The Pakistan Credit Rating Agency Limited

Rating Report

Getz Pharma (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2022	AA-	A1	Stable	Maintain	-
30-Dec-2021	AA-	A1	Stable	Maintain	-
30-Dec-2020	AA-	A1	Stable	Maintain	-
31-Dec-2019	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Getz Pharma (herein referred to as “Getz" or the "Company") is the leading pharmaceutical Company in the Pakistan pharma industry currently ranked at No. 1 according to the latest IQVIA report, the global pharmaceutical data provider. Getz Pharma is an international research-driven, branded generic pharmaceutical company specializing in the formulation development, manufacturing, testing and marketing of a wide range of quality, affordable medicines and the only company whose manufacturing facility, in Pakistan, is approved by the World Health Organization, Geneva (WHO). The Company’s manufacturing facility, named Astola, state of the art plant equipped with international standard medicine manufacturing procedures have been awarded the First LEED Platinum Certification for a pharmaceutical plant in South Asia, by the U.S. Green Building Council (USGBC). The board of Getz comprises experienced and professional experts. The Board size is considered adequate as the management is mindful of the corporate governance requirements and fulfils the applicable statutory criteria. The Company has a diversified portfolio in chronic and acute therapeutic disease segments. The business growth is driven by organic portfolio growth, capacity expansion and new launches. In the pharma sector, the price established at the time of product launch gives the Companies an opportunity to set their margins competitively pinnacle in that particular product. Getz, as one of the top 100 exporters of Pakistan gives them some immunity against the country’s current economic scenario pertaining to PKR devaluation. The pharma has some industry-specific challenges which hinder its growth and profitability matrix like a high cost for imported APIs due to PKR devaluation & DRAP pricing policy. With an adequate top 05 products concentration, the revenues are dominated by the local market and the export window is diverse. The Company’s gross margins have shown upward trajectory trends over the last three years. The net profitability margins are strong with the history of dividend pay-outs. In the coming years, some new brands are also in pipeline. The financial risk profile of the Company is strong with comfortable coverages and cashflows. The working capital management of the Company is stretched depict industry norm. Capital structure is leveraged where borrowings are comprised of long-term and short-term tenor to support brand development and working capital requirements. More than 50% of Getz borrowing consists of subsidized borrowings from SBP provides some cushion against escalation in the policy rate.

The ratings are dependent on the continued sustainability of financial performance indicators. Adequacy of cash flows, sustainability of coverages and the availability of resources to make debt-related payments remain critical. Meanwhile, compliance with internally-defined leveraging metrics is a prerequisite. Sanguine governance practices are essential.

Disclosure

Name of Rated Entity	Getz Pharma (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Pharmaceutical(May-22)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Getz Pharma is a Private Limited pharmaceutical company, operating in Pakistan since 1995.

Background Getz Pharma was established in 1995 by acquiring a locally owned small pharmaceutical Company, called Saitex Laboratories Pvt. Ltd. The name of the Company was changed to Getz Pharma shortly after the acquisition. The Company started its international business operations, which are based at its head office at Karachi in 2004. The Company achieved number one position in terms of sale as reported by IQVIA in the span of just 26 years. This year the Company bagged top pharmaceutical exporter award for the15th consecutive year.

Operations The business activities are undertaken through its own R&D center, manufacturing plant and marketing and sales teams. Getz Pharma has 200+ products that are branded generics. The Company manufactures tablets, capsules, liquid & powdered injections, Metered Dose Inhalers , and Dry Powder Inhalers.

Ownership

Ownership Structure Getz Pharma is the wholly-owned subsidiary of Development Holdings Asia Limited, Bahamas (DHAL). DHAL is owned by Red Castle (40%) and DHAL-BVI (60%). Red Castle is wholly owned by Mr. Khalid Mehmood. Red Castle is managed by its group CEO, Mr. Junaid Waheed and Khalid Mehmood's children, Rahil Mehmood and Ravi Mehmood. DHAL-BVI is managed by Mr. Raymand Simkins sons, James Simkins (50%) and Adam Simkins (50%).

Stability The sponsoring companies, Red Castle and DHAL BVI are well entrenched in the pharmaceutical manufacturing and distribution industry, having a vast line of businesses in several countries in the areas of Healthcare, FMCG, Chemicals & construction market segments.

Business Acumen Getz Group, established in the 1880s, is a leading market player in the pharmaceutical industry. Getz Pharma has a strong presence all over Pakistan and generates its demand through a field sales force of over 3,200 medical reps and over 100 marketing professionals employed by the Company.

Financial Strength Getz Brothers are engaged in diversified businesses. Apart from Company, Getz Bros. also owns shareholding in Muller & Phipps, Briogene Private Limited in Pakistan.

Governance

Board Structure Getz Pharma's Board comprises of two experienced professionals from the pharmaceutical and healthcare industry background, as nominee directors representing Development Holdings Asia Limited.

Members' Profile The Chief Executive & Managing Director, Mr. Khalid Mehmood is the man of last mile, playing a key role in Company's success. He holds a profound professional background with a vast experience of over 39 years. Previously he was the President of WWF for 6 years and also worked in progressively responsible positions in the pharmaceutical and healthcare industry in the US, South America, Asia Pacific before turning the lights on at Getz Pharma.

Board Effectiveness Monthly submissions are made to the Directors on business performance. The Board also meets on a regular basis to review the strategy, significant developments, risks and opportunities, which is an alternative to Board Committees.

Financial Transparency EY Ford Rhodes Chartered Accountants, a Big Four accounting firm are the external auditors of the Company, the firm is QCR rated and in the A Category of SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the period ended December 21.

Management

Organizational Structure The Company has a traditional hierarchical organizational structure and department heads directly report to the CEO. The organizational structure of the Company is divided into 15 functional departments and headed by highly qualified and experienced professionals

Management Team Mr. Khalid Mehmood is the Chief Executive & Managing Director of Getz Pharma. He has more than three decades of experience in the pharmaceutical Research & Development, operation and marketing of the Pharmaceutical industry. He is supported by an experienced core management team having a long association with Getz Pharma

Effectiveness There is a management committee - Executive Committee, comprising of fourteen members, chaired by the CEO.

MIS Getz Pharma has implemented and using all key modules of SAP ECC-6.0 The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, production, procurement, quality management and human capital management. SAP upgraded database version (HANA) has gone live. Getz Pharma's Enterprise System-SAP HANA is GMP-V and is certified by Germany Accreditation Body for Enterprise Management.

Control Environment A detailed MIS comprising income statement, segment-wise and region-wise breakup of revenue and profit, efficiency variance reports, receivables, payables and inventory aging report, operational expenditure summary, etc. is submitted to the CEO on a monthly basis. The Business Intelligence module provides a bird's-eye view of the Company's data at a glance, aiding the top management in strategic decision-making.

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. Currently, the size of the industry is around PKR 650.6bln(May-2022) in comparison to Feb 2022 where the size was around PKR 638.2bln. The import size up till 9MFY22 is ~USD 3.73bln. The industry has also observed an 11.6% hike in prices mainly affected by global inflation and rupee devaluation. This significant reliance on imported raw materials increases the inherent risk of supply chain disruption. According to IQVIA report the top ten pharmaceutical companies constitute approximately 46% of the market.

Relative Position Getz Pharma has a blend of own range of 'branded generics'. The Company is the largest player in the domestic Pharma industry and is also among the top 50 largest exporters in the Country. Whereas, Company's top ten products constitute ~3% of the total market share. Its currency exchange risk is relatively protected because exports constitute ~ 25% of the total revenues. It is the only Pharmaceutical Company that has received international accreditations by the WHO-Geneva, as far back as 2015. It holds a market share of ~6% with some of the most popular medicines i.e. RISEK & Nexum

Revenues Revenue of the Company for CY21 registered an increase of ~13% to PKR ~47.2bln (CY20: PKR 41.7bln), mainly on the back of volumetric increase due to surge in health issues especially after the outbreak of COVID-19. During 1HCY22 the entity earned a revenue of ~PKR 29.5bln attributed to the high demand. Export sales of Getz has contributed PKR 11.6bln in CY21.

Margins Gross margins have consistently followed an upward trajectory for the last three years, however, the net margins remain under pressure due to PKR devaluation, and During the period under review overall margins have remained strong but partly set off by rupee depreciation, making imports more expensive, coupled with high inflationary pressures globally - resulting in increased cost of raw material import. The profit base has witnessed a steady growth over the years: Net Profit; CY21: PKR 10.5bln (~23%) CY20: PKR 10bln(~25%), CY19: PKR 8bln(~23%) hence resulting in strong margins as well. The company has shown 15% CAGR from the last three years.

Sustainability Getz Pharma is poised to derive benefits from Group synergies in the form of (i) bulk discounts from suppliers of raw material (ii) better bank relationships. The Company has recently undergone a major expansion as 'Astola Project', a greenfield manufacturing/ packing facility. Since Company's existing facility has reached its maximum capacity, the facility will cater to the fast-growing local & export market till 2025 and beyond.

Financial Risk

Working Capital The gross cash cycle days have remained stagnant over the periods: CY21 118days, and CY21 118days. The working capital requirements are managed by both internally generated cashflows and short-term borrowings. The inventory and receiveable days stood at 67 days and 51days respectively.

Coverages Getz Pharma has a sizeable free cash flows (FCFO), which stood at PKR 12.78bln (CY20: PKR 12.5bln) despite higher tax burden. The Company has interest coverage ratio of 3.3x during CY21 (CY20: 4.8x) reflects enough cashflows to supplement capex of PKR 3.3bln.

Capitalization Capital structure of Getz Pharma is moderately leveraged (~46%). Total debt of the Company is PKR 12,883mln during CY21. The bifurcation of borrowing is as follows: PKR 4,808mln short term borrowings for working capital, PKR 5,072mln long-term and PKR 3,003mln CMLTD. The expansion is being largely funded through equity (PKR 15bln) which mainly supplemented through unappropriated profits of PKR 14bln.

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Financial Summary
PKR mln

Getz Pharma (Pvt) Ltd	Jun-22	Dec-21	Dec-20	Dec-19
Pharmaceutical	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	22,496	21,607	18,989	16,744
2 Investments	257	117	117	117
3 Related Party Exposure	301	143	168	252
4 Current Assets	28,481	18,193	19,399	13,686
5 Total Assets	51,536	40,060	38,673	30,799
6 Current Liabilities	15,305	11,026	8,824	5,648
7 Borrowings	14,222	12,883	14,712	10,471
8 Related Party Exposure	173	238	255	154
9 Non-Current Liabilities	664	839	385	358
10 Net Assets	21,172	15,074	14,497	14,168
11 Shareholders' Equity	21,172	15,074	14,497	14,168
B INCOME STATEMENT				
1 Sales	29,556	47,214	41,775	35,362
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*8,009*	*12,786*	*12,556*	*9,246*
b Net Cash from Operating Activities before Working Capital Changes	*7,544*	*11,802*	*11,682*	*8,778*
c Changes in Working Capital	*(124)*	*1,790*	*(2,286)*	*(1,264)*
1 Net Cash provided by Operating Activities	7,420	13,592	9,396	7,513
2 Net Cash (Used in) or Available From Investing Activities	(1,373)	(3,042)	(2,449)	(3,467)
3 Net Cash (Used in) or Available From Financing Activities	(5,750)	(12,120)	(4,576)	(6,637)
4 Net Cash generated or (Used) during the period	297	(1,571)	2,370	(2,591)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	25.2%	13.0%	18.1%	14.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	26.7%	30.9%	24.6%	22.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	119	118	118	110
b Net Working Capital (Average Days)	75	89	94	87
c Current Ratio (Current Assets / Current Liabilities)	1.9	1.6	2.2	2.4
3 Coverages				
a EBITDA / Finance Cost	18.9	17.2	17.5	27.3
b FCFO / Finance Cost+CMLTB+Excess STB	3.6	3.3	4.8	12.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.7	0.7	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.2%	46.1%	50.4%	42.5%
c Entity Average Borrowing Rate	6.8%	6.3%	6.9%	6.5%

Credit Rating

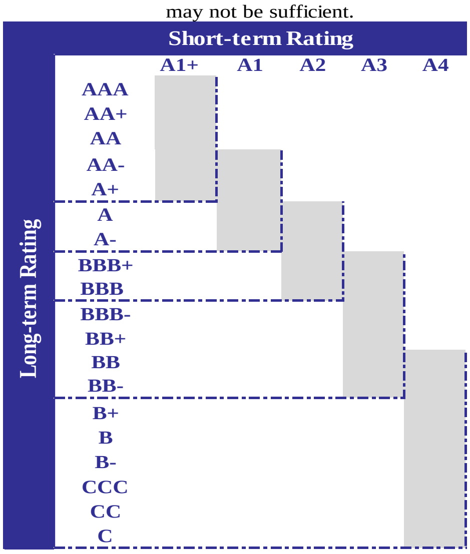
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information