales (PKR Million)		
				2020	2021	2022
1	Gravibinan	Miscarriage Prevention	1	1,127	1,275	1,571
2	Ciproxin	Anti-Infective	2	1,078	1,080	1,298
3	Primolut N	Ovulation Suppression	1	847	847	1,100
4	Travocort	Dermatology Anti-Fungal	1	546	630	656
5	Proviron	Low Testosterone Treatment	1	135	16	174
6	Testoviron	Low Testosterone Treatment	2	107	95	121
7	Advantan	Eczema and Psoriasis	1	113	118	102
8	Resochin	Anti-Malaria	1	56	78	55
9	Skinoren	Acne Treatment	1	46	39	49

10	Noctamid	Sleep Disorder	1	0	65	28
11	Travogen	Dermatology Anti-Fungal	1	15	20	23
12	Nerisone	Skin Allergy	1	26	14	2
13	Femi-Ject	Contraceptive	N/A	11	0	0
14	Nova-Ject	Contraceptive	N/A	33	0	0
Total				**4,136**	**4,277**	**5,177**

Sponsor Profile

Aitkenstuart is the holding arm of OBS Group, through which it owns four pharmaceutical companies namely, AGP Limited, Aspin Pharma (Pvt.) Limited, OBS AGP (Pvt.) Limited, and OBS Pakistan (Pvt.) Limited (a company that has recently acquired brands of Viatris Inc./Pfizer Inc., which were being marketed in Pakistan by Pfizer Pakistan 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 ~PKR 19,000mn in CY22. The Group currently operates with four (4) manufacturing facilities, all of which are located in Karachi. Out of the four manufacturing facilities, three are dedicated to pharmaceutical production, while one is dedicated to nutraceutical production.

Group Structure:



Syndicated Musharaka Structure:

The Musharaka financing facility is set for a seven-year term, incorporating a grace period of one and a half years. After this period, the principal is to be repaid by the Company via twenty-two equal, consecutive quarterly installments, starting from the twenty-first month post the initial disbursement. The facility entails quarterly profit payments, which is to operate at a floating rate consisting of the 3-Month KIBOR plus an additional spread of 1.70% per annum.

Security:

- A First Pari Passu charge over all current and future fixed assets of OBS Pharma, which includes but is not limited to the Bayer PK manufacturing facility being acquired, inclusive of a 20% margin.
- A First Pari Passu charge over all current and future fixed assets of Aspin Pharma (Pvt.) Limited, an associated concern of the OBS Group, inclusive of a 20% margin.
- A Corporate Guarantee provided by Aitkenstuart Pakistan (Pvt.) Ltd., the parent company of OBS Pharma, covering the outstanding amount of the Musharaka facility in addition to profit.
- A Lien on the Collection and Finance Payment Account.

Funding Requirement and Transaction:

The proposed capital structure of the Company will consist of 75% debt, amounting to PKR 5,250mn, and 25% equity, which totals PKR 1,750mn. The Debt portion will be sourced through a syndicated Musharaka, while the Equity segment will be provided by Aitkenstuart, who will subscribe to Company shares through a rights issue. The equity injection will occur on such basis that the debt:equity ratio of 75:25 is not breached.

The Transaction is to be divided into two distinct phases:

Phase 1: involves the acquisition of the Manufacturing Facility, Marketing Authorizations, Business Agreements, Technical Information, Permits, and Know-Hows associated with the Target Products for a sum of PKR 4,225mn, referred to as the "Purchase Price (LCY)". Since the business transfer will initiate from this phase, there will be a requirement for Capex and one-off working capital funding, which is incorporated in the Acquisition Cost.

Phase 2: encompasses the acquisition of Trademarks/brands for a sum of PKR 1,868mn (equivalent to USD 6.23mn at a conversion rate of USD/PKR 300), which will be remitted to Bayer entities based in Germany and Switzerland. This sum is known as the "Purchase Price (FCY)". Additionally, this phase will see the remittance of a Technical Consultant Fee of PKR 255mn (equivalent to USD 0.85mn at a conversion rate of USD/PKR 300) to a third-party consultant, compensating for sourcing and consultancy services utilized during the negotiation phase and for technical assistance in closing the transaction.

The breakdown of the Acquisition Cost is as follows:

Particular	Amount (PKR mln)
Purchase Price (FCY)	1,868
Technical Consultant Fee (FCY)	255
Purchase Price (LCY)	4,225
Total Purchase Price	**6,348**
Other Transaction Related Expenses, CAPEX and One-off Working Capital Requirement	652
Total Funding Requirement	**7,000**

Key Rating Drivers

Strong financial health of the Sponsor.

The assigned ratings draw comfort from the sound financial health of the parent company, Aitkenstuart. Demonstrating a strong liquidity profile, the sponsor's current ratio has consistently remained above 2.0x during the periods under review. The debt service record has also exhibited historical strength with a Debt Service Coverage Ratio (DSCR) of 1.8x reported in CY22 (CY21: 1.9, CY20: 1.7). Leverage and gearing ratios have also sustained healthy levels between 2020 and 2022. The gearing ratio was reported at 0.2x in CY22 (CY21: 3.1x, CY20: 2.7x), while leverage ratios were recorded at 0.4x (CY21: 0.3, CY20: 0.3). Despite a slight dip in overall financial performance in CY22 due to challenging economic conditions within the country, the overall profile has remained healthy, thereby offering sufficient security to OBS Pharma for its Musharaka financing.

Sponsor's Indicators (PKR Million)	2020 Audited	2021 Audited	2022 Unaudited
Net Sales	10,307.23	13,389.85	18,996.96
Gross Profit	7,228.0	5,792.0	9,876.3
Gross Margin	70%	43%	52%
PAT	1,963.7	2,153.5	1,718.1
Net Profit Margin	19%	16%	9%
FFO	2,704.5	3,351.7	2,880.4
Long Term Debt	3,406.8	4,800.3	3,744.9
Short Term Debt	1,419.0	4.0	1,352.6
Total Debt	4,825.9	4,804.3	5,097.5
FFO/ Long Term Debt	0.8	0.7	0.8
FFO/Total Debt	0.6	0.7	0.6
Leverage	0.3	0.3	0.4
Gearing	0.2	0.2	0.2
DSCR	1.7	1.9	1.8
Total Equity	19,956.6	22,009.6	22,893.0
Current Ratio	2.7	3.1	2.1

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

Owing to the non-cyclical characteristics of the sector, which features relatively stable (inelastic) demand, it is anticipated that revenues and profitability within the pharmaceutical industry will remain impervious to economic downturns, although currency fluctuations will persistently influence margins. The sector's sales are supported by an expanding population, and the continuous development of new products for disease treatment. Consequently, sector business risk is deemed to be relatively low. However, regulatory risks, including potential alterations in pricing policies and pronounced devaluation of the rupee (given that a significant portion of raw material is imported) remain a key challenge for the sector.

Albeit concentrated, the acquired product portfolio enjoys a strong competitive position.

The acquired portfolio consists of 12 products, primarily focused on women's health and well-being segment. Among them, Gravibinan (miscarriage prevention), Ciproxin (anti-infective), and Primolut N (ovulation suppression) are the flagship products, each holding a significant market share and enjoying a strong competitive position. Total revenue generated by the acquired portfolio is approximately Rs 5,177 million, with these three products contributing 74% of the total revenue. Hence, signifying high level of concentration risk in the target portfolio, due to its heavy reliance on just three products for overall performance. Nevertheless, these products are well-established brands that command substantial market shares. Gravibinan holds a 99% market share (Market Rank 1), Ciproxin accounts for 12% (Market Rank 2), and Primolut N possesses 98% (Market Rank 1) in their respective markets. However, strong brand equities of these products contribute a measure of confidence to sales stability going-forward.

Strong growth potential.

Revenues of the target products have exhibited growth at a 5-year Compound Annual Growth Rate (CAGR) of 13%, including the COVID years. In CY22, net sales amounting to PKR 5,177mn and a Gross Profit of PKR 2,434mn were recorded by the Company. Given OBS Pharma's expansive distribution network in over 60 cities, management aims to substantially increase the coverage of the acquired portfolio, thereby seizing a larger market share. Currently, the portfolio is being marketed by approximately 160 employees, whereas OBS plans to significantly augment the team size in line with the requirements of the brands, with the aim of achieving an extended reach in marketing and sales efforts. Based on this, management forecasts a net sales growth of ~21% for the soon-to-be-acquired portfolio going forward. Moreover, management expects the women well-being segment to be a major growth opportunity in the pharmaceutical sector, and plans on expanding its reach in this segment by introducing more products in this market.

Achievement of projected plans remains a key rating sensitivity.

OBS's substantially high gearing ratio of 2.95x underscores the significance of accurate and strong performance in the projected financials for the purpose of its ratings. Ratings are highly reliant on factors such as the Company's finance costs and sales projections, which are susceptible to external influences like interest rate fluctuations and economic pressures impacting the demand for the upcoming acquired products. These factors are important to ensure strong debt servicing ability of the Company. Consequently, the execution and achievement of the Company's projected plan will be a key rating driver for OBS going-forward.

OBS Pakistan (Private) Limited Appendix I

Financial Summary			(PKR Million)
BALANCE SHEET	**2HCY23**	**CY24**	**CY25**
Property, Plant and Equipment	3,640.3	3,673.9	3,725.0
Stock-in-Trade	2,354.2	1,146.5	1,154.9
Trade Debts	425.5	513.5	672.5
Cash & Bank Balances	25.0	495.5	947.8
Total Assets	9,586.8	8,971.1	9,642.0
Trade and Other Payables	2,300.3	1,146.5	1,154.9
Long Term Debt (*incl. current maturity)	4,302.3	5,220.5	4,270.8
Short Term Debt	1,138.8	0.0	0.0
Total Debt	5,441.1	5,220.5	4,270.8
Total Liabilities	7,741.4	6,366.9	5,425.7
Total Equity	1,845.4	2,604.2	4,216.2
Paid up Capital	1,750.0	1,750.0	1,750.0
INCOME STATEMENT	**2HCY23**	**CY24**	**CY25**
Net Sales	3,123.8	8,181.5	9,936.8
Gross Profit	975.6	3,532.0	5,253.1
Operating Profit	587.7	2,188.0	3,430.9
Profit Before Tax	142.3	1,070.6	2,344.2
Profit After Tax	95.4	758.8	1,612.1
RATIO ANALYSIS	**2HCY23**	**CY24**	**CY25**
Gross Margin (%)	31%	43%	53%
Net Margin (%)	3%	9%	16%
Net Working Capital	-634	54	666
Current Ratio (x)	0.82	1.03	1.32
Funds from Operations (FFO)*	354.3	887.1	1,747.9
FFO to Total Debt (%) *	6.51%	16.99%	40.93%
FFO to Long Term Debt (%) *	8.24%	16.99%	40.93%
Debt Servicing Coverage Ratio (x)	1.37	0.97	1.39
Leverage(x)	4.2	2.4	1.3
Gearing(x)	2.95	2.00	1.01
(Stock in Trade + Trade Debts)/ Short Term Borrowings (%)	2.44	0.00	0.00
ROAA (%)		0.08	0.17
ROAE (%)		0.34	0.47
**Annualized*			

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	OBS Pharma (Private) Limited
Sector	Pharmaceutical
Type of Relationship	Solicited
Purpose of Rating	BLR Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		Rating Type: Entity		
16-June-2023	A	A-1	Stable	Initial
		Rating Type: BLR		
03-July-2023	A+(blr)		Stable	Preliminary

Instrument Structure	OBS Pharma (SPC) intends to finance Rs. 5.25b through a Syndicated Musharaka facility for the acquisition of 12 pharmaceutical brands from Bayer AG. The tenor of the facility will be 7 years with a grace period of 18 months. The facility entails quarterly profit payments with a base rate of 3-Month KIBOR plus a spread of 1.70% per annum. The Musharaka is secured with a First Pari Passu charge over all current and future fixed assets of OBS Pharma, which includes but is not limited to the Bayer PK manufacturing facility being acquired, inclusive of a 20% margin, a First Pari Passu charge over all current and future fixed assets of Aspin Pharma (Pvt.) Limited, inclusive of a 20% margin, a Corporate Guarantee provided by Aitkenstuart Pakistan (Pvt.) Ltd., the parent company of OBS Pharma, covering the outstanding amount of the Musharaka in addition to profit and a Lien on the Collection and Finance Payment Account (FPA).
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Muhammad Kamran Mirza	Director	May 23, 2023
2.	Bosco Firmin	Dep. General Manager Investments & New Ventures (OBS Group)	May 23, 2023