RATING REPORT

Noventa Pharma (Private) Limited

REPORT DATE:
November 13, 2024

RATING ANALYSTS:
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RATING DETAILS		
	Current Rating	
Rating Category	Long-term	Short-term
Entity Rating	A	A2
Rating Date	November 13, 2024	
Outlook/Rating Watch	Stable	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2024	**Board Chairman:** Mr. Farrukh Ansari
Public Limited Company	**CEO:** Dr. Ali Afzal
Key Shareholders:	
IJARA Capital Partners Limited (ICPL) and its affiliates – 90.61%	

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

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Noventa Pharma (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Noventa Pharma (Private) Limited (NPL), incorporated on August 30, 2024, is structured as a special purpose vehicle (SPV) to facilitate the acquisition of Searle Pakistan Limited (SPL) through a leveraged buyout (LBO). Following the acquisition, NPL is planned to merge with the acquired entity.

Profile of Board Chairman: *Mr. Farrukh Ansari, a seasoned M&A specialist with over 30 years of experience, founded IJARA Group in 2000 and launched its M&A division in 2006. He has led key acquisitions, including Organon, MSD, Schering Plough, AGP, and others. Mr. Ansari serves as a director at IJARA Capital Partners, Opal Laboratories, and several other companies, and was a Trustee of the Karachi Port Trust.*

Profile of CEO: *Dr. Ali Afzal has over 30 years of experience in the pharmaceutical industry, working with*

Company Profile

OBS was established in 2006 following the management buyout of Organon Pakistan. Over the years, OBS acquired Merck Sharp & Dohme in Pakistan and Sri Lanka, Schering Plough Pakistan, AGP, and Johnson & Johnson. OBS also developed key partnerships and collaborations with Santen Pharmaceuticals and Vifor International. In 2019, Luna Pakistan (Private) Limited gained control of OBS, which merged into Luna in 2020. Later that year, The Searle Company Limited (TSCL) acquired OBS, leading to its rebranding as Searle Pakistan Limited (SPL) in 2021, following its transition to a public unlisted company.

In July 2024, TSCL decided to sell its entire shareholding of ~90.61% in Searle Pakistan Limited (SPL) to IJARA Capital Partners Limited (ICPL) through its Private Equity & Venture Capital Fund or its nominees. This acquisition will be conducted via a special purpose vehicle (SPV), namely Noventa Pharma (Private) Limited ('NPL' or the 'Company'), incorporated on August 30, 2024 and established under a leveraged buyout (LBO) structure, which will be merged subsequently with SPL.

Acquisition

The acquisition cost of Rs. 10.5 bn represents ~90% ownership of NPL, with ICPL already owning ~10% of shareholding. The acquisition will be financed with around 44% debt and 56% equity.

Operational performance

NPL operates a manufacturing facility on 2.97 acres of leasehold land in Karachi's S.I.T.E Industrial Area. The plant produces and packages pharmaceuticals for both the local market and exports to Sri Lanka, Myanmar, and Afghanistan. It has three divisions:

- Oral Solid Dosage (OSD)
- Liquid Sterile Dosage (LSD)
- Hormonal Dosage Forms

The facility complies with Current Good Manufacturing Practices (CGMP) and holds ISO 9001:2008 certification.

The capacity utilization in the tablets and capsules production departments varies based on current operations. Capsule production via the NJP-800 unit is at 78% utilization, with an existing capacity of 3,043,799 capsules, which can be increased to 3,880,800 capsules. In the hormonal department, tablet production through the MP-6 unit is operating at 58% of its capacity, producing 1,921,632 tablets against an optimum capacity of 3,294,720 tablets, suggesting potential for further capacity improvement.

renowned multinational companies in Pakistan. He served as Managing Director of OBS Pakistan, where he played a key role in major acquisitions, including Organon, Merck Sharp & Dohme, and others. In 2016, he left OBS to join Opal Laboratories. Dr. Ali's expertise spans Sales, Marketing, Regulatory Affairs, and Business Development.

Auditors' Opinion

The FY23 and FY24 financial statements were audited by A.F. Ferguson & Co, categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion on the financial statements.

Sponsor Profile

IJARA Group commenced operations in 2000 and has since established a successful track record in investments, mergers and acquisitions, as well as equity and debt advisory. Its core competencies include M&A, Private Equity, Venture Capital, and REIT.

IJARA Capital Partners Limited (ICPL) was founded in 2016 as a private equity investment firm. ICPL manages portfolios in frontier and emerging markets, focusing on long-term value generation. The group's investment strategy concentrates on industries such as fast-moving consumer goods (FMCG), healthcare, pharmaceuticals, logistics, infrastructure, and real estate.

Funds	Investments
Pakistan-Emerging Market Fund-1	PEMF-1 was launched with a fund size of PKR 10 billion and acquired Quick Foods Limited (MonSalwa) in 2017. In 2023, it completed the private equity exit through the sale of the company.
IJARA Equity Fund	Focuses on the pharmaceutical sector, with an initial investment in "Searle Pakistan Limited" in May 2023.
IJARA-HMR REIT Fund	A Real Estate Investment Trust (REIT) developing a high-rise office tower in DHA, Karachi, with a fund size of PKR 13 billion.

Opal Laboratories

Opal Laboratories (Private) Limited has been manufacturing medicines for over 65 years, with operations in Pakistan and exports to the Philippines and Afghanistan. Its plant, located on 3.7 acres at Korangi Industrial Road, Karachi, includes a general pharmaceutical facility, cephalosporin facility, ophthalmology facility, and nutraceutical facility. In 2023-24, the company was ranked 43rd in unit sales and 71st in value sales among over 670 pharmaceutical companies in Pakistan. The company employs around 614 people, covering manufacturing, field force, and head office functions.

Opal Laboratories' product portfolio spans multiple therapeutic areas, including treatments for gout, urinary tract infections, analgesics, alimentary tract medications, anti-infectives, respiratory care, and women's health. It has partnerships for contract manufacturing with companies such as Getz Pharma, Atco Laboratories, Scilife Pharma, Helix Pharma, Venture Pharma, and Hirani Pharma.

Board of Directors (BoD)

The proposed BoD will comprise seven members, primarily from the advisory team, along with 2 independent members.

Management

Post-acquisition, the Company will be led by Dr. Ali Afzal, who has over 30 years of experience in the pharmaceutical industry, including key roles at OBS Pakistan, where he was Managing Director and involved in management buyout of Organon, and has played an instrumental role in major acquisitions including MSD, AGP, and Johnson & Johnson. He joined Opal Laboratories in 2016 and has expertise in sales, marketing, regulatory affairs, and business development. He will be assisted by an advisory board, consisting of the following:

- Mr. Farrukh Ansari, founder of IJARA Group, is a seasoned M&A specialist with over 30 years of experience in industries such as healthcare and pharmaceuticals. He has played a key role in significant acquisitions like Organon, MSD, AGP, and Johnson & Johnson. He serves as a director at IJARA Capital Partners and Opal Laboratories.

- Mr. Syed Zeeshan Mobin, CEO of IJARA Holdings, has 27 years of experience in manufacturing and financial services. A Fellow of the Institute of Chartered Accountants of Pakistan, he has held senior finance roles at Engro Corporation and Organon Pakistan. He played an instrumental role in the management buyout of Organon and has been involved in key acquisitions, including MSD, AGP, and Johnson & Johnson.

- Dr. Jehanzeb Akram, CEO of Opal Laboratories, has over 25 years of experience in the pharmaceutical industry, holding a medical degree and an MBA. He was instrumental in the management buyout of Organon and acquisitions of MSD, AGP, and Johnson & Johnson.

- Mr. Ayub Ahmed Siddiqui has over 30 years of experience in pharmaceutical marketing and sales with companies like Bayer, Johnson & Johnson, and Merck, recognized for his strong communication and objective-setting skills.

- Mr. Iqbal Ahmed, Managing Director of Opal Laboratories, has over 25 years in pharmaceutical manufacturing, with senior roles at Abbott, Merck Serono, and Novartis, as well as director positions at OBS Pakistan and MSD.

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).

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.

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 industry 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. Given that 70% of the acquired portfolio in NPL falls under the non-essential category, this change is expected to bode well for the Company.

Ratings draw comfort from competitive positioning of product line

NPL's therapeutic area coverage reflects concentration in three major segments, with Anemia contributing 38.4% (FY23: 23.5%) of sales, followed by Antihypertensive at 13.8% (FY23: 14.0%) and Steroids at 11.1% (FY23: 20.1%) in FY24. However, NPL's brands serve in high-value niche and high-volume chronic therapeutic markets, positioning the Company for sustainable organic growth down the line.

Akin to the industry, the Company's portfolio continues to exhibit moderate concentration risk, with the top five brands collectively contributing ~68.6% (FY23: 61.4%) of total revenue in FY24. Among these, Venofer remains the largest revenue contributor, accounting for 26.3% (FY23: 20.5%) of total revenue in FY24.

Despite this concentration, leading products maintain their distinctiveness and brand value in respective market categories.

Top Brands	Competitive Position	Sales FY22 (Rs. mn)	Sales FY23 (Rs. mn)	Sales FY24 (Rs. mn)
Venofer	Market leader in IV iron due to near-zero reactions from Patent Nano Technology	1,683.3	1,441.8	2,436.1
Ferinject	Nano technology prevents side effects, suitable for heart failure, IBD patients, and women with iron deficiency.	517.0	479.4	1,123.9
Decadron	Brand leader and the sole provider of Vial Formulation with multi-layer protection.	1,284.7	1,671.8	1,028.1
Sinemet	Leader in the Levodopa market; the preferred choice of physicians for Parkinson's treatment.	321.0	633.2	953.2
Aldomet	Leader in treating pregnancy-related hypertension.	551.9	737.7	821.3

Management Expertise

The sponsors bring substantial experience in revitalizing distressed companies, having overseen the target company's operations from 2006 to 2016, giving them deep operational insights. Key members, including Mr. Farrukh Ansari, an M&A specialist with over 30 years of experience in healthcare, FMCG, and financial services sectors, and Mr. Zeeshan Mobin, with 27 years in manufacturing and finance, have successfully led acquisitions within the pharmaceutical sector, involving companies such as Organon Pakistan, MSD Pakistan, Schering Plough Pakistan, AGP, and Johnson & Johnson. Their expertise in restructuring and managing large-scale acquisitions positions them well to steer the Company's future direction. Additionally, Dr. Jehanzeb and Dr. Ali Afzal, both with extensive experience in the pharmaceutical industry, have played key roles in previous acquisitions and demonstrated their ability to expand businesses and lead successful transactions, further strengthening the team's position to turn around the current acquisition into success.

Affiliation with leading international pharmaceutical players

It is one of the few companies in Pakistan that has formed strategic business alliances with reputable international firms and holds a market share in exports to Sri Lanka and Myanmar.

MSD (Merck & Co., Inc.)

MSD has been a leader in healthcare for 130 years, focusing on developing medicines and vaccines for various diseases. With over 74,000 employees, the company invests approximately USD 14 billion annually in research and development to address medical needs and improve health outcomes.

Vifor Pharma

Vifor specializes in iron deficiency and iron deficiency anemia therapies. Its products are available in more than 100 countries, leveraging internal commercial operations and partnerships with leading companies to effectively reach patients.

Santen Pharmaceutical Co., Ltd.

Santen focuses on ophthalmology and holds a significant market share in Japan. Its ophthalmic products are sold in over 50 countries, aiming to provide solutions for patients with various eye health issues.

Organon

Organon is known for its focus on women’s health and has built a strong reputation among healthcare professionals. The company leads in contraceptives and fertility-related products, working to enhance health outcomes for women worldwide.

These affiliations provide NPL greater leverage with introduction of new products. The Company’s future product pipeline includes several key treatments set to enhance its portfolio. Noxafil, an MSD patent-protected antifungal, will address Aspergillosis and Mucor infections, particularly for immunocompromised ICU patients. With patent protection until 2030, it will serve as the sole treatment option for systemic fungal infections. RotaTeq, an oral vaccine for rotavirus, will be part of the EPI Program, aiming to vaccinate all infants within six months of birth, protecting against severe diarrhea in young children.

NPL also plans to introduce Gardasil, the only HPV vaccine in Pakistan, targeting HPV types 6, 11, 16, and 18, which are linked to cervical cancer and genital warts. Keytruda, an immunotherapy for various cancer types, is set to become a leading treatment due to its proven effectiveness and commercial appeal. Finally, Zerbaxa will offer a unique dual-action mechanism to treat complicated urinary tract infections, providing broad-spectrum coverage as a first-line therapy option.

Higher proportion of trading stocks leads to greater exposure to FX risk

Trading stocks accounted for ~46.2% of NPL's total sales in FY24, with nearly all of these stocks being imported. This reliance on imports exposes the Company to significant foreign exchange risk, which has historically kept its margins below those of peers. However, deregulation in the sector is expected to reduce pressure on margins caused by adverse currency movements. Additionally, recent exchange rate stability and the Company's future plans to shift toward local production are anticipated to support margin improvement going forward.

Top 5 products	Local/Imported	% Sales Volume FY24	% Sales Value FY24
Venofer	Imported	5.1%	26.3%
Ferinject	Imported	1.1%	12.1%
Decadron	Local	18.8%	11.1%
Sinemet	Local	3.8%	10.3%
Aldomet	Local	5.0%	8.9%

Liquidity profile constrained on account of acquisition financing

The Company's liquidity profile is expected to remain constrained due to deferred acquisition payouts and the significant debt burden from the leveraged buyout. As a result, liquidity metrics are likely to stay subdued in the medium term. However, the projected improvement in profitability, supported by margin growth, provides some reassurance.

Effective cash flow management, careful oversight of working capital, and prudent cost control will be critical to achieving the Company's projected goals.

Capitalization metrics to remain elevated

Following the recent acquisition, the Company's capital structure has shifted, with a significant increase in debt to finance the transaction. Gearing and leverage ratios are projected to remain elevated at 1.54x and 2.93x, respectively, in FY25. This higher leverage emphasizes the importance of generating adequate cash flows to service the debt while maintaining operational liquidity.

Effective execution of the strategic plan, with emphasis on revenue growth and margin improvement, will be essential for strengthening the capitalization profile.

Noventa Pharma (Private) Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	FY25P	FY26P
Property, plant and equipment	1,631.71	1,881.06	1,944.02	1,628.58	1,637.23
Long-term Investments	0.00	0.00	0.00	0.00	0.00
Stock-in-trade	2,655.44	2,980.58	661.82	1,835.64	2,218.34
Trade debts	1,734.28	3,850.13	5,157.71	2,196.80	2,759.58
Cash & Bank Balances	28.86	8.43	587.17	264.97	627.39
Other Assets	9,963.06	11,052.64	10,300.03	12,706.01	10,757.71
Total Assets	16,013.35	19,772.84	18,650.75	18,631.99	18,000.25
Creditors	87.96	131.32	322.14	185.50	210.16
Long-term Debt (incl. current portion)	58.16	54.48	49.23	4,652.03	4,647.70
Short-Term Borrowings	1,424.77	3,468.74	2,520.10	2,388.33	2,388.33
Total Debt	1,482.93	3,523.22	2,569.33	7,040.36	7,036.03
Other Liabilities	2,694.53	4,169.64	4,028.69	6,214.52	4,593.46
Total Liabilities	4,265.42	7,824.18	6,920.16	13,440.37	11,839.65
Paid up Capital	10,470.30	11,555.78	11,555.78	3,329.77	3,329.77
Equity (excl. Revaluation Surplus)	11,338.82	11,339.76	10,980.30	4,584.20	5,553.19

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	FY25P	FY26P
Net Sales	7,300.53	8,173.09	9,341.55	10,968.04	13,218.08
Gross Profit	2,323.79	1,906.35	1,354.80	3,969.13	4,694.99
Operating Profit	1,967.03	1,328.35	571.07	2,613.72	3,108.24
Finance Costs	170.01	495.93	730.35	1,059.86	1,211.02
Profit Before Tax	1,797.02	832.42	-159.28	1,553.87	1,897.23
Profit After Tax	1,200.32	437.06	-406.46	771.12	968.99

Ratio Analysis	FY22A	FY23A	FY24A	FY25P	FY26P
Gross Margin (%)	31.83%	23.32%	14.50%	36.19%	35.52%
Operating Margin (%)	26.94%	16.25%	6.11%	23.83%	23.52%
Net Margin (%)	16.44%	5.35%	-4.35%	7.03%	7.33%
Funds from Operation (FFO) (PKR Millions)	1,682.00	677.96	-314.21	771.78	1,112.20
FFO to Total Debt* (%)	113.42%	19.24%	-12.23%	10.96%	15.81%
FFO to Long Term Debt* (%)	2892.02%	1244.42%	-638.25%	16.59%	23.93%
Gearing (x)	0.13	0.31	0.23	1.54	1.27
Leverage (x)	0.38	0.69	0.63	2.93	2.13
Debt Servicing Coverage Ratio* (x)	10.50	2.91	0.59	2.01	1.91
Current Ratio (x)	1.34	1.21	1.22	0.91	0.89
(Stock in trade + trade debts) / STD (x)	3.10	1.98	2.33	1.69	2.08
Return on Average Assets* (%)	7.97%	2.44%	-2.12%	8.28%	5.29%
Return on Average Equity* (%)	11.34%	3.85%	-3.64%	33.64%	19.12%
Cash Conversion Cycle (days)	229.00	284.42	250.89	175.45	146.77

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Noventa Pharma (Private) Limited				
Sector	Pharmaceutical				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	Rating Type: Entity				
	13-Nov-2024	**A**	**A2**	**Stable**	**Initial**
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.				
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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Mr. Farrukh Ansari	Chairman	October 07, 2024
2.	Dr. Ali Afzal	CEO	
3.	Dr. Jahanzeb Akram	Non-Executive Director	
4.	Mr. Syed Zeeshan Mobin	Non-Executive Director	
5.	Mr. Asdaq Ansari	Associate	
6.	Mr. Ashas Ansari	Associate	