RATING REPORT

Citi Pharma Limited

REPORT DATE:
December 16, 2024

RATING ANALYSTS:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

Muhammad Meeran Siddique
meeran.siddiqui@vis.com.pk

RATING DETAILS		
	Current Rating	
Rating Category	Long-term	Short-term
Entity Rating	A	A1
Rating Date	December 16, 2024	
Outlook/Rating Watch	Stable	
Rating Action	Initial	
Short-term Sukuk	-	A1(plim)
Rating Date	December 16, 2024	
Outlook/Rating Watch	-	
Rating Action	Preliminary	

COMPANY INFORMATION	
Incorporated in 2012	**Board Chairman:** Mr. Nadeem Amjad
Public Limited Company	**CEO:** Mr. Rizwan Ahmad
Key Shareholders:	**External Auditors:** Aslam Malik & Co. Chartered Accountants
Mr. Rizwan Ahmad – 19.61%	
Mr. Nadeem Amjad – 26.00%	
General Public – 35.57%	

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

Citi Pharma Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Citi Pharma Limited (CPHL) was incorporated as a private limited company in 2012. CPHL is engaged in the manufacturing and sale of APIs, medical chemicals, and botanical products. The Company was converted into a public unlisted entity in 2020 and was listed on the Pakistan Stock Exchange in 2021.

Profile of Board Chairman:
Mr. Amjad is an entrepreneur with over three decades of professional business experience. Early in his career, he was involved in trading businesses, including jewelry, computer microchips and hardware, and telecommunications. He played a key role in diversifying and expanding his family business into various sectors and regions, including real estate in Hong Kong and hospitality. He holds an MBA from the University of London.

Profile of CEO:
Mr. Rizwan Sheikh, CEO of the

Company Profile

Citi Pharma Limited ('CPHL' or the 'Company' or the 'Issuer') was incorporated as a private limited company on October 8, 2012. In 2013, it acquired the business operations of Askari Pharmaceuticals (Private) Limited (APPL) from the Army Welfare Trust (AWT). Following the acquisition, APPL's operations were transferred to CPHL, which continued its principal business of producing and distributing Active Pharmaceutical Ingredients (APIs) and formulation drugs. The Company was converted into a public unlisted entity on October 13, 2020, and subsequently listed on the Pakistan Stock Exchange on July 9, 2021.

Today, Citi Pharma Limited is a prominent player in Pakistan's pharmaceutical industry. The sponsors of the Company hold a 52.11% stake and are represented by brothers, Mr. Nadeem Amjad, serving as Chairman, and Mr. Rizwan Ahmad, serving as Chief Executive Officer. The sponsors' entrepreneurial ventures extend to telecommunications, real estate, hospitality, and pharmaceuticals.

CPHL's head office is located in Johar Town, Lahore, while its manufacturing facility is situated in Kasur. The facility spans 46.2 acres, with a covered area of 527,384 square feet. The extensive freehold land offers a competitive advantage, as API production requires substantial space. Built to international standards and compliant with cGMP guidelines, the facility includes separate units for formulations and distinct API production units for Paracetamol, Penicillin, Cephalosporin, and Ciprofloxacin, ensuring the prevention of cross-contamination. Additionally, the facility houses a Quality Control Laboratory, and a bioequivalence laboratory is under construction to meet new regulatory requirements. CPHL plans to establish a state-of-the-art 200-bed hospital on a 12-kanal plot on Pine Avenue, opposite DHA Lahore. The hospital will be funded through equity proceeds allocated from the IPO in 2021.

The Company generates revenue through two segments: APIs and formulations. In the API segment, CPHL is one of Pakistan's largest manufacturers, producing a range of APIs, including Paracetamol, Penicillin/Amoxicillin, Cefixime/Cephalosporin, Ciprofloxacin, and Ibuprofen. These APIs are combined with inactive ingredients to produce formulations.

The formulation segment offers relatively higher margins, with sales volumes expected to grow steadily as the Company focuses on building institutional sales in this area. Expanded provincial healthcare budgets, particularly in Punjab and KPK, are expected to support the growth of this segment. Additionally, CPHL manages a nutraceutical portfolio, exporting products to markets such as Dubai, Uzbekistan, and the USA, while also manufacturing for local companies.

API Industry

The API industry plays a vital role in the pharmaceutical sector by producing APIs and excipients necessary for medicine manufacturing. Globally, API research is concentrated in developed

Company, holds an LLB from the University of Punjab and has extensive experience in Pakistan's pharmaceutical sector. He began his career with Citi Phones (Pvt.) Limited and expanded the family business into telecom, real estate, hospitality, and API trading. In 2007, he established a mobile manufacturing plant in Shenzhen and founded "Discover Wireless" in Dubai. He has also served on the Board of the Pakistan Drugs Testing and Research Center and as a member of the Ministry of Health's Expert Panel for bioequivalence center inspections.

countries such as the United States, Germany, and Japan. In contrast, Pakistan's growing pharmaceutical industry, dominated by domestic firms, remains heavily dependent on imports for 85% of its API requirements, primarily sourced from China and India. This reliance increases costs and exposes the country to supply chain vulnerabilities, as demonstrated during the COVID-19 pandemic and ongoing foreign exchange crises.

Although Pakistan has 23 licensed API manufacturers, only seven are operational, collectively meeting just 15% of domestic demand. Production is limited to intermediate APIs such as paracetamol, ibuprofen, and azithromycin. The industry faces several challenges, including regulatory hurdles, insufficient R&D, inadequate quality testing facilities, high capital requirements, low profit margins, and limited competition due to entrenched supply chains. While API pricing is globally market-driven, local formulation pricing is regulated, creating additional cost pressures for manufacturers.

Despite these challenges, the sector holds significant potential. The global API market is projected to exceed $309 bn by 2028, with opportunities arising from expiring patents valued at $380 bn by 2025. These developments present Pakistan with an opportunity to expand its export footprint and reduce its reliance on imports.

Key Rating Drivers

Ratings incorporate low business risk of the pharmaceutical sector, and more specifically, the API segment

The business risk profile of the API industry is considered low, shaped by various factors that contribute to its stability and growth potential. The industry benefits from the stable demand and low economic sensitivity of the pharmaceutical sector, with strong demand for locally produced APIs driven by Pakistan's heavy reliance on imports from India and China. This dependency underscores the strategic importance of local production, further supported by government policies designed to promote domestic API manufacturing.

However, the industry faces significant barriers to entry, including strict compliance and research standards, lengthy regulatory approval processes, and substantial capital requirements. These factors limit competition, making it challenging for new entrants to establish themselves. Although API pricing is not directly regulated, it is influenced by import parity and broader pricing constraints within the pharmaceutical sector, which can affect profitability.

Company's leading position in the industry

The ratings reflect the leadership position of the Company in the API sector, underpinned by its substantial market share of approximately 45%, establishing it as the dominant player in the industry. Its focus on high-demand APIs, supported by ongoing investments in technology, R&D, and quality compliance, strengthens its competitive position.

Sustained topline growth over the years

The Company has demonstrated strong revenue growth, with a 4-year CAGR of 37%, increasing revenues from Rs. 3,527.6 mn in FY20 to Rs. 12,409.2 mn in FY24, driven by higher volumes. Gross margins slightly improved to 12.9% in FY24 (FY23: 12.2%), supported by exchange rate stability. While margins in the low-margin API segment require substantial working capital due to extended credit terms in the B2B space, the Company is expanding into the higher-margin B2C formulation segment by developing its own brands. Sales are expected to grow gradually as the Company increases its penetration in the institutional sales segment. In 3MFY25, the Company reported a 20.1% turnover growth and a year-on-year doubling of its bottom line, driven by higher formulation sales and cost efficiencies from using in-house APIs.

Ratings incorporate strategic joint ventures to support future growth

Citi Pharma Limited has formed strategic business alliances with reputable international firms which are expected to improve its growth trajectory and expand its footprint in international markets.

- ***Murli Krishna Pharma (India)***

The Company plans to capitalize on Murli Krishna Pharma's (MKP) technical and market expertise to increase its API sales. Under the agreement, MKP will exclusively supply the specified APIs in N-1 form to the Company, ensuring compliance with BP & USP standards for the Pakistani market. CPHL will handle the marketing, distribution, and sales of these exclusive products in Pakistan, leveraging its established presence in the local pharmaceutical sector. This arrangement grants Citi Pharma Limited exclusive rights to market and distribute these premium-quality APIs, offering a competitive advantage in the pharmaceutical industry. Subsequently, the Company has projected increased turnover, along with controlled operational costs, to support net profitability.

- ***Hangzhou Newsea Technology Co. Ltd (China)***

The Company is collaborating with Hangzhou Newsea Technology Co. Ltd to enhance its API manufacturing capabilities through technology transfer and automation. Hangzhou Newsea will supply advanced equipment and AI-driven solutions to improve quality control and operational efficiency, resulting in streamlined operations, reduced costs, and increased precision in API production.

- ***All Care Group of Investment (Saudi Arabia)***

The Company aims to partner with All Care Group of Investment to establish an API and formulation facility in Saudi Arabia. Under the agreement, Citi Pharma Limited will provide technical expertise, workforce training, and technology transfer, while the Saudi partner will contribute investment, land allocation, licensing support, financial backing, and raw material supply. This partnership offers strategic advantages, including access to cheaper raw materials and proximity to the GCC and MENA markets for distribution. As a result, the Company expects to enhance its production capacity, expand its market share, and strengthen its position in the high-demand MENA region.

Managing client concentration continues to be a pivotal factor

In FY24, the top-3 clients contributed around 45.9% (FY23: ~59.1%; FY22: ~71.6%) of total sales, indicating the ongoing concentration risk, though it has reduced over the past three years. Among top-3 customers, GSK Pakistan Limited accounted for ~22.6% of total sales, followed by Haleon Pakistan Limited at ~16.8%, and Bosch Pharmaceuticals (Pvt.) Limited at ~6.5%.

To mitigate this concentration risk, Citi Pharma Limited is focusing on API promotion in emerging markets, with targeted campaigns aimed at onboarding new clients and increasing sales volumes. Moreover, comfort is drawn from the Company's efforts to strengthen relationships with existing clientele to secure long-term contracts, thereby reducing the risk of client attrition and revenue volatility.

Product concentration risk persists, albeit improving over time

In FY24, the top-3 products constituted approximately 74.1% of total sales (FY23: ~75.9%; FY22: ~93.9%), reflecting a high level of product concentration. Among these, Amoxicillin Trihydrate contributed ~34.0% of total sales (FY23: ~16.3%; FY22: ~17.2%), followed by Paracetamol at ~27.2% (FY23: ~43.5%; FY22: ~63.1%) and Cefixime at ~12.9% (FY23: ~16.0%; FY22: ~13.6%).

Efforts to mitigate product concentration risk are evident in the gradual decline in concentration levels following the commencement of formulation sales, although concentration remains relatively high. Going forward, Citi Pharma Limited intends to diversify its product portfolio by launching new offerings in both the API and formulation segments, which is expected to further reduce concentration risk.

Sound liquidity profile

Citi Pharma Limited has maintained a healthy liquidity profile over the years, reporting a current ratio of 1.37x (FY23: 1.52x) in FY24. Liquidity is supported by ~Rs. 1.4 bn portfolio of cash and short-term investments, which however, on a timeline basis depict a declining trend on account of increase in working capital cycle arising from a buildup in stock-in-trade, and extension in collection period. Debt-servicing capacity has remained strong, with the Debt-Servicing-Coverage-Ratio (DSCR) standing at 4.05x in FY24 (FY23: 2.41x; FY22: 3.71x). The FFO to total debt ratio improved to 0.71x in FY24 (FY23: 0.49x), supported by higher profitability and debt repayment during the period.

In 3MFY25, the FFO was reported to be Rs. 215.5 mn and is projected to exceed Rs. 1,500 mn by end-FY25. During the quarter, the DSCR further rose to 4.37x and is anticipated to be in 6.00-6.50x range in the medium term. Going forward, maintaining liquidity metrics in line with the assigned ratings will remain a key consideration for the Company's rating.

Capital structure

Capitalization metrics depict conservative financial management with gearing and leverage ratios recorded at 0.26x and 1.14x, respectively. The debt profile primarily comprises short-term borrowings, while long-term Capex was mainly funded through equity and internal cashflows.

	However, dividend payouts have remained high which has constrained equity growth over the years. Going forward, we expect capitalization metrics to remain stable, supported by improved margins and cash flow generation, with no significant increase anticipated. Maintenance of the same remains important from the ratings perspective.

Citi Pharma Limited — Appendix I

Financial Summary						
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	3MFY25M	FY25P	FY26P
Property, plant and equipment	2,258.39	3,051.89	3,399.65	3,535.26	3,646.41	4,175.14
Right-of-use Assets	0.00	0.00	0.00	0.00	0.00	0.00
Stock-in-trade	1,691.63	2,608.99	3,203.37	3,678.63	3,523.71	4,052.27
Trade debts	1,401.56	1,882.15	2,160.06	2,440.25	2,771.36	3,187.06
Short-term Investments	1,970.43	1,514.90	1,306.29	1,265.90	1,502.23	1,727.57
Cash & Bank Balances	27.48	54.61	87.90	55.91	69.69	81.54
Other Assets	523.11	777.60	1,072.34	1,219.44	1,219.27	1,420.97
Total Assets	8,127.14	9,984.18	11,402.43	12,195.39	12,931.05	14,872.68
Creditors	1,617.66	1,938.47	3,183.63	3,597.35	3,667.75	4,217.91
Long-term Debt (incl. current portion)	436.41	77.50	18.87	11.89	1.89	2.17
Short-Term Borrowings	509.37	1,470.57	1,393.10	1,419.30	1,532.41	1,762.27
Total Debt	945.78	1,548.07	1,411.97	1,431.19	1,534.29	1,764.44
Other Liabilities	837.55	1,017.13	1,130.29	1,303.24	1,541.87	1,773.15
Total Liabilities	3,400.99	4,503.67	5,725.89	6,331.78	6,743.91	7,755.49
Paid up Capital	2,284.61	2,284.61	2,284.61	2,284.61	2,284.61	2,284.61
Revenue Reserve	728.54	1,387.63	1,647.69	1,849.19	2,193.02	3,121.76
Equity (excl. Revaluation Surplus)	4,416.88	5,171.19	5,367.25	5,554.30	5,877.84	6,807.89
Income Statement (PKR Millions)	FY22A	FY23A	FY24A	3MFY25M	FY25P	FY26P
Net Sales	9,779.88	12,396.98	12,409.24	3,224.64	16,132.01	18,551.81
Gross Profit	1,363.08	1,507.11	1,586.20	428.51	2,503.22	3,014.99
Operating Profit	1,131.61	1,343.49	1,581.12	404.86	2,398.87	2,876.71
Finance Costs	71.04	386.23	299.91	64.57	305.90	336.49
Profit Before Tax	1,060.57	957.26	1,281.21	340.29	2,092.96	2,540.21
Profit After Tax	653.69	657.99	833.47	201.49	1,290.08	1,616.72
Ratio Analysis	FY22A	FY23A	FY24A	3MFY25M	FY25P	FY26P
Gross Margin (%)	13.94%	12.16%	12.78%	13.29%	15.52%	16.25%
Operating Margin (%)	11.57%	10.84%	12.74%	12.56%	14.87%	15.51%
Net Margin (%)	6.68%	5.31%	6.72%	6.25%	8.00%	8.71%
Funds from Operation (FFO) (PKR Millions)	871.34	757.44	1,002.51	215.50	1,529.93	1,890.93
FFO to Total Debt* (%)	92.13%	48.93%	71.00%	60.23%	99.72%	107.17%
FFO to Long Term Debt* (%)	199.66%	977.34%	5312.72%	7249.79%	81098.81%	87160.73%
Gearing (x)	0.21	0.30	0.26	0.26	0.26	0.26
Leverage (x)	0.77	0.87	1.07	1.14	1.15	1.14
Debt Servicing Coverage Ratio* (x)	3.71	2.41	4.05	4.37	5.96	6.58
Current Ratio (x)	1.87	1.52	1.37	1.37	1.35	1.35
(Stock in trade + trade debts) / STD (x)	6.07	3.05	3.85	4.31	4.11	4.11
Return on Average Assets* (%)	8.93%	7.27%	7.79%	6.83%	10.60%	11.63%
Return on Average Equity* (%)	15.39%	13.73%	15.82%	14.76%	22.94%	25.49%
Cash Conversion Cycle (days)	30.90	60.82	71.09	66.74	54.12	54.98

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Citi Pharma 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		
16-Dec-2024	A	A1	Stable	Initial
		Rating Type: STS		
16-Dec-2024		A1(plim)		Preliminary

Instrument Structure	The sukuk, privately placed and unsecured, amounts to PKR 1.5 billion, including a green shoe option of PKR 500 million, to meet the Company's working capital requirements. The Sukuk will have a tenor of six months, with profit payable upon maturity on the outstanding principal amount, while the principal will be redeemed as a bullet payment.
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. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Mr. Ghulam Dastgeer	Company Secretary	4th December, 2024
2.	Mr. Hanan Alam	Manager Accounts and Finance	