

RATING REPORT

OBS Pharma (Private) Limited

REPORT DATE:

March 28, 2024

RATING ANALYST:

Shaheryar Khan Mangan

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| Rating Category | Current Rating | Previous Rating |
|-------------------------|----------------|-----------------|
| | Long-term | Long-term |
| Bank Loan Rating | A+(blr) | A+(blr) |
| Rating Date | March 28 2024 | July 03, 2023 |
| Rating Outlook | Stable | Stable |
| Rating Action | Final | Preliminary |

COMPANY INFORMATION

Incorporated in 2022**Board Chairman:** Mr. Tariq Moinuddin Khan**Private Limited Company****CEO:** Mr. Shahzad Khan**Key Shareholder:***Aitkenstuart Pakistan (Pvt.) Limited – 80%*

APPLICABLE METHODOLOGY(IES)

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

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

OBS Pharma (Pvt.) Limited 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 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 U.S.A.

OBS Pharma (Pvt.) Limited (“the Company”) forms part of the OBS group which ranks amongst the top ten local pharmaceutical groups in Pakistan with a group turnover of ~PKR 19bn (in CY22) with four manufacturing facilities located in Karachi and one in Lahore.

In June 2023, the Company acquired pharmaceutical brands and a manufacturing facility from Bayer AG and its associates. The Company is a subsidiary of Aitkenstuart Pakistan (Pvt.) Limited with 80% shareholding while remaining is held by employees. 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, at a cost of Rs 6,825m, which was concluded in July 2023. The acquisition was funded through equity of Rs. 1.70b and a syndicated facility of Rs. 5.125b.

The Target Products acquired had a cumulative revenue of PKR 5,177mn in CY22 (PKR 4,277mn in CY21). The portfolio primarily comprises of women’s healthcare and dermatology products. Some of the well-known brands in the portfolio are Ciproxin, Gravibinan, Travocort, Primolut N amongst others.

Out of the 12 brands acquired, 10 are market leaders in their respective molecular categories. Moreover, in addition to the Target Products, the Seller has also passed on the rights to manufacture two brands of Greenstar Social Marketing (Femi-Ject and Nova-Ject) that are manufactured by Bayer PK.

Mr. Shahzad Khan as the new Chief Executive Officer spearheads the Company. He has about 26 years of experience in the healthcare industry, with the last assignment with CCL Pharmaceuticals as their Managing Director and Chief Executive Officer. The manufacturing facility acquired is spread over 3 acres and is located at Plot 108, Quad-e-Azam Industrial Estate, Lahore. All Target Products are manufactured at Bayer PK’s facility except for Ciproxin and Resochin that are manufactured by Novartis Pharma Pakistan Limited.

| S.No. | Rank | Indication | Market Rank | Net Sales (PKR Million) | | | |
|-------|------------|----------------------------|-------------|-------------------------|-------|-------|---------|
| | | | | 2020 | 2021 | 2022 | 6M 2023 |
| 1 | Gravibinan | Miscarriage Prevention | 1 | 1,127 | 1,275 | 1,571 | 875 |
| 2 | Ciproxin | Anti-Infective | 2 | 1,078 | 1,080 | 1,298 | 803 |
| 3 | Primolut N | Ovulation Suppression | 1 | 847 | 847 | 1,100 | 540 |
| 4 | Travocort | Dermatology Anti-Fungal | 1 | 546 | 630 | 656 | 391 |
| 5 | Proviron | Low Testosterone Treatment | 1 | 135 | 16 | 174 | 65 |
| 6 | Testoviron | Low Testosterone Treatment | 2 | 107 | 95 | 121 | 95 |
| 7 | Advantan | Eczema and Psoriasis | 1 | 113 | 118 | 102 | 61 |
| 8 | Resochin | Anti-Malaria | 1 | 56 | 78 | 55 | - |
| 9 | Skinoren | Acne Treatment | 1 | 46 | 39 | 49 | 38 |

| | | | | | | | |
|--------------|-----------|-------------------------|-----|--------------|--------------|--------------|--------------|
| 10 | Noctamid | Sleep Disorder | 1 | 0 | 65 | 28 | 25 |
| 11 | Travogen | Dermatology Anti-Fungal | 1 | 15 | 20 | 23 | 17 |
| 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 | 2,912 |

Islamic Syndicated Financing facility

The Islamic Syndicated Financing Facility was initially proposed for an Rs. 5,250m, however, the facility was closed at Rs. 5,1250m. It is structured as a Musharaka facility for a period of seven-years, 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 by way of hypothecation over the hypothecated assets of OBS Pharma, in favour of the Musharaka Agent in the amount of Rs. 3,706,491,849/-.
- A First Pari Passu charge by way of hypothecation over the hypothecated assets of Aspin Pharma (Pvt.) Limited, an associated concern of the OBS Group, in favour of the Musharaka Agent in the amount of Rs. 3,625,000,000.
- A mortgage by way of a constructive deposit of title deeds over the Mortgaged property of Aspin Pharma (Pvt) Ltd in favour of the Musharaka Agent in the sum fo Rs. 3,625,000,000.
- A Corporate Guarantee provided by Aitkenstuart Pakistan (Pvt.) Ltd., the parent company of OBS Pharma, covering the outstanding amount of the Musharaka facility.
- A Lien in favour of Musharaka Agent on the Collection and Finance Payment Account. For each payment period, the Company to maintain the respective payment amount in the account at least 2 days prior to the payment date.

Key Rating Drivers

Strong group profile

Aitkenstuart functions as the holding entity of OBS Group, which possesses ownership of five pharmaceutical enterprises: AGP Limited, Aspin Pharma (Pvt.) Limited, OBS AGP (Pvt.) Limited, OBS Pakistan (Pvt.) Limited, and OBS Pharma (Pvt.) Limited. OBS Group stands as a prominent player in Pakistan's healthcare

sector. Established in 2006 through the acquisition of Organon Pakistan via a management buyout, OBS has since forged strategic partnerships with various renowned international pharmaceutical companies, including Merck, Sharp & Dohme (USA), Schering Plough (USA), Eli Lilly (USA), Johnson & Johnson (USA), Mylan (USA), Vifor (Switzerland), Santen Pharma (Japan), Aspen Pharma (South Africa), Alcon (USA), Bio Growing (China), Alliance (UK), Sandoz (Germany), Viatrix (USA), and Bayer (Germany), among others.

Currently, OBS stands among the top ten local pharmaceutical groups in Pakistan, boasting a group turnover of approximately PKR 19 billion (in CY22), with four manufacturing facilities in Karachi and one in Lahore. OBS Group's primary therapeutic focus areas include Oncology, Anti-Infectives, Cardiology, Diabetes Metabolic Disorders, Gastroenterology, Ophthalmology, Respiratory, Women's Health, Hormones, Contraceptives, and Hepatology.

With over 150 pharmaceutical brands in Pakistan and numerous others undergoing registration, OBS exports significant volumes to neighboring countries and is actively expanding its export endeavors.

| Sponsor's Indicators (PKR Million) | 2020 Audited | 2021 Audited | 2022 Audited |
|------------------------------------|--------------|--------------|--------------|
| 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 |

Ratings incorporate low business risk of the sector

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.

Rating incorporates strong market presence of product portfolio.

Products acquired are well-established in their respective categories. They have a strong market presence and are regularly prescribed by practitioners. The acquired portfolio consists of 12 products, primarily focused on women's healthcare segment. Out of the 12 products acquired, 10 are market leaders in their respective molecular categories.

Among the product portfolio, 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. Strong brand equity of these products contribute a measure of confidence to sales stability going-forward.

Proven track record of successful acquisitions supports projected growth

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 acquired brands, while the first six month sales of the Company have been recorded at Rs.2.9bn, Given OBS Group'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. In addition, 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 acquired portfolio going forward. Moreover, management expects the women healthcare 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.

Over time, Gross Margins are expected to improve mainly due to the reduction in raw material costs on account of change in Active Pharmaceutical Ingredients (API) source. The previous owner of the brands was mandated to source materials from global group companies, which often limited the cost efficiencies. Management represents that subsequent to the transfer of Marketing Authorizations to OBS, the sourcing of API and other raw materials would be re-evaluated to ensure better pricing resulting in improved margins. Margin improvement over the rating horizon will remain important.

Improvement in capitalization indicators over time

Current capitalization indicators are expected to streamline as business projected revenues are achieved and margins realized. We expect that current elevated gearing levels will reduce over time as projected by management. Streamlining of capitalization profile as presented by management will remain important for assigned rating.

| REGULATORY DISCLOSURES | | Appendix I | | | |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | OBS Pharma (Private) Limited | | | | |
| Sector | Pharmaceutical | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Bank Loan Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | Rating Type: Entity | | | | |
| | 16-Jun-2023 | A | A-1 | Stable | Initial |
| | Rating Type: BLR | | | | |
| | 28-Mar-2024 | A+(blr) | | Stable | Final |
| 03-Jul-2023 | A+(blr) | | Stable | Preliminary | |
| Instrument Structure | <p>OBS Pharma (Pvt) Ltd has secured a Rs. 5.125b through an Islamic Syndicated Finance facility for the acquisition of 12 pharmaceutical brands from Bayer AG. The tenor of the facility is 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 Facility is secured against; A First Pari Passu charge by way of hypothecation over the hypothecated assets of OBS Pharma, in favour of the Musharaka Agent in the amount of Rs. 3,706,491,849/-. A First Pari Passu charge by way of hypothecation over the hypothecated assets of Aspin Pharma (Pvt.) Limited, an associated concern of the OBS Group, in favour of the Musharaka Agent in the amount of Rs. 3,625,000,000. A mortgage by way of a constructive deposit of title deeds over the Mortgaged property of Aspin Pharma (Pvt) Ltd in favour of the Musharaka Agent in the sum of Rs. 3,625,000,000. A Corporate Guarantee provided by Aitkenstuart Pakistan (Pvt.) Ltd., the parent company of OBS Pharma, covering the outstanding amount of the Musharaka facility. A Lien in favour of Musharaka Agent on the Collection and Finance Payment Account. For each payment period, the Company to maintain the respective payment amount in the account at least 2 days prior to the payment date.</p> | | | | |
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| Probability of Default | <p>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.</p> | | | | |
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