



The Pakistan Credit Rating Agency Limited

Rating Report

AGP Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Oct-2023	A+	A1	Stable	Maintain	-
26-Oct-2022	A+	A1	Stable	Maintain	-
26-Oct-2021	A+	A1	Stable	Maintain	-
29-Oct-2020	A+	A1	Stable	Maintain	-
07-Nov-2019	A+	A1	Stable	Maintain	-
08-May-2019	A+	A1	Stable	Upgrade	-
27-Dec-2018	A	A1	Stable	Maintain	-
31-May-2018	A	A1	Stable	Maintain	-
07-Nov-2017	A	A1	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

AGP Limited (herein referred to as "AGP" or the "Company"), is an operating and holding Company that operates under the umbrella of AGP group. It is one of the leading names in the pharmaceutical sector of Pakistan. On a consolidated basis, AGP stands at 15th position in terms of revenue and 4th in terms of growth as per the latest IQQVIA report. The Company entered the pharmaceutical business in 1989. AGP is mainly owned by OBS Group (OBS) through Aitken Stuart Pakistan (Pvt) Ltd and a strategic and distribution alliance with international partner Muller & Phipps. AGP has a pharma products portfolio more focused towards acute therapeutic segments, however, recent and future planned brand acquisitions will enable its presence in the chronic therapeutic segments as well. The business growth is driven by organic portfolio growth and new brand acquisitions in the chronic disease segment. The Company has a strong corporate governance structure with established policies and procedures enabling efficient oversight and decision-making of the BoD. On the executive front, AGP is run by a professional team having diversified exposure and extensive experience in the sector. The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. CPI-linked pricing criteria have allowed an increase in prices with respect to inflation and indicated a positive sign for the sector. However, the massive depreciation of PKR has diluted the sector's profitability in recent years. The Company has achieved impressive growth in its topline mainly on the back of brand acquisitions including a portfolio from Sandoz AG and a recent acquisition of 17 brands of Viatris Inc from Pfizer which will enhance the company's product range and is expected to add a further PKR 3bln in the topline. Ratings incorporate AGP's strong and sustained gross margins over the last three years along with sizeable cash flows to service their debt and meet the working capital requirements of the Company. However, the net margin has diluted marginally owing to a considerable increase in finance costs on the back of elevated interest rates. Currently, 86% of business is through a sole distributor, Muller & Phipps Pakistan (Pvt) Limited (M&P); going forward this concentration risk may pose challenges. However, the comfort can be taken from the presence of M&P's shareholding in AGP. Capital structure is moderately leveraged where borrowings are comprised of a mix of both long-term and short-term to support brand acquisitions and meet working capital requirements. The financial risk profile is expected to improve further as the company enters the consolidation phase in the future after acquisitions. Also, the benefits of the recent price hike on the basis of special CPI allowed are yet to be seen.

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 payments remains critical. Meanwhile, compliance with internally-defined leveraging metrics is a prerequisite.

Disclosure

Name of Rated Entity	AGP Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Pharmaceutical(May-23)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure AGP Limited (AGP) is a Pharmaceutical company operating in Pakistan since 1989 and listed on the Pakistan Stock Exchange.

Background AGP Limited is an outcome of a merger, in Dec15, of three companies; Apollo Pharma Ltd, AGP (Pvt.) Limited and AGP Healthcare (Pvt.) Ltd. Surviving entity was renamed AGP Limited as it had sizeable operations, constituting 82% of the assets, Intangibles of PKR 5.4bln recognized at the time of acquisition.

Operations The company manufactures medicines branded in eight segments and is also engaged in marketing and sales of licensed products with international affiliation. AGP's product portfolio comprises over 144 variants of 64 products. The Company's manufacturing facilities include three plants. Two plants are located in S.I.T.E. area in Karachi and one plant is located on Super Highway Karachi.

Ownership

Ownership Structure AGP is majority owned by OBS Group (OBS) through Aitken Stuart Pakistan (Pvt) Ltd. (~55.80%); although the sponsor remains the same, while other strategic partners include M&P (13.54%), Baltoro Growth Fund (BGF) (9.57%), High-Q Pharmaceuticals (Pvt.) Ltd (4.09%), Aspin Pharma Limited (4.79%), Bank AL-Falah Ltd (1.89%), and the rest are owned by the general public.

Stability The sponsoring company, OBS Group is well entrenched in the pharmaceutical industry and operates in the country via its five sister companies. OBS has a strategic business attachment with reputed international firms like MERCK & Co USA, providing international expertise and exposure to operate efficiently as a leading pharmaceutical company.

Business Acumen OBS Group, established in 1963, is one of Pakistan's leading names in the healthcare segment. OBS specializes in international partnerships and fostering strategic alliances with reputed international firms. OBS has a strong presence all over Pakistan with over 250 professionally trained medical representatives covering more than 20,000 healthcare professionals

Financial Strength Mr. Tariq, the sponsor of AGP and the sole brain behind OBS Group, started his career in the pharmaceutical industry of Pakistan as an employee at Organon Pakistan – part of AkzoNobel – a Dutch Chemical giant. He took the lead and executed the management buyout of Organon in 2006. Also, he entered into many strategic alliances and acquisitions.

Governance

Board Structure The seven-member Board of AGP comprises three OBS representatives, one each of M&P & BGF, and two independent directors. The board comprises experienced professionals from pharmaceutical and financial services backgrounds.

Members' Profile The Chairman, Mr. Tariq Moinuddin Khan, CPA from Canada, carries over three decades of domestic & international professional experience and has been engaged with the pharmaceutical industry for the past 19 years. Previously, he has also worked as Group CFO for Mawarid Trading Company.

Board Effectiveness AGP has established two board committees 1) Audit and 2) Human Resource & Remuneration. The inclusion of an independent director as a chairman of both Committees indicates better corporate governance. The minutes of the board meetings are prepared with detailed deliberation and action points

Financial Transparency The auditors of the company, EY Ford Rhodes Chartered Accountants, expressed an unqualified opinion on the financial statements for the year ended Dec-22. There is an established Internal Audit function outsourced to PWC, reporting directly to the Board.

Management

Organizational Structure The organizational structure of the company is divided into nine functional departments headed by able professionals (Directors or Controllers): 1) Quality Assurance/Quality Control (QA/QC), 2) Operations, 3) Supply chain, 4) Marketing & Sales (M&S) – A, 5) Marketing & Sales (M&S) – B, 6) Finance, 7) Information Systems (IS), 8) Human Resources & Administration (HR & Admin), and 9) Compliance of Internal Audit.

Management Team Ms. Nusrat Munshi, the MD & CEO of AGP, joined the company in 2007 as Director Finance. She has up to three decades of experience, half of which is in the pharmaceutical industry. She is supported by an experienced core management team that has a long association with AGP.

Effectiveness The company has in place a management committee – Executive Committee (ECM) – of which the members are all directors and heads of departments. The basic functions of the Committee include oversight of operations, developing the budget plan, as well as formulating, reviewing, communicating and managing the delivery of company strategy.

MIS 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. The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, human capital management, materials management, quality management & technical operations.

Control Environment A detailed MIS comprising details is submitted to the Chairman, passing through the CFO, MD & CEO, on a monthly basis. A quarterly presentation is also sent by the MD & CEO to the Directors, detailing the company's financial performance for the quarter.

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. Currently, the industry's size is around PKR 705bln (Dec-2022) compared to Dec 2021, when the size was around PKR 616bln. In recent times, the industry has encountered some challenges including an increase in borrowing costs due to elevated interest rates, a hike in prices of raw materials due to massive PKR depreciation, as the industry is reliant on imports to cater to its raw material needs. Further, the industry has limited ability to pass on the impact of increased costs to end customers as companies can not increase prices unilaterally.

Relative Position AGP has a blend of its own range of branded generics and products licensed from principals of international repute. Their group Company OBS stood at No. 11 according to the latest IQVIA reports with a consolidated topline of PKR 23.2bln.

Revenues During 1HCY23, the sales of the company clocked in at PKR 8,088mln (CY22: PKR 14,459mln) showing a growth of 11.9% during the period. The Company has adopted a strategy to mitigate its higher top product concentration risks by launching supporting brands with their existing product line. The top 10 products of the Company contributed 70% of total sales. The Company's main products are RIGIX, OSNATE-D, CECLOR, ANAFORTANPLUS & SPASLER-P.

Margins During 1HCY22, the gross margin of AGP reached 51.7% (CY22: 50.7%). Despite the significant inflationary impact and increased operating expenses, the operating margin clocked at 20.5% as of 1HCY23 (CY22: 21.6%). AGP has faced a dip in its net margin during 1HCY23 at 9.1% (CY22: 11.8%) mainly because of higher finance costs and tax rates.

Sustainability AGP is poised to derive benefits from group synergies in the form of (i) bulk discounts from suppliers of raw material – APIs and excipients, (ii) better bank relationships (iii) strength-wise parking of products, (iv) group training for HR and career growth opportunities within the group. Furthermore, they have recently participated in the acquisition of some brands from Viatrix Inc., previously known as Pfizer. The acquisition is expected to add ~ PKR 4bln to the Company's consolidated topline.

Financial Risk

Working Capital AGP's net cash cycle at 1HCY23 has reached 72 days (CY22: 60 days). The inventory and receivable days stood at 58 days and 31 days respectively. M&P keeps an inventory of ~58 days in its own warehouse before it is moved to the stores. Payment to AGP, against sales, is made within 30 days of M&P's dispatches.

Coverages AGP has a sizeable FCFO at 1HCY23: PKR 1,309mln (CY22: PKR 2,494mln). Interest coverage has decreased to ~0.4x in 1HCY23 (CY22: ~ 2.0x). The Company's debt servicing ability has decreased in 1HCY23: 5.6x (CY22: 1.3x) due to increased borrowings.

Capitalization The debt on the books of AGP comprises mainly long-term borrowings of PKR 2,517mln & short-term borrowings of PKR 1,153mln. The remaining is Sukuk of PKR 2,193mln. Resultantly, in 1HCY23, the leverage ratio stood at 36.9% (CY22: 22.8%). The Company has an equity base of PKR 11,557mln at the end of 1HCY23.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

AGP Limited Pharmaceutical	Jun-23 6M	Dec-22 12M	Dec-21 12M	Dec-20 12M
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A BALANCE SHEET

1 Non-Current Assets	21,581	12,112	11,420	7,615
2 Investments	-	-	-	-
3 Related Party Exposure	7	46	-	-
4 Current Assets	5,578	4,389	3,449	2,575
a Inventories	2,933	2,237	1,593	1,184
b Trade Receivables	1,349	1,357	1,045	705
5 Total Assets	27,166	16,547	14,869	10,191
6 Current Liabilities	8,691	1,990	1,491	843
a Trade Payables	649	877	574	464
7 Borrowings	6,747	3,287	3,105	1,065
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	171	139	111	72
10 Net Assets	11,557	11,131	10,161	8,210
11 Shareholders' Equity	11,557	11,131	10,161	8,210

B INCOME STATEMENT

1 Sales	8,088	14,459	9,317	6,946
a Cost of Good Sold	(3,909)	(7,128)	(4,262)	(3,086)
2 Gross Profit	4,180	7,331	5,055	3,861
a Operating Expenses	(2,520)	(4,208)	(2,435)	(1,631)
3 Operating Profit	1,660	3,123	2,619	2,230
a Non Operating Income or (Expense)	(112)	(148)	(107)	(152)
4 Profit or (Loss) before Interest and Tax	1,548	2,976	2,513	2,078
a Total Finance Cost	(432)	(535)	(205)	(152)
b Taxation	(384)	(736)	(462)	(339)
6 Net Income Or (Loss)	732	1,705	1,846	1,587

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,309	2,494	2,512	2,042
b Net Cash from Operating Activities before Working Capital	983	2,049	2,387	1,881
c Changes in Working Capital	5,802	(980)	(278)	(292)
1 Net Cash provided by Operating Activities	6,785	1,069	2,109	1,590
2 Net Cash (Used in) or Available From Investing Activities	(9,281)	(895)	(3,917)	(360)
3 Net Cash (Used in) or Available From Financing Activities	2,764	(543)	2,130	(977)
4 Net Cash generated or (Used) during the period	268	(369)	322	253

D RATIO ANALYSIS

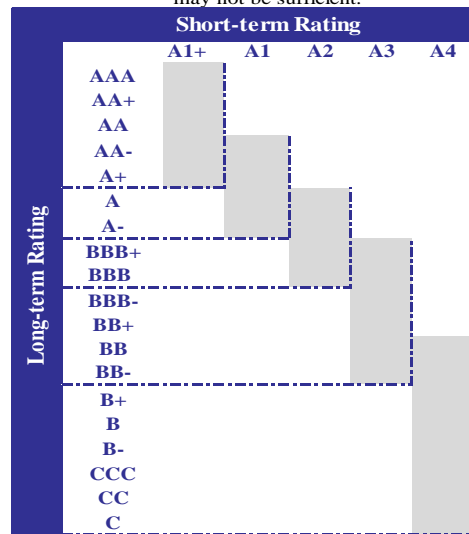
1 Performance				
a Sales Growth (for the period)	11.9%	55.2%	34.1%	0.0%
b Gross Profit Margin	51.7%	50.7%	54.3%	55.6%
c Net Profit Margin	9.1%	11.8%	19.8%	22.9%
d Cash Conversion Efficiency (FCFO adjusted for Working C	87.9%	10.5%	24.0%	25.2%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	12.9%	16.0%	20.1%	19.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	89	79	89	99
b Net Working Capital (Average Days)	72	60	68	75
c Current Ratio (Current Assets / Current Liabilities)	0.6	2.2	2.3	3.1
3 Coverages				
a EBITDA / Finance Cost	4.1	6.3	14.2	16.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	2.0	3.0	2.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	5.6	1.3	1.3	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	36.9%	22.8%	23.4%	11.5%
b Interest or Markup Payable (Days)	72.7	90.3	102.4	9.8
c Entity Average Borrowing Rate	20.2%	15.2%	14.3%	12.7%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
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 and in 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+	
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-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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

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- (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)

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- (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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