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
31-Dec-2019	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Getz Pharma is the second-largest pharmaceutical company of Pakistan, by market share and sales revenues. The strength of the company is based on the product suite that it markets in the local market and also in the export. The hallmark of the company is the accreditation that it has obtained from World Health Organization (WHO), Geneva as well as it is the first and only company in Pakistan that is certified and accredited by the European based Pharmaceutical Inspection Cooperation Scheme (PIC/s). The company has the research base in Pakistan as well as the production facilities; through which it feeds multiple countries around the globe. Top product concentration is adequate and reflects some of the repeat prescriptions. In terms of turn over, the local market is dominated and the export window is diverse. The export revenue hedges the company’s cost of imports of raw material from adverse impact, rendering it’s gross margins stable than pharma companies which do not have substantial exports. The profitability margins are very strong with the history of dividend payouts. Lately, the financial profile has seen debt being accumulated but when compared to equity and cashflows it remains well managed. The debt has been procured for an expansion project, which the company has been funding hitherto with internally generated equity. The production will start gradually, yet the current operations remain capable of servicing the debt. This project is being envisaged as a giant leap for the company of which success is really crucial. The governance framework may improve in line with the standards for the large corporates.

The ratings are dependent on the continued sustainability of profits and market share. Adequacy of cash flows and the availability of alternative resources to make debt-related payment remains 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 Ratings(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Pharmaceutical(Apr-19)
Rating Analysts	Muhammad Noor ul Haq | muhammad.noorulhaq@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 Average Annual Growth Rate of Getz Pharma from 1995 till 2005 was about 45% and from 2005 to 2019 its AAGR is at 35% while the pharmaceutical market size grew at an AAGR of about 13% during the same period. The company started its international business operations, which are based at its head office at Karachi in 2004 and the State Bank of Pakistan ranks it as the 73rd largest exporter of the country among all categories of exporters. This is the only pharmaceutical company that appears in the list of 100 exporters of the State Bank.

Operations The main business activities are developed through its own R&D center, manufacturing, marketing and sales of pharmaceutical products. Getz Pharma 180+ products are branded generics. The company manufactures, tablets, capsules, liquid & powdered injections, Metered Dose Inhalers (MDIs), 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 Mahmood. Red Castle is managed by its group CEO, Mr. Junaid Waheed and Khalid Mahmood's children, Rahil Mahmood and Ravi Mahmood. DHAL-BVI is managed by Mr. Raymond Simkins sons, James Simkins (50%) and Adam Simkins (50%).

Stability The sponsoring company, 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 is the only pharma company that has made it to SBP's Export List as of the 76th largest exporter of Pakistan. Getz Pharma has a strong presence all over Pakistan and generates its demand through a field sales force of over 2,000 medical reps and over 100 marketing professionals employed by Getz Pharma.

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

Governance

Board Structure Getz Pharma's Board of Directors comprises two experienced professionals from the pharmaceutical and healthcare industry background, as nominee directors representing Development Holdings Asia Limited. However, overall board composition has room for improvement through the induction of independent directors.

Members' Profile The Cheif Executive & Managing Director, Mr. Khalid Mehmood had been a President of the World Wide Fund for Nature (WWF) for 6 years. He has 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. He is an MBA in Marketing from Rutgers School of Management, Rutgers University, USA also holds BS (Bachelors of Science) in Industrial Engineering from California State University, USA.

Board Effectiveness Two board meetings were held during CY18. Both the directors attended these meetings. However, no board committees are in place that raises concern on its effectiveness.

Financial Transparency EY Ford Rhodes Chartered Accountants 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 Dec-18. With the rapid pace of growth, strengthening a formalized internal audit setup should be considered.

Management

Organizational Structure The Company has a traditional hierarchical organizational structure and department heads are directly reported to the CEO. The organizational structure of the company is divided into 16 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 up to 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 The company has in place a management committee - Executive Committee having thirteen members, chaired by the CEO. Inclusion of CEO as Chairman, raise concern on management effectiveness.

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, human capital management. SAP upgraded version S4 (HANA) has been implanted and gone live. Getz Pharma's Enterprise System-SAP HANA is GMP-V and is certified by Germany Accreditation Body for Enterprise Management.

Control Environment Apart from various daily, weekly and monthly submissions to various levels of management, a detailed MIS comprising details such as 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. The business intelligence module, thus, provides a bird's-eye view of the company's data at a glance, aiding the top management in strategic decision-making. The company has detailed KPIs and a robust Performance Evaluation System.

Business Risk

Industry Dynamics The current size of Pakistan's pharmaceutical industry is PKR 423 bln, presently growing at 13% p.a. (previously 10%-12% p.a.). There are a total of 733 registered Pharma companies in Pakistan including 16 MNCs. The share of local manufacturers in the industry is 69%. During the period under review, the impact of PKR depreciation was the major cost escalation for the pharmaceutical industry where about 95% of the active pharmaceutical ingredients used in the manufacturing of the drug were imported and this impact may be mitigated to a certain extent by the one-off 15% price increase allowed by the DRAP.

Relative Position Getz Pharma has a blend of own range of branded generics. The company is the second-largest player in the domestic Pharma industry. Whereas the top ten companies constitute approximately 46% of the market. Getz Pharma's top ten products constitute ~8% of the total market share. However, Getz Pharma's currency exchange risk is relatively protected because exports constitute about 25% of the total revenues.

Revenues During CY18, the sales of the company registered an increase of ~16% to PKR 30.9bln (PKR 26.7bln) mainly on the back of volumetric increase. Local sales, which grew by ~25% to PKR 35.5bln (PKR 28.4bln), constitute major sales portion as compared to export sales that grew by ~13% to PKR 6.1bln (PKR 5.4bln).

Margins A steady increase in gross profit over three years shows the prosperous growth of the Company, growth is mainly due to economies of scale. In CY18 Getz's gross margin witnessed an increasing trend because of the company's dividends gained from persistent investment in technology and automation, increase in batch sizes.

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 the Astola Project, a greenfield manufacturing/ packing facility. Since the company's existing facility has reached its maximum capacity, this facility will cater to the fast-growing market demand of the local & export market till 2025 and beyond.

Financial Risk

Working Capital The cash cycle has decreased in CY18 to 77 days (CY17: 88 days), which is mainly triggered by a decrease in inventory days. The short-term borrowings witnessed a significant increase of 219.1% to PKR 2,240 mln (CY17: 702 mln) primarily due to the requirement of working capital.

Coverages Getz Pharma has a sizeable free cash flows (FCFO) and stood at PKR 8.0bln (CY17: PKR 7.4bln) with a slight increase in profitability during CY18. Debt protection metrics were robust with interest coverage ratio at 140.7 (CY17: 210.8). Capex of PKR 4.7bln is expected over the CY19, funded largely through the borrowings. The financial risk profile is expected to remain healthy over the year, despite large capex.

Capitalization The capital structure of Getz Pharma is moderately leveraged. Total interest-bearing debt of the company amounted to PKR 2.8bln (CY17: PKR 1.1bln) as at end-dec19; out of which 79.9% (CY17: 63.8%) constitutes short term debt. The leveraging ratio was reported at 12.2% (CY17: 5.9%).

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Financial Summary
PKR mln

GETZ Pharma Private Limited Pharmaceutical	Dec-18 12M	Dec-17 12M	Dec-16 12M
A BALANCE SHEET			
1 Non-Current Assets	13,820	10,586	9,098
2 Investments	-	4,032	3,062
3 Related Party Exposure	219	25	10
4 Current Assets	13,655	8,495	6,822
a Inventories	*6,090*	*3,977*	*3,641*
b Trade Receivables	*3,387*	*2,830*	*2,083*
5 Total Assets	27,694	23,138	18,991
6 Current Liabilities	4,388	3,843	2,505
a Trade Payables	*1,921*	*1,399*	*1,141*
7 Borrowings	2,803	1,100	589
8 Related Party Exposure	157	79	91
9 Non-Current Liabilities	235	425	528
10 Net Assets	20,111	17,691	15,278
11 Shareholders' Equity	20,111	17,691	15,278
B INCOME STATEMENT			
1 Sales	30,922	26,658	22,520
2 Operating Profit	10,522	9,027	5,896
3 Profit or (Loss) before Interest and Tax	10,045	8,667	5,675
a Total Finance Cost	*(86)*	*(59)*	*(52)*
b Taxation	*(2,485)*	*(2,158)*	*(1,538)*
4 Net Income Or (Loss)	7,475	6,450	4,085
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*7,951*	*7,442*	*4,694*
b Net Cash from Operating Activities before Working Capital Changes	*7,865*	*7,383*	*4,694*
c Changes in Working Capital	*(2,458)*	*(701)*	*(903)*
1 Net Cash provided by Operating Activities	5,407	6,682	3,791
2 Net Cash (Used in) or Available From Investing Activities	433	(2,692)	(1,555)
3 Net Cash (Used in) or Available From Financing Activities	(3,653)	(3,663)	(2,603)
4 Net Cash generated or (Used) during the period	2,188	327	(367)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	16.0%	18.4%	N/A
b Net Profit Margin	24.2%	24.2%	18.1%
c Cash Conversion Efficiency (EBITDA/Sales)	35.6%	35.5%	28.0%
d Return on Equity (ROE)	39.5%	39.1%	26.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	96	106	63
b Net Working Capital (Average Days)	77	88	44
c Current Ratio (Total Current Assets/Total Current Liabilities)	3.1	2.2	2.7
3 Coverages			
a EBITDA / Finance Cost	194.6	268.2	214.3
b FCFO / Finance Cost+CMLTB+Excess STB	36.4	44.6	30.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.1	0.1
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	12.2%	5.9%	4.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Average Borrowing Rate	2.9%	4.1%	4.6%

Credit Rating Scale & Definitions

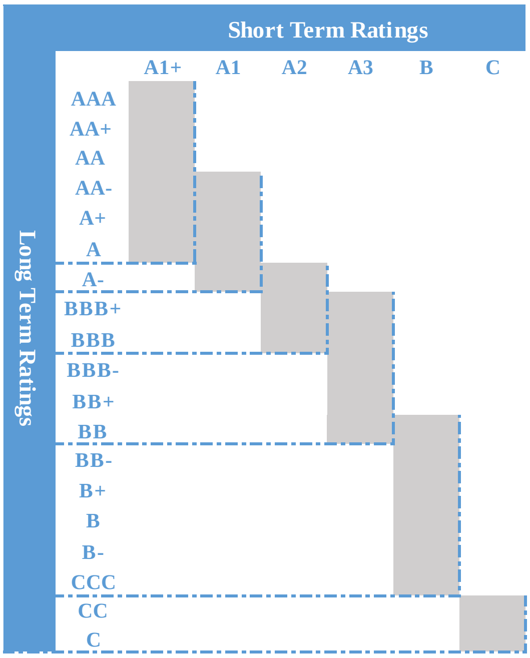
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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.
(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