



The Pakistan Credit Rating Agency Limited

Rating Report

AGP Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-May-2018	A	A1	Stable	Maintain	-
07-Nov-2017	A	A1	Stable	Upgrade	-
26-Jul-2017	A-	A2	Stable	Maintain	-
26-Jan-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect AGP's strong business fundamentals. The pharmaceutical industry has witnessed a high rate of sustained growth over the years. Cost-efficiencies as well as demand inelasticity benefits the industry players. Product pricing has been a challenge, however, the CPI-linked pricing criteria, recently implemented, has allowed an increase in prices with respect to inflation; indicating a positive sign for the sector. AGP's core profitability is strong in comparison with most of the peers; any downward revision must remain range-bound. Ratings incorporate AGP's strong and sizeable Cash flows and their adequacy to service the debt. Expansion strategies and strategic alliance with Mylan, USA to promote their product portfolio in Pakistan enables volumetric growth. Presence of OBS Group in the pharmaceutical sector provides strength, in the form of group synergies, to AGP's positioning within the industry.

The ratings are dependent on continued sustainability of profits and improved market share. Adequacy of cash flows and availability of alternative resources to make debt-related payment remains critical. Meanwhile, compliance with internally-defined leveraging metrics is a prerequisite. Moreover, the instrument rating is dependent upon upholding of all major covenants.

Disclosure

Name of Rated Entity	AGP Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Sukuk Rating Methodology(Jun-17),Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Pharmaceutical(May-18)
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AGP LIMITED PROFILE	
Incorporated	1989
Major business lines	<ul style="list-style-type: none"> Manufactures and markets branded generics related to Gyena, Paeds, Anti-Viral and Internal Medicine. Product portfolio comprises over 117 variants of 53 products.
Legal status	Listed
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> Pharmaceutical industry in Pakistan is currently estimated at US\$ 3.26 billion presently growing at 11% p.a. There are a total of 625 pharmaceutical companies in Pakistan with only 27 multinational companies. Pakistan's Active Pharmaceutical Ingredients (API) market is ~PKR 89bln, out of which 10% is locally produced and 90% is being imported Pharmaceutical sector is a highly regulated segment in Pakistan

OWNERSHIP
<ul style="list-style-type: none"> AGP Limited is an outcome of merger, in Dec15, of three companies; (i) Apollo Pharma Limited (Appollo) (ii) AGP (Private) Limited - AGPP, and (iii) AGP Healthcare (Private) Limited - AGPH. After merger, the surviving entity – Apollo Pharma Limited – has been renamed as ‘AGP Limited’ in Jun’16. Of the two AGP companies, only AGPP had the sizeable operations, constituting 82% of the assets subject to merger. AGP is majority owned by OBS Group (OBS) (51%), while other strategic partners include M&P (~14%), Baltoro Growth Fund (BGF) (~10%), High-Q Pharmaceuticals (Pvt.) Ltd (5%), Aspin Pharma Limited (4.79%), Bank AL-Falah Ltd (3.86%) and 12.5% is owned by general public. The owner of OBS Group, Mr. Tariq Moinuddin Khan, has been identified as the man at the last mile of AGP; his effective controlling stake in AGP clocks in at ~51%.

GOVERNANCE
<ul style="list-style-type: none"> The seven member BoD of AGP comprises four OBS representatives, one each of M&P and BGF and one independent director. The Chairman, Mr. Tariq Moinuddin Khan, is the brains behind OBS. He is CPA from Canada, carries over three decades of domestic an international professional experience, and has been engaged with the pharmaceutical industry from the past 19 years. The board comprises experienced professionals from pharmaceutical and financial services backgrounds. AGP established two board sub-committees – Audit, and Human Resource & Remuneration – to assist the board.

MANAGEMENT
<ul style="list-style-type: none"> MD & CEO, Ms. Nusrat Munshi, joined AGP in 2007 as Director Finance. She has 26 years of experience; a decade in the pharmaceutical industry. She is assisted by experienced management team having long association with AGP. The company has in place a management committee – Executive Committee (ECM) – of which the members are all directors and heads of department. AGP has implemented and is using all key modules of SAP (ERP suite); SAP ECC 6.0 was implemented in 2006 through Siemens Pakistan, and was upgraded to EHP 6 Level in 2014. The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, human capital management A dedicated team of professionals is placed to maintain and continuously upgrade the information systems as per changing business needs.

BUSINESS RISK
<ul style="list-style-type: none"> AGP is positioned to derive benefits from group synergies in the form of (i) bulk discounts for suppliers of raw materials, (ii) better bank relationship, and (iii) strength-wise parking of products. Strategic alliance with Mylan, USA (World 2nd largest generic drugs manufacturer) to promote their complete portfolio in Pakistan. In CY17, AGP's topline amounted to PKR 4,725mln (CY16: PKR 4,206mln; CY15: PKR 3,748mln), growing by 12.3% YoY, gathering a market share of 1.2%. Whereas it grew drastically by 33% to PKR 1,554mln at end-Mar18, as compared to the same period last year (end-Mar17: PKR 1,164mln). Improved core margins in 3MCY18: 52% (CY17: 61%, CY16: 59%), operating margin: 3MCY18: 34% (CY17: 36%, CY16: 38%) on the back of (i) procurement of APIs at comparatively lower cost in bulk quantities majorly from India and China, and (ii) lower factory overheads due to operational efficiencies. Reduced finance costs (3MCY18: PKR 49mln, 3MCY17: PKR 70mln, CY17: PKR 277mln, CY16: PKR 361mln) on account of lower markup spreads on the Sukuk along with reduction in principal debt. Increase in bottom-line (3MCY18: PKR 392mln, 3MCY17: PKR 332mln, CY17: PKR 1,234mln resulting in improved Net margin to 26% in CY17 (CY16: 25.8%).

FINANCIAL RISK
<ul style="list-style-type: none"> Working capital requirements are largely met via internal sources, as against short-term financing; only 12% is financed via short term borrowings (end-Mar17: PKR 124mln), providing comfort to financial risk profile. During CY17, the company replaced its entire long-term debt with Sukuk; PKR 2.042bln outstanding at end-Mar18. Large cash flows, lower semi-annual debt principal repayments, starting from Jun17 (PKR 490mln) topped up with reduced interest payments (end-Dec17: PKR 277mln, end-Dec16: PKR 361mln), resulted in improved company's debt servicing ability (DSCR at end-Dec17: 1.9x, end-Dec16: 0.9x.). At end-Mar18, debt to debt plus equity ratio stood at ~27% (end-Mar17: ~40%, CY17: 28%, CY16: 44%).



AGP Limited	31-Mar-18	31-Dec-17	31-Dec-16	PKR mln 31-Dec-15
BALANCE SHEET	3M	CY	CY	CY
Non-Current Assets	6,935	6,875	6,804	6,801
Current Assets	1,829	1,652	1,709	1,546
Total Assets	8,764	8,527	8,513	8,347
Shareholder's Equity	5,903	5,511	4,277	3,190
Debt	2,166	2,162	3,391	4,484
Other Liabilities	695	854	845	673
Total Liabilities & Equity	8,764	8,527	8,513	8,347
INCOME STATEMENT	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
Turnover	1,554	4,725	4,206	3,748
Gross Profit	803	2,874	2,460	2,162
Other Income	(27)	(80)	(60)	(49)
Financial Charges	(49)	(277)	(361)	(515)
Net Income	392	1,234	1,087	643
Cashflow Statement	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
Free Cashflow from Operations (FCFO)	481	1,439	1,418	1,106
Net Cash changes in Working Capital	(393)	(132)	43	(22)
Net Cash from Operating Activities	47	934	1,043	506
Net Cash from Investing Activities	(81)	(178)	(106)	(108)
Net Cash from Financing Activities	4	(1,228)	(1,094)	10
Net Cash generated during the period	(30)	(472)	(157)	408
RATIO ANALYSIS	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
Performance				
Turnover Growth	33.5%	12.3%	12.2%	50.5%
Gross Margin	51.7%	60.8%	58.5%	57.7%
Growth in Profitability (PAT)	0.0%	0.0%	69.0%	353.9%
ROE (based on average Equity during the period)	29.8%	25.2%	29.1%	22.4%
Coverages				
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.8	1.9	0.9	0.7
Capital Structure (Total Debt/Total Debt+Equity)	26.8%	28.2%	44.2%	58.4%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	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.	
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.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
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.		
A			
A-			
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 or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	Very high 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.		
CC			
C			
D	Obligations are currently in default.		
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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	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 or 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'.	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, a suspended 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, or e) the entity/issuer defaults.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

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)

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