VIS
Credit Rating Company Limited

RATING REPORT

Analyst:
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APPLICABLE METHODOLOGY(IES):

Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Instrument Rating
(https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

CITI PHARMA LIMITED

Chief Executive: Mr. Rizwan Ahmad

RATING DETAILS

RATINGS CATEGORY	LATEST RATING
	Short-term
STS-RATING	A1(plim)
RATING ACTION	Preliminary
RATING DATE	July 21, 2025

RATING RATIONALE

The rating draws support from CPHL's presence in the API segment of the pharmaceutical sector, which carries a low business risk underpinned by stable demand and low economic sensitivity. Strong demand for locally produced APIs highlights the strategic importance of domestic production, further supported by government policies designed to promote local API manufacturing. High entry barriers—stemming from strict compliance standards, regulatory approval processes, and substantial capital requirements—contain competition and further support industry stability. The rating also reflects CPHL's revenue growth and improving margins, supported by diversification into high-margin formulations through proprietary brands and institutional sales, while also expanding into nutraceutical exports. Strategic partnerships with global firms such as Murli Krishna Pharma (India) and Hangzhou Newsea Technology Co. Ltd (China) are expected to enhance production efficiency through automation and support international expansion plans.

Efforts to mitigate client and product concentration risks through portfolio diversification are underway. The Company maintains a sound liquidity and profitability profile, with a strategic focus on meeting the pharmaceutical industry's evolving demands. The proceeds from STS-2 will be utilized to meet working capital requirements and retire the previously issued short-term sukuk. Rating remains underpinned on maintenance of liquidity profile, including availability of adequate short-term credit lines.

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 10-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.

STRUCTURE OF SHORT-TERM SUKUK (STS) – 2:

- The proposed short-term instrument will be structured on the basis of Musharakah (Shirkat-ul-Aqd).

- The Sukuk, amounting to PKR 1.5 billion, will be rated, privately placed, and unsecured. It is being issued to meet the Company's working capital requirements and to retire the previously issued Sukuk.
- Disbursement of the instrument is expected on or before July 24, 2025, subject to full redemption (principal and profit) of the earlier issued Sukuk.
- The Sukuk will have a tenor of six (06) months, carrying a profit rate of 3-month KIBOR plus 50–80 bps per annum. Profit will be payable quarterly on the outstanding principal, while the principal will be repaid in a single bullet payment at maturity, six (06) months from the issue date.
- Pak Brunei Investment Company Limited (PBICL) is the proposed Investment/Musharakah Agent for the transaction.

INDUSTRY PROFILE & BUSINESS RISK

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.

Market Position

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.

While the Company benefits from a strong position in the API space, client concentration remains an area of consideration. In FY24, the top-3 clients accounted for around 45.9% of total sales (FY23: ~59.1%; FY22: ~71.6%). Among them, GSK Pakistan Limited contributed approximately 22.6%, followed by Haleon Pakistan Limited at 16.8%, and Bosch Pharmaceuticals (Pvt.) Limited at 6.5%. The gradual reduction in concentration indicates some diversification, though the risk persists. To address this, the Company is focusing on penetrating emerging markets and onboarding new clients through targeted API promotion efforts. Simultaneously, it is strengthening existing relationships to secure long-term contracts, which may help reduce revenue volatility.

Similarly, product concentration remains high, with the top-3 products contributing around 74.1% of total sales in FY24 (FY23: ~75.9%; FY22: ~93.9%). Amoxicillin Trihydrate was the highest contributor at 34.0% (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%). The commencement of formulation sales has supported some reduction in product concentration over time. Going forward, the Company to diversify its product portfolio by launching new offerings in both the API and formulation segments, which is expected to further reduce concentration risk.

Strategic Joint Ventures

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)***

Through an exclusive agreement, MKP will supply APIs in N-1 form compliant with BP & USP standards. CPHL will manage marketing and distribution in Pakistan, leveraging its local market presence. This partnership is expected to increase API sales and support profitability through increased turnover and operational efficiency.

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

This collaboration focuses on upgrading CPHL's manufacturing infrastructure via technology transfer and AI-enabled automation solutions, aiming to improve quality control, reduce costs, and enhance overall operational efficiency.

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

CPHL plans to co-develop an API and formulation facility in Saudi Arabia. The Company will provide technical expertise and technology transfer, while the Saudi partner will contribute capital, land, and regulatory support. This joint venture is expected to enhance production capacity and facilitate market entry into the GCC and MENA regions.

FINANCIAL RISK

Capital Structure

Capitalization metrics reflect a conservative financial management approach, with gearing and leverage ratios recorded at 0.56x (FY24: 0.26x) and 1.53x (FY24: 1.07x), respectively, during 9MFY25. The increase in these ratios during the review period is attributable to the drawdown of short-term debt. The debt profile is primarily composed of short-term borrowings, while long-term capital expenditure has largely been financed through equity and internal cash flows. However, consistently high dividend payouts have limited equity growth over the years. Going forward, we expect capitalization metrics to improve, supported by improved margins and cash flow generation. Maintenance of the same remains important from the ratings perspective.

Profitability

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 9MFY25, the Company reported a 6.3% increase in turnover compared to the same period last year (SPLY), with revenue reaching Rs. 10.1 bn (9MFY24: Rs. 9.5 bn). Gross margin further improved to 14.4%, supported by higher formulation sales and cost efficiencies resulting from the use of in-house APIs.

Debt Coverage & Liquidity

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.

During 9MFY25, FFO amounted to Rs. 694.0 mn and is projected to surpass Rs. 1,000 mn by end-FY25. The DSCR remained stable at 4.04x during the review period and is expected to remain within the 4.00–5.00x range over the medium term. Going forward, maintaining liquidity metrics in line with the assigned ratings will remain an important consideration for the Company's rating.

Financial Summary

Appendix I

Balance Sheet (PKR Millions)	FY23A	FY24A	9MFY25M	FY25P	6MFY26P
Property, plant and equipment	3,122.28	3,552.25	3,639.02	3,657.72	6.055.90
Long-term Investments	0.00	0.00	0.00	0.00	1,288.62
Stock-in-trade	2,608.99	3,203.37	4,099.10	3,842.92	3,525.91
Trade debts	1,882.15	2,160.06	3,501.61	3,178.81	3,945.03
Short-term Investments	1,514.90	1,306.29	1,288.62	1,005.47	1,368.62
Cash & Bank Balances	54.61	87.90	30.72	23.97	43.56
Other Assets	801.25	1,092.56	1,043.04	1,092.56	6,834.36
Total Assets	9,984.18	11,402.43	13,602.11	12,801.45	17,006.10
Creditors	1,938.47	3,183.63	2,987.54	2,882.19	3,161.40
Long-term Debt (incl. current portion)	77.50	18.87	29.65	18.87	22.23
Short-Term Borrowings	1,470.57	1,393.10	2,909.83	2,909.83	2,684.90
Total Debt	1,548.07	1,411.97	2,939.48	2,928.70	2,707.13
Other Liabilities	827.07	1,130.29	2,102.34	1,130.29	875.88
Total Liabilities	4,313.61	5,725.89	8,029.36	6,941.18	6,744.41
Paid up Capital	2,284.61	2,284.61	2,284.61	2,284.61	2,284.61
Other Equity (excl. Revaluation Surplus)	1,689.01	1,434.95	1,394.80	1,434.95	1,434.35
Equity (excl. Revaluation Surplus)	5,361.25	5,367.25	5,263.44	5,550.98	5,913.05
Equity (incl. Revaluation Surplus)	5,670.54	5,676.54	5,572.73	5,860.27	10,261.70

Income Statement (PKR Millions)	FY23A	FY24A	9MFY25M	FY25P	6MFY26P
Net Sales	12,396.98	12,409.24	10,100.19	13,650.16	7,800.00
Gross Profit	1,507.11	1,586.20	1,456.32	1,961.28	1,210.46
Operating Profit	1,343.49	1,581.12	1,260.20	1,718.29	1,059.00
Finance Costs	386.23	299.91	231.51	305.00	178.78
Profit Before Tax	957.26	1,281.21	1,028.69	1,413.29	880.22
Profit After Tax	657.99	833.47	678.84	918.64	610.05

Ratio Analysis	FY23A	FY24A	9MFY25M	FY25P	6MFY26P
Gross Margin (%)	12.16%	12.78%	14.42%	14.37%	15.52%
Operating Margin (%)	10.84%	12.74%	12.48%	12.59%	13.58%
Net Margin (%)	5.31%	6.72%	6.72%	6.73%	7.82%
Funds from Operation (FFO) (PKR Millions)	757.44	1,002.51	693.99	1,006.02	821.24
FFO to Total Debt* (%)	48.93%	71.00%	31.48%	34.35%	60.67%
FFO to Long Term Debt* (%)	977.34%	5312.72%	3120.81%	5331.30%	7387.90%
Gearing (x)	0.29	0.26	0.56	0.53	0.46
Leverage (x)	0.80	1.07	1.53	1.25	1.14
Debt Servicing Coverage Ratio* (x)	2.41	4.05	4.04	4.05	5.34
Current Ratio (x)	1.58	1.37	1.24	1.32	1.44
(Stock in trade + trade debts) / STD (x)	3.05	3.85	2.61	2.41	2.78
Return on Average Assets* (%)	7.27%	7.79%	7.24%	7.59%	8.19%
Return on Average Equity* (%)	13.46%	15.54%	17.03%	16.83%	21.29%
Cash Conversion Cycle (days)	60.82	71.09	94.64	86.69	101.69

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	Instrument Ratings
Rating History	<table><tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook/Rating Watch</th><th>Rating Action</th></tr><tr><td colspan="5">RATING TYPE: STS 2</td></tr><tr><td>21-July-2025</td><td></td><td>A1(plim)</td><td></td><td>Preliminary</td></tr></table>
Instrument Structure	The proposed short-term instrument will be structured on the basis of Musharakah (Shirkat-ul-Aqd). The Sukuk, amounting to Rs. 1.5 billion, will be rated, privately placed, and unsecured. It is being issued to meet the Company's working capital requirements and to retire the previously issued Sukuk. Disbursement of the instrument is expected on or before July 24, 2025, subject to full redemption (principal and profit) of the earlier issued Sukuk. The Sukuk will have a tenor of six (06) months, carrying a profit rate of 3-month KIBOR plus 50–80 bps per annum. Profit will be payable quarterly on the outstanding principal, while the principal will be repaid in a single bullet payment at maturity, six (06) months from the issue date. Pak Brunei Investment Company Limited (PBICL) is the proposed Investment/Musharakah Agent for the transaction.
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.
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Due Diligence Meetings Conducted	N/A