The Pakistan Credit Rating Agency Limited

Rating Report

Martin Dow Marker Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Jun-2021	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Martin Dow Marker Limited (herein referred as "MDM" or the "Company") formerly known as Merck (Pvt.) Ltd, is a notable name in pharmaceutical segment of Pakistan operating since 1951. The Company operates under the umbrella of Martin Dow Group, one of the largest locally owned pharmaceutical companies, comprises three other companies and constitutes well-known brands under its domain: Rocephin, Concor, Evion & Glucophage. The group is known for its high-end acquisitions and investments, denoting good financial strength. After when Martin Dow Limited (the parent company) acquired Merck Pakistan from Merck Germany in 2016 and renamed it to Martin Dow Marker Limited – MDM, the Company achieved new levels of sustainable growth - both in terms of revenues and profitability. With an established strong foothold, the Company has positioned itself among the top 10 leading pharmaceutical companies of the industry. The leadership flows from its distinctive ownership that vest in the hands of two reputable families coming with enriched professional backgrounds; Marker’s & Akhai family, while MDM is mainly governed by the descendant of latter, demonstrating a profound business acumen. The industry is quality conscious driven by defined standards. The Company’s association and strategic alliances with renowned multinational groups, predominantly with Merck, Sanofi & P&G, gives it an edge to vie in a competitive environment. From time to time the Company has invested in upgrading its manufacturing facilities as well, bringing-in new technology. The assigned ratings takes comfort from a) low business risk profile of the Company given MDM being the only authorized licensed manufacturer of Merck’s products in Pakistan, b) a market leader in many therapeutic areas and c) diverse & balanced portfolio with a range of product offerings in its respective niche. The pharmaceutical industry has witnessed a high rate of sustained growth over the years. Lately, outbreaks of widespread pandemic has directed more focus towards health care and hygiene, making the use of medicines indispensable in our daily lives. Henceforth, the demand outlook continues to remain robust. The management is mindful of the corporate governance requirements and fulfils the applicable statutory criteria. The Company has marked its presence in local market as well as internationally. MDM’s core profitability is sustained over the periods in comparison with most of its peers. The financial risk of the Company is considered moderate as the likelihood of any significant changes in company’s debt structure appears thin in near times while in addition to this sufficient cashflow generation lends support to the ratings.

The ratings are dependent on upheld sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintain its debt metrics at an adequate level is a prerequisite

Disclosure

Name of Rated Entity	Martin Dow Marker Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20)
Related Research	Sector Study | Pharmaceutical(May-21)
Rating Analysts	Raniya Tanawar | raniya.tanawar@pacra.com | +92-42-35869504

Profile

Legal Structure Martin Dow Marker Limited (herein referred as 'MDM' or 'the Company') formerly known as Merck Pvt Limited, is an unlisted public limited company.

Background The history of Martin Dow Marker Ltd, formerly known as Merck (Pvt.) Ltd in Pakistan, began in 1962. In 2016, Merck Pakistan became part of Martin Dow Group and was renamed as Martin Dow Marker Ltd. Merck Germany executed a binding contract to divest its shareholding in Pakistan to Martin Dow Ltd (The Parent Company), a leading pharmaceutical. The companies also agreed on long term agreements whereby the business in Pakistan will market Merck healthcare and life science portfolios in Pakistan. At present, MDM operates under the umbrella of Martin Dow Group - which was founded in 1995 by Mr Jawed Akhai (late), Martin Dow Group ('MDG') stands as one of the largest locally owned pharmaceutical companies in Pakistan.

Operations The Company has been established to carry on manufacturing and marketing of Pharmaceutical products. It holds a portfolio of 50+ brands under its name. and also markets drugs for the therapeutic areas like diabetes, cardiology, vitamins, analgesics, antibiotics etc. The Company's manufacturing facilities comprises two plants: Quetta plant & Karachi Plant. It is the only authorized licensed manufacturer of 'Merck Germany' in Pakistan. It is also the sole manufacturer of 'pharma grade soft gel' products such as Evion and Sangobion in the country.

Ownership

Ownership Structure Martin Dow Limited has majority stake in the company with 75% shareholding while remaining 25% is held by members of the Marker Family. The ultimate beneficial ownership lies with Mr. Ali Akhai – son of late Mr. Jawed Akhai (the founding chairman of Martin Dow Group)

Stability The sponsoring members of Martin Dow Group('MDG') are reputed names and well entrenched in the pharmaceutical business for more than two decades. Martin Dow is positioned in the top 10 largest pharmaceutical group operating in Pakistan. MDM has strategic alliances to manufacture licensed products from international reputes like: Merck, Sanofi and P&G, providing international expertise and exposure to operate efficiently among leading pharmaceutical companies. The succession also exists as subsequent generations of both sponsoring families have taken up the business affairs, presenting strong stability.

Business Acumen MDG had been known for its high-end acquisitions and investments. The legacy now continues with Mr Ali Akhai (the main sponsor). He also have direct investments in France based business. The Akhai Family also acquired a pharmaceutical plant formerly Bristol Myers-Squibb in Meymac France and a Nutraceutical Plant in Gien France. 45 products of the 'MDG' are placed #1 in their respective molecules. In the past, Martin Dow Limited executed the largest acquisition in Pakistan's Pharma industry by acquiring industrial assets of 'ROCHE' leading brands and licensing rights in 2010 followed by Merck Pakistan acquisition in 2016.

Financial Strength MDG has 4 companies: Martin Dow Limited, Martin Dow Marker Limited, Martin Dow Specialities Pvt Limited and Seatle Pvt Limited. It is well poised in the industry with a group size of USD 132mln as at Dec'20. Future prospects of the company are considered strong.

Governance

Board Structure MDM has a three member board including the Chairman, Mr Javed Ghulam Muhammad the CEO of the company and Mr Syed Dawood - the Independent Director. Mr Dawood is associated with MDM since 2018. All members of the board are well qualified and professionally sound.

Members' Profile Mr. Ali Akhai, is the present Chairman. He is a foreign qualified double Master's degree holder from Brunel University UK. Mr Ali returned to Pakistan to join their family business with his father Mr Jawed Akhai (late), the man behind Martin Dow. He played his part in the leadership team that successfully acquired the majority shareholding of Merck (Pvt) Ltd in 2016.

Board Effectiveness The company is in compliant with its respective statutory requirements. However, there is no fixed number of meetings that are to be held in a year. Both Chairman and the CEO conducts meetings when it is required.

Financial Transparency The auditors of the company, A F Fergusons & Co., (member of PWC international) expressed an unqualified opinion on the financial statements for the year ended Dec'20.

Management

Organizational Structure The organizational structure of the company is divided into multilevel functional departments headed by able professionals. All head of the department's report to the CEO who then reports to the Chairman.

Management Team Mr. Ghulam Muhammad is the Group MD/CEO, is a qualified fellow member of the Institute of Cost & Management Accountants of Pakistan. His professional journey spreads over 25 years during which he has worked in diversified functions on several key positions at leading multinational and national companies. He is accompanied by a team of qualified experienced professionals.

Effectiveness The Company does not have formal management committees in place. However, business affairs are overseen in an efficient manner where meetings are convened on regular basis.

MIS MDM is equipped with SAP S/4 HANA since 2018 comprising number of SAP modules including; financial accounting, controlling, sales distribution, materials management, production planning, plant maintenance and quality management. Reporting is held on monthly basis reviewed by the head of the departments.

Control Environment There exist an internal audit department which is led by Group head of internal audit. He then reports directly to the Chairman. Also, controls have been established at each department level.

Business Risk

Industry Dynamics Healthcare services industry is considerably a low risk industry in view of limited demand cyclicality. Healthcare services and medical devices are in high demand in view of supportive demographic trends with ageing population, growth in income levels and continuous emergence of new diseases. Recent pandemic outbreak has alleviated the demand graph, allowing the companies to earn good revenues. Aftermaths of present COVID-19 scenario will be more evident once it settles.

Relative Position MDM is a leader in many therapeutic areas. It holds a market share of ~3% and ranked 8th on YTD basis under the IMS ranking report. It is the only authorized distributor of Merck Germany in Pakistan and also that one privileged company to have Soft gel capsule manufacturing facility in the country.

Revenues The topline of the company is on upward trajectory. During CY20, it clocked in at PKR 14.6bln. (CY19: PKR 12.3bln, CY18: PKR 10.bln). Around 7% of the total revenue is export based. The top 5 selling products of the company are 'Concor' followed by 'Evion', Sangobion, Glucophage and Neurobion, presenting ~52% of concentration. The COVID-19 outbreak has led the surge in health care and hygiene therefore the demand outlook seems to have positive growth.

Margins The overall margins of the company are on a pathway of growth mainly due to diversified product mix. Gross margins CY20; 38% (CY19: 34%, CY18: 33%). Even in this challenging environment where PKR devalued and finance cost increased due to increase in policy rate, net margins continue to grow in CY20, stood at 12% (CY19: 7%; CY18: 5%),

Sustainability Martin Dow Marker Ltd is well poised in the industry bearing the fruits of its association with the leading pharmaceutical companies. It is continuously focusing on adding new product to strengthen its current portfolio. It derives/build synergies at group level. In the past, the Company has also co-hosted the World Economic Forum in Davos. The Company is currently a member of PPMA as well.

Financial Risk

Working Capital MDM's net cash cycle has remained comfortable since last 2/3 years CY20: 65days; (CY19: 88days, CY18: 80days). The tender based customers take longer to payback. The working capital needs are fulfilled through internal cashflows and short term borrowing (Dec'20 PKR ~2bln).

Coverages MDM has sizeable FCFO CY20: PKR 2bln (CY19: PKR 1.3bln, CY18: PKR 823mln) driven by strong profitability. Despite high debt leveraging, large cash flows resulted in the improvement of company's debt servicing ability CY20: 0.8x, (CY19: 2.1x, CY18:4.2x).

Capitalization The debt on the books of MDM is a combination of long term debt (L.T), short term debt (S.T) and current maturity (CMLTD) The debt concentration is mainly dominated by S.T whereas long-term loans stood at PKR 666mln in CY20 reduced from CY19 (PKR 984mln). Resultantly, at CY20, the leverage ratio stood at ~39% (CY19: ~40%; CY18: ~39%). The Company plans to finance its up-gradations of machinery through internal cash hence the capital structure is unlikely to witness any significant change. Equity of the company is PKR 5.7bln in Dec'20, The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Martin Dow Marker Limited Pharmaceutical	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET			
1 Non-Current Assets	5,149	5,320	3,983
2 Investments	-	-	-
3 Related Party Exposure	1,338	1,286	639
4 Current Assets	6,038	6,366	7,341
a Inventories	*3,767*	*3,180*	*2,756*
b Trade Receivables	*556*	*1,171*	*3,108*
5 Total Assets	12,525	12,971	11,963
6 Current Liabilities	2,861	2,996	2,620
a Trade Payables	*1,842*	*1,666*	*2,620*
7 Borrowings	3,709	3,965	3,669
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	220	120	3
10 Net Assets	5,736	5,890	5,672
11 Shareholders' Equity	5,736	5,890	5,672
B INCOME STATEMENT			
1 Sales	14,601	12,253	10,744
a Cost of Good Sold	*(8,994)*	*(8,025)*	*(7,167)*
2 Gross Profit	5,607	4,228	3,577
a Operating Expenses	(2,758)	(2,513)	(2,151)
3 Operating Profit	2,849	1,715	1,426
a Non Operating Income or (Expense)	*(153)*	*(106)*	*(47)*
4 Profit or (Loss) before Interest and Tax	2,696	1,609	1,379
a Total Finance Cost	*(409)*	*(522)*	*(257)*
b Taxation	*(525)*	*(211)*	*(572)*
6 Net Income Or (Loss)	1,762	876	550
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*2,315*	*1,335*	*823*
b Net Cash from Operating Activities before Working Capital Changes	*1,811*	*954*	*568*
c Changes in Working Capital	*(15)*	*987*	*(694)*
1 Net Cash provided by Operating Activities	1,796	1,941	(126)
2 Net Cash (Used in) or Available From Investing Activities	(27)	(132)	(164)
3 Net Cash (Used in) or Available From Financing Activities	(1,774)	(1,230)	490
4 Net Cash generated or (Used) during the period	(5)	579	200
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	19.2%	14.0%	--
b Gross Profit Margin	38.4%	34.5%	33.3%
c Net Profit Margin	12.1%	7.1%	5.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.8%	19.0%	1.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	30.3%	15.1%	9.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	108	152	169
b Net Working Capital (Average Days)	65	88	80
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.1	2.8
3 Coverages			
a EBITDA / Finance Cost	7.8	3.9	6.9
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.0	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.8	2.1	4.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.3%	40.2%	39.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	10.1%	13.1%	6.6%

Credit Rating

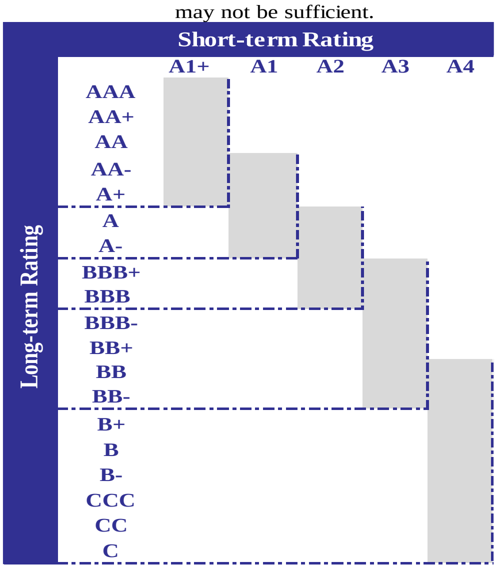
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

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

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

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(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