



The Pakistan Credit Rating Agency Limited

Rating Report

Martin Dow Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Aug-2024	A	A2	Stable	Maintain	-
01-Sep-2023	A	A2	Stable	Downgrade	-
02-Sep-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Martin Dow Limited (herein referred to as "MDL" or the "Company"), is an operating and holding company of the Martin Dow group which is one of the leading pharmaceutical groups in Pakistan. The sponsoring family has been in the pharma business for over 6 decades. As of present, four companies operate within the group (MDG) which include; (i) Martin Dow Limited (ii) Martin Dow Marker Limited (iii) Martin Dow Specialties (Private) Limited & (iv) Seatle (Private) Limited. Martin Dow has developed a diversified portfolio comprising chronic and acute therapeutic segments. The business growth is driven through strategic acquisitions and organic portfolio growth. MDL had also been known for its high-end acquisitions signified by the acquisition of multiple products and industrial assets of ROCHE and MERCK in 2010 and 2016 respectively. The group manufactures and sells multiple well-known brands under its portfolio, including Concor, Evion, Synflex, Lexotanil, Toradol, Librax, and Rocephin. The group is well poised in the industry with a group size of PKR ~36bln as of Dec 23. The rating takes comfort from the company's association and strategic alliances with renowned multinational groups such as Roche, Merck, Sanofi & Boehringer Ingelheim. From time to time the Company has invested in modernizing and integrating new technologies into its manufacturing facilities. The board of MDL comprises experienced and professional experts. The Board size is considered adequate as the management is mindful of the corporate governance requirements and fulfills the applicable statutory criteria. During FY24, the pharmaceutical sector grew by ~22% YoY and registered a revenue of ~PKR 918bln where the top 10 players have a market share of ~49%, as per the IQVIA Report. Approval of price adjustments by DRAP and PKR stabilization during the latter half of CY23 proved beneficial for the industry as it relies on imported APIs to fulfill its raw material needs. MDL maintained its 6th position within the sector on a consolidated basis and recorded an incline of ~19% in revenue. However, the company could not regain net profitability although improvement in Gross and operating margins was observed during the year. The financial risk profile of the company has remained adequate characterized by a stretched working capital cycle, modest coverages, and stressed cashflows. The company has a leveraged capital structure with short-term borrowings significantly dominating the debt portfolio. Also, long-term borrowings are availed to fund brand acquisitions and expansion. Going forward, the financial risk profile of the company is expected to improve as MDL is pursuing a robust product localization plan, the impacts of which are expected to contribute positively to the company's margins. Moreover, the positive effect of the deregulation of prices of Non-Essential drugs and the decrease in the interest rates will be visible in the financial performance of MDL in the coming year.

The ratings are dependent on the management's ability to sustain its growth in revenues, margins, and improvement in profitability. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative. Further, maintaining leverage at an adequate level will be imperative for the ratings.

Disclosure

Name of Rated Entity	Martin Dow Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Methodology Corporate Rating(Jul-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Pharmaceuticals(May-24)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Martin Dow Limited (the Holding Company) "MDL" is a public unlisted Company. The registered office of the Holding Company is located at Plot No. 37, Sector 19, Korangi Industrial Area, Karachi - 74900, Pakistan.

Background The Akhai family entered the pharmaceutical business in 1960. MDL was incorporated in Pakistan on February 6, 1995, as an unlisted public limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). In 2010, MDL acquired the Roche facility in Pakistan along with the acquisition and brand licensing of the global product lines from Hoffman-La Roche, Switzerland followed by the acquisition of MERCK in 2016.

Operations MDL commenced its business on November 7, 1995. The first manufacturing facility opened for business in 2000 to manufacture and market its pharmaceutical products. It holds a portfolio of 100+ brands under its name as a group and also markets drugs for therapeutic areas like diabetes, cardiology, multivitamins, analgesics, antibiotics, Psychostimulants, and Beta Blocking agents for pain, Tranquilizers, etc. Its subsidiary Martin Dow Marker Limited is also the sole manufacturer of 'pharma grade soft gel' products such as Evion and Sangobion in the country.

Ownership

Ownership Structure Mr. Ali Akhai, son of Mr. Jawed Akhai(late), is the ultimate beneficial owner of the Company and holds over 97% of its ownership stake.

Stability The sponsoring members of Martin Dow Group are reputed names and well entrenched in the pharmaceutical business for decades. Martin Dow Group is positioned as the 6th largest pharmaceutical groups operating in Pakistan. Martin Dow has strategic alliances to manufacture licensed products from international reputes like Merck, Sanofi, Roche, and Boehringer Ingelheim, providing international expertise and exposure to operate efficiently as a leading pharmaceutical group.

Business Acumen Martin Dow had been known for its high-end acquisitions and investments. The legacy now continues with Mr. Ali Akhai (the main sponsor). Numerous products of the Martin Dow Group are placed #1 in their respective molecules. In the past, Martin Dow incurred the largest acquisition in the Pakistan Pharma industry by acquiring industrial assets of ROCHE leading brands and licensing rights in 2010 followed by the acquisition of Merck Pakistan in 2016.

Financial Strength Martin Dow Group (MDG) has 4 companies: Martin Dow Limited, Martin Dow Marker Ltd, Martin Dow Specialities Pvt Ltd, and Sealtle Pvt Ltd. It is well poised in the industry with a group size of PKR 36bln as of Dec'23. The prospects of the company are considered strong.

Governance

Board Structure MDL has a four-member board including the Chairman, Mr. Javed Ghulam Muhammad (the CEO)), Mr. Abdul Samad (Group CFO), and Mr. Syed Dawood (the Independent Director). Mr. Dawood has been associated with MDL 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 UK & France. 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 compliant with its respective statutory requirements. There are no formal board committees in place. The meetings are held when needed.

Financial Transparency The auditors of the company, A.F Ferguson & Co. (Member of PWC International), expressed an unqualified opinion on the financial statements for the year ended Dec-23.

Management

Organizational Structure The company's organizational structure is divided into multilevel functional departments headed by able professionals. All heads of the departments report to the CEO who is ultimately reportable to the Chairman.

Management Team Mr. Javed Ghulam Muhammad is the Group MD/CEO and is a qualified fellow member of the ICMA Pakistan. His professional journey spreads over 3 decades during which he has worked in diversified functions at several key positions in leading multinational and national companies. He is accompanied by a team of qualified and experienced professionals.

Effectiveness The Company does not have any formal management committees in place. However, business affairs are overseen in an efficient manner.

MIS MDL is equipped with SAP S/4 Hana comprising all the modules necessary for efficient management and reporting. Reporting is done on a monthly basis and reviewed by the heads of the departments.

Control Environment The internal audit function of the company is outsourced to EY Ford Rhodes, one of the Big-4, which enhances the efficacy of the internal control environment.

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicity. During FY24, the size of the industry was recorded at PKR 918bln reflecting a growth of ~22% YoY. According to IQVIA report the top ten pharmaceutical companies constitute ~49% of the market. Owing to the significant reliance of the sector on imported raw materials (APIs), it is inherently exposed to the risk of exchange losses due to currency fluctuation. Increased borrowing costs due to elevated interest rates also hindered the profitability growth of the sector. Moreover, the sector has a limited ability to pass on the impact of cost increases to the consumers as the prices are regulated. However, DRAP's approval for price adjustments, deregulation of prices of non-essential drugs, PKR stabilization, and reduction in policy rate have provided the industry with some breathing space during the recent quarters.

Relative Position MDL as a group is the market leader in many therapeutic areas. It holds a market share of ~4% and is ranked 6th on YTD basis under the IQVIA ranking report. MD Group also represents major global pharmaceuticals players in Pakistan mainly Roche & Merck. MDM the subsidiary of MDL is the only company to have a pharma-grade Soft gel capsule manufacturing facility in the country.

Revenues During CY23, the sales of the group clocked in at PKR 36,302mln (CY22: 30,441mln) showing a growth of 19.3% during the period. On a consolidated basis, the top 5 selling products are Concor, Lexoberon, Sangobion, Glucophage, and Evion representing ~32% of concentration. The sales growth trend has an upward sloping trend from the last three years.

Margins MDL's gross margin has improved during CY23 after a dip in CY22 and remained at ~35.8% (33.8%, CY22). Further, improvement in operating margin was also observed during the period. However, the net margins remained under pressure due to PKR devaluation, and global and local inflation.

Sustainability Martin Dow Limited is well poised in the industry bearing the fruits of its association with the leading pharmaceutical companies. It is continuously focusing on adding new products to strengthen its current portfolio. During CY23, the Company has managed to commercialize multiple new brands. In the coming years, some new brands are also in their pipeline. This will bolster the size of the Company in the future.

Financial Risk

Working Capital MDL's net cash cycle has shown improvement and remained at 48 days during CY23 (CY22: 48 days). This sustained improvement reflects that they have better credit terms with their suppliers and efficient receivables management. The working capital needs are fulfilled through internal cash flows.

Coverages MDL has FCFO of PKR 3,191mln during CY23 (CY22: PKR 1,773mln) driven by sales growth and stress on net profitability. However, the Company has a leveraged capital structure with positive cash flows. The company's debt servicing ability has dwindled as of CY23: 1.3x, (CY22: 1.4x) decreased on the back of increase in finance costs to PKR 2,496mln in CY23 (PKR 1,311mln, CY22)

Capitalization The debt booked is dominated by Short-term borrowings (CY23: PKR 10,239mln, CY22: PKR 8,603mln) to meet their working capital requirements. STB contributes ~82% of total borrowings. The company has a leverage ratio of 54.8% during CY23 (CY22: 49.4%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Martin Dow Limited Pharmaceutical	Dec-23 12M	Dec-22 12M	Dec-21 12M
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A BALANCE SHEET

1 Non-Current Assets	17,688	17,044	16,438
2 Investments	128	-	-
3 Related Party Exposure	407	-	-
4 Current Assets	14,764	13,361	11,100
5 Total Assets	32,985	30,404	27,537
6 Current Liabilities	9,478	7,955	5,704
7 Borrowings	12,536	10,804	9,341
8 Related Party Exposure	-	-	20
9 Non-Current Liabilities	625	601	550
10 Net Assets	10,346	11,045	11,923
11 Shareholders' Equity	10,346	11,045	11,923

B INCOME STATEMENT

1 Sales	36,302	30,441	26,186
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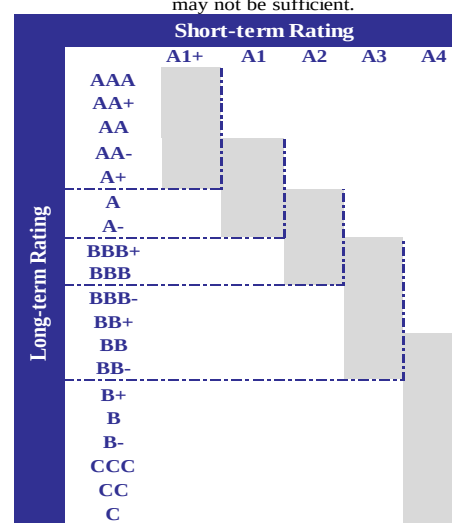
C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	3,191	1,773	3,174
b Net Cash from Operating Activities before Working Capital Changes	937	736	2,500
c Changes in Working Capital	(914)	(681)	212
1 Net Cash provided by Operating Activities	23	55	2,713
2 Net Cash (Used in) or Available From Investing Activities	(1,281)	(939)	(2,755)
3 Net Cash (Used in) or Available From Financing Activities	792	704	(207)
4 Net Cash generated or (Used) during the period	(466)	(180)	(250)

D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	19.3%	16.2%	18.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.3%	3.6%	12.9%
2 Working Capital Management			
a Gross Working Capital (Average Days)	103	98	107
b Net Working Capital (Average Days)	48	48	63
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.7	1.9
3 Coverages			
a EBITDA / Finance Cost	1.5	2.1	4.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.3	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	10.2	11.7	1.7
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	54.8%	49.4%	44.0%
c Entity Average Borrowing Rate	20.6%	13.0%	8.3%

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+	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	
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 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+	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. 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.



*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.
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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(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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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