



The Pakistan Credit Rating Agency Limited

AGP LIMITED

ENTITY RATINGS REPORT

	NEW [JUL-17]	OLD [MAY-16]	REPORT CONTENTS
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JULY 2017

Profile and Ownership

- AGP is an public unlisted pharmaceutical company, operating in Pakistan since 1989
- With manufacturing facilities located at S.I.T.E. Karachi, AGP manufactures and markets branded generics related to Gynea, Paeds and Internal Medicine, as well as marketing and sales of licensed products having international affiliation.
- Product portfolio comprises over 110 variants of 49 products, including star products such as ‘Ceclor’, ‘Rigix’, ‘Osnate’, and recently launched ‘MyHep’.
- Majority owned by OBS Group (OBS) (69%), followed by strategic partners: Muller & Phipps (M&P), Baltoro Growth Fund (BGF) and JS Bank.
- OBS Group, ranked 9th in Pakistan’s pharma industry (1QCY17) has entered into strategic alliances and acquisitions with international partners.
- AGP Limited is an outcome of a merger, in Dec15, of three companies: (i) Appollo Pharma (Appollo), ii) AGP Private Limited (AGPP) and iii) AGP Healthcare Private Limited (AGPH). Appollo – incorporated as an SPV in May’14 to acquire AGPP and AGPH – is the surviving entity renamed as AGP Limited in Jun’16.

Governance and Management

- The company is governed by a seven-member board of directors comprising five representatives of OBS Group, and one each of M&P and BGF.
- The Chairman, Mr. Tariq Moinuddin - the brains and owner of OBS Group - is a qualified CPA having over 30 years of domestic and international experience, including 18 years in pharmaceutical industry.
- MD & CEO, Ms. Nusrat Munshi, joined AGP in 2007 as Director Finance. She has 26 years of experience; a decade in the pharmaceutical industry. She is assisted by experienced management team having long association with AGP.

Systems and Controls

- AGP has implemented and is using all key modules of SAP (ERP suite) which provides a real-time end-to-end integrated solution for all operations including finance, sales and marketing, and human capital management.
- Prompt availability of MIS for higher management’s use.
- A dedicated team of professionals is placed to maintain and continuously upgrade the information systems as per changing business needs.

Performance

- In CY16, topline (PKR 4,206mln) grew by 12% YoY; market share of ~1.2%.
- Superior core margins (gross: 59%, operating: 38%) on the back of (i) procurement of APIs at comparatively lower cost in bulk quantities majorly from India and China, and (ii) lower factory overheads due to operational efficiencies.
- Lower finance costs (CY16: PKR 361mln, CY15: PKR 515mln) helped bottomline increase to PKR 1,087mln, with net margin rising to ~26% (CY15: ~17%).
- Product concentration risk; top 5 products comprise ~55% of total sales.
- During 3MCY17, AGP’s revenues amounted to PKR 1,164mln, up 3.3% YoY. Business margins remained strong while savings in finance costs helped bottomline increase ~22% YoY to PKR 332mln.

Business Strategy

- AGP is positioned to derive benefits from group synergies in the form of (i) bulk discounts for suppliers of raw materials, (ii) better bank relationship, and (iii) strength-wise parking of products.
- Recent change of distributor, to M&P, is expected to increase outreach on the back of better experience of distributor, wider branch network, and superior technology.
- Five new products were launched in CY16, with more in the pipeline.

Financial Risk

- Working capital requirements are largely met via internal sources, as against short-term financing, providing comfort to financial risk profile.
- Net cash cycle is better than peers, indicating strong working capital management.
- Borrowings largely comprise long-term debt procured by Appollo to finance the acquisition of AGPP and AGPH; PKR ~2.8bln outstanding at end-Mar17.
- Though AGP’s free cash flows (FCFO) are strong, debt service coverage remains adequate (end-Mar17: 1.2x) owing to size of principal and interest repayments. Going forward, debt servicing will improve due to an eased repayment structure.

RATING RATIONALE

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 are benefiting the industry players. While product pricing has been a challenge, the new CPI-linked pricing criteria has allowed an increase in prices with respect to inflation, indicating a positive sign going forward. At the same time, AGP's core profitability is strong; any downward revision in margins must remain range-bound. Cash flows - strong and sizeable - are adequate to service the debt initially procured by the incumbent sponsors - OBS Group - to acquire the company in 2014. With the recent debt re-profiling, debt servicing ability would improve further. The presence of OBS Group in the pharmaceutical sector provides strength, in the form of group synergies, to AGP's positioning within the industry. Furthermore, the management is committed to maintain sufficient liquidity for the Sukuk.

KEY RATING DRIVERS

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

INDUSTRY SNAPSHOT

Pharmaceutical Industry in Pakistan comprises 672 players, of which 27 are multinationals (MNCs) having 34% market share. The market is dominated by top 9 players (43% market share). MNCs are taking exit from Pakistan due to pricing issues. CPI-linked pricing criteria, notified in Jul-16, allowed the industry to increase drug prices with respect to inflation, indicating a positive sign going forward.



AGP Limited		PKR mln			
BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14	
	3M	CY	CY	May-Dec14	1
				(consolidated)	
Non-Current Assets	6,837	6,804	6,801	6,809	
Current Assets	1,639	1,709	1,546	1,007	
Total Assets	8,476	8,513	8,347	7,817	
Shareholder's Equity	4,609	4,277	3,190	2,547	
Debt	3,048	3,391	4,484	4,462	
Other Liabilities	819	845	673	808	
Total Liabilities & Equity	8,476	8,513	8,347	7,817	
INCOME STATEMENT	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14	
Turnover	1,164	4,206	3,748	1,453	
Gross Profit	706	2,460	2,162	842	
Other Income	(21)	(60)	(49)	(344)	
Financial Charges	(70)	(361)	(515)	(266)	
Net Income	332	1,087	643	(253)	
Cashflow Statement	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14	
Free Cashflow from Operations (FCFO)	419	1,418	1,106	(306)	
Net Cash changes in Working Capital	(141)	43	(22)	91	
Net Cash from Operating Activities	126	1,043	506	(230)	
Net Cash from Investing Activities	(57)	(106)	(108)	(6,954)	
Net Cash from Financing Activities	(343)	(1,094)	10	7,274	
Net Cash generated during the period	(274)	(157)	408	90	
RATIO ANALYSIS	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14	
Performance					
Turnover Growth	3.3%	12.2%	50.5%	2	N/A
Gross Margin	60.6%	58.5%	57.7%		58.0%
Growth in Profitability (PAT)	21.7%	69.0%	353.9%		N/A
ROE (based on average Equity during the period)	29.9%	29.1%	22.4%		-21.2%
Coverages					
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.2	0.9	0.7		-1.2
Capital Structure (Total Debt/Total Debt+Equity)	39.8%	44.2%	58.4%		63.7%

Notes:

1. Consolidated figures as stated (for comparison) in Appollo Pharma Annual Report CY15.
2. For growth calculation, CY14 turnover is prorated based on 7 months' sales of consolidated figures.



STANDARD RATING SCALES & 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.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
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 or 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. “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.	

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>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’.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Regulatory and Supplementary Disclosure

Name of Entity	AGP Limited															
Sector	Pharmaceuticals															
Type of Relationship	Solicited															
Purpose of the Rating	Independent Risk Assessment															
Rating History	<table border="1"> <thead> <tr> <th>Dissemination Date</th> <th>LT Rating</th> <th>ST Rating</th> <th>Outlook</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>26-Jul-17</td> <td>A-</td> <td>A2</td> <td>Stable</td> <td>Maintain</td> </tr> <tr> <td>26-Jan-17</td> <td>A-</td> <td>A2</td> <td>Stable</td> <td>Initial</td> </tr> </tbody> </table>	Dissemination Date	LT Rating	ST Rating	Outlook	Action	26-Jul-17	A-	A2	Stable	Maintain	26-Jan-17	A-	A2	Stable	Initial
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Related Criteria and Research	Pharmaceutical Jan-2017															
Rating Methodology	Corporate Rating Methodology Sukuk Rating Methodology															
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Rating Team Statement	<p>Rating Procedure Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.</p>															
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