



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
27-Dec-2018	A	A1	Stable	Maintain	-
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 Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Pharmaceutical(May-18)
Rating Analysts	Muhammad Noor ul Haq muhammad.noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure AGP Limited (AGP) is a listed (on the Pakistan Stock Exchange in CY18) Pharmaceutical company operating in Pakistan since 1989.

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

Operations The Company manufactures branded five segments. Also engaged in marketing and sales of licensed products with international affiliation. AGP's product portfolio comprises over 111 variants of 55 products. The Company's manufacturing facilities comprises two plants located at S.I.T.E. area Karachi.

Ownership

Ownership Structure 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 (4.47%), Aspin Pharma Limited (4.79%), Bank AL-Falah Ltd (3.68%) and the rest is 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 name of the healthcare segment. OBS specializes in international partnership and fostering strategic alliances with reputed international firms. The group has a presence in many countries and growing further. Group's total assets amount to USD 166mln, of which equity constitutes 30%.

Financial Strength Mr. Tariq, the incumbent sponsor of AGP and the man 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 management buyout of Organon in 2006. As well as he entered into many strategic alliances and acquisitions.

Governance

Board Structure The seven-member BoD 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 from the past 19 years. Previously, he has also worked as Group CFO for Mawarid Trading Company.

Board Effectiveness AGP established two board committees 1) Audit and 2) Human Resource & Remuneration. The inclusion of independent director as a chairman of the 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-17. There is an established Internal Audit function, 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) Technical, 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) Internal Audit.

Management Team Ms. Nusrat Munshi, the MD & CEO of AGP, joined the company in 2007 as Director Finance. She has 27 years of experience, half of which is in the pharmaceutical industry. She is supported by an experienced core management team having 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 department. 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 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.

Control Environment A detailed MIS comprising details is submitted to the Chairman Board, passing through the CFO and 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. 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 company has products in areas such as Gynae, Anti-infectives, Gastroenterology and Nutraceuticals in the pipeline. Furthermore, last year AGP partnered with Mylan USA for marketing and sale of the latter's products in Pakistan and Afghanistan (export).

Relative Position AGP has a blend of own range of branded generics as well as products licensed from principals of international repute. The company's product portfolio is divided into five segments, two of which have sub-segments, based on doctors' speciality type. Internal Medicine segment dominates the sales mix (35%).

Revenues AGP's top 5 product concentration, in terms of revenue, is high (59%) during 1QCY18 (CY17: 51%, CY16: 48%). Also, these products have an average gross margin of 61%, resulting in a superior gross margin for the company. The sales are also concentrated in South region at ~31% (in south-central at ~19%) as compared to North (~27%) and Central (~23%).

Margins In CY17, AGP's topline amounted to PKR 4,725mln (9MCY18: PKR 4,035; CY16: PKR 4,206mln), growing by 12.3% YoY. The company has demonstrated robust profitability with superior margins; gross: (9MCY18: 57%, CY17: 61%, CY16: 59%), operating: (9MCY18: 34%, CY17: 36%, CY16: 38%), and net: (9MCY18: 24%, CY17: 26%; CY16: 26%).

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-trainings for HR and career growth opportunities within the group. AGP envisages benefits from sole routing through M&P, the distributor's experience and extensive branch(60) network, reaching 975 districts, 32,000 chemists, pharmacies, institutes and medical specialists, will give more outreach to AGP's products.

Financial Risk

Working Capital All working capital requirements are largely met through internal generation of cash (9MCY18: PKR 479mln). This provides a sizable cushion for future borrowings. AGP's net cash cycle has seen an upward trend (9MCY18: 61days, CY17: 43days, CY16: 32days). M&P keeps an inventory of ~45 days in its own warehouse before it is moved to the stores. Payment to AGP, against sales, is made within 30 days from M&P's dispatches.

Coverages AGP has sizeable FCFO (9MCY18: 1,190mln, CY17: PKR 1,439mln, CY16: PKR 1,418mln). During CY17, the company replaced its entire long-term debt with Sukuk; PKR 1,802mln outstanding at end-Sep18. Large cash flows, lower semi-annual debt principal repayments, started from Jun17 (PKR 490mln) topped up with reduced interest payments (9MCY18: PKR 145mln, CY17: PKR 277mln, CY16: PKR 361mln), resulted in improved company's debt servicing ability (CY17: 1.9x, CY16: 0.9x.). In CY18, higher FCFO and reduced finance costs improved DSCR to 2.8x; at 9MCY18.

Capitalization The debt on the books of AGP comprises the long-term loans (initially PKR 4.5bln) raised by Apollo to finance the acquisition of the two companies. With the recent debt refinancing exercise, the outstanding long-term principal has been wholly replaced with a Sukuk issue; its maturity is scheduled in 2022. Resultantly, at 9MCY18, debt to debt plus equity ratio stood at ~27% (CY17: 28%, CY16: 44%).



AGP Limited		<i>PKR mln</i>			
BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15	
	6M	CY	CY	CY	
Non-Current Assets	7,085	6,875	6,804	6,801	
Current Assets	2,085	1,652	1,709	1,546	
Total Assets	9,170	8,527	8,513	8,347	
Shareholder's Equity	6,114	5,511	4,277	3,190	
Debt	2,281	2,162	3,391	4,484	
Other Liabilities	775	854	845	673	
Total Liabilities & Equity	9,170	8,527	8,513	8,347	
INCOME STATEMENT	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15	
Turnover	4,035	4,725	4,206	3,748	
Gross Profit	2,280	2,874	2,460	2,162	
Other Income	(97)	(80)	(60)	(49)	
Financial Charges	(145)	(277)	(361)	(515)	
Net Income	953	1,234	1,087	643	
Cashflow Statement	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15	
Free Cashflow from Operations (FCFO)	1,190	1,439	1,418	1,106	
Net Cash changes in Working Capital	(568)	(132)	43	(22)	
Net Cash from Operating Activities	498	934	1,043	506	
Net Cash from Investing Activities	(279)	(178)	(106)	(108)	
Net Cash from Financing Activities	(201)	(1,228)	(1,094)	10	
Net Cash generated during the period	18	(472)	(157)	408	
RATIO ANALYSIS	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15	
Performance					
Gross Margin	56.5%	60.8%	58.5%	57.7%	
Growth in Profitability (PAT)	3.0% *	13.5%	69.0%	353.9%	
ROE (based on average Equity during the period)	21.9% *	25.2%	29.1%	22.4%	
Coverages					
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.3	1.9	0.9	0.7	
Capital Structure (Total Debt/Total Debt+Equity)	27.2%	28.2%	44.2%	58.4%	

*Annualized

AGP Limited (AGP)

Dec 2018

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		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.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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)

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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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