

## RATING REPORT

### OBS Pharma (Private) Limited

**REPORT DATE:**

March 29, 2024

**RATING ANALYST:**

Shaheryar Khan Mangan  
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Rating Category	Final Rating	Preliminary Rating
	Short-term	Short-term
Instrument Rating	A-1	A-1
<b>Rating Date</b>	March 29, 2024	Feb 28, 2024
<b>Rating Action</b>	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  
<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.

The Company is a Special Purpose Company (“SPC”), created to acquire 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. 1.7b 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	-
<b>Total</b>				<b>4,136</b>	<b>4,277</b>	<b>5,177</b>	<b>2,912</b>

#### **Short Term Sukuk:**

The Company has issued a Short Term Sukuk of Rs 1.5b to fund the upfront inventory under the business acquisition from Bayer AG and its associates. The Sukuk was issued on February 29, 2024 for a 6 month tenor and will be repaid on maturity through internal cash flows and working capital lines currently under approvals. The profit rate on the instrument is 6 month KIBOR + 1.40% pa. The Sukuk is secured against first pari passu hypothecation charge of Rs 1,87b over present and future current assets of the Company. Additionally, OBS Pharma (Pvt) Limited has provided a signed agreement with Investment Agent authorizing creation of a Finance Payment Account in which a buildup of 25% of monthly sales in each of the last three months leading up the maturity of the Short Term Sukuk on August 29, 2024.

#### **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), Viatris (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.

<b>Sponsor's Indicators (PKR Million)</b>	<b>2020 Audited</b>	<b>2021 Audited</b>	<b>2022 Audited</b>
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 months 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.

**Finalization of committed short-term lines will remain a key rating sensitivity.**

As per the management, they are in the process of securing working capital lines from banks to the tune of Rs. 2bn. As per the negotiations, they expect Rs 1bn of lines to be formalized by March end and remaining to follow.

For purposes of rating, comfort is drawn from an agreement between the Company and Investment Agent authorizing creation of a Finance Payment account and allowing buildup of sales proceeds up to 25% of monthly sales for the last three months before the maturity of the Short Term Sukuk on August 29, 2024. As per management projections, this buildup will be approximately around Rs 500m till the maturity date. The remaining will be funded through internal cash and available working capital lines. Finalization of working capital lines remain critical.

REGULATORY DISCLOSURES			
Appendix I			
<b>Name of Rated Entity</b>	OBS Pharma (Private) Limited		
<b>Sector</b>	Pharmaceutical		
<b>Type of Relationship</b>	Solicited		
<b>Purpose of Rating</b>	Short Term Sukuk		
<b>Rating History</b>	<b>Rating Date</b>	<b>Short Term</b>	<b>Rating Action</b>
	<b>Rating Type: Short Term Sukuk</b>		
	29-Mar-2024	A-1	Final
	28-Feb-2024	A-1	Preliminary
<b>Instrument Structure</b>	<p><b>Type:</b> Unlisted, Rated, Secured, Privately Placed, Short Term Sukuk Issue issued as instrument of redeemable capital under Section 66 of the Companies Act, 2017 and as conferred in Sukuk (Privately Placed) Regulations, 2017.</p> <p><b>Purpose:</b> To fund the purchase of Inventory/API and support the working capital needs of the company.</p> <p><b>Amount:</b> Rs. 1,500,000,000</p> <p><b>Tenor:</b> 6 months from the date of Drawdown.</p> <p><b>Issue Date:</b> February 29, 2024</p> <p><b>Maturity Date:</b> August 29, 2024</p> <p><b>Profit Rate:</b> Base Rate + up to 1.40% per annum Base Rate is defined as the 6-Month Karachi Interbank Offer Rate (“KIBOR”). The Base Rate will be set 1 (one) business day prior to the Disbursement date.</p> <p><b>Security:</b> The Sukuk Issue is secured against First / Joint pari passu hypothecation charge over present and future Current Assets of the Issuer inclusive of 20% Margin.</p> <p><b>Finance Payment Account:</b> Agreement between the Company and Investment Agent authorizing creation of a Finance Payment account and allowing buildup of sales proceeds up to 25% of monthly sales for the last three months before the maturity of the Short Term Sukuk on August29, 2024.</p>		
<b>Statement by the Rating Team</b>	<p>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.</p>		
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