



The Pakistan Credit Rating Agency Limited

AGP LIMITED (AGP)

ENTITY RATING REPORT

	INITIAL [JAN-17]	REPORT CONTENTS
Long Term Rating	A-	1. SUMMARY ANALYSES
Short Term Rating	A2	2. FINANCIAL SUMMARY
Outlook	Stable	3. RATING SCALE
		4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

JANUARY 2017

Profile & Ownership

- AGP Limited (AGP) is an unlisted public pharmaceutical company, the operations of entity have been in Pakistan since 1989.
- AGP manufactures and markets branded generics related to Gynea, Paeds and Internal Medicine, with manufacturing facilities located at S.I.T.E. Karachi
- AGP is also engaged in marketing and sales of licensed products with international affiliation (Eli Lilly, GlaxoSmithKline, OM Pharma, and other MNCs)
- AGP's product portfolio comprises over 100 variants of 46 products, of which eight are the star products: Ceclor, Rigix, Osnate, Anafortan, Keflex, Chymoral, Spasler, and Rubifer
- Majority owned by OBS Group (OBS), followed by some strategic partners
- OBS Group – ranked 5th in local pharma industry, since acquiring Organon Pakistan through OBS Healthcare, has entered into many strategic alliances and acquisitions with international partners
- AGP Limited is an outcome of merger, in Dec15, of three companies: (i) Appollo Pharma (Appollo), ii) AGP Private Limited (AGPP) and iii) AGP Healthcare Private Limited (AGPH) whereas Appollo – incorporated as an SPV in May'14 to acquire AGPP and AGPH – being the surviving entity renamed as AGP Limited in Jun'16

Governance and Management

The company is governed by a board of directors

- The Chairman and CEO, Mr. Moinuddin - the brain and owner of OBS Group - is a qualified CPA having over 30 years of domestic and international experience, including 17 years in pharma industry
- Managing Director since 2009, Ms. Nusrat Munshi, joined AGP in 2007 as Director Finance. She has close to 25 years of experience, a decade of which is in pharmaceutical industry
- The MD is assisted by experienced core management team having long association with AGP

Systems and Controls

- AGP has implemented and is using all key modules of SAP (ERP suite)
- The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, human capital management
- A dedicated team of professionals are placed to maintain and continuously upgrade the information systems according to changing business needs
- Furthermore, there is prompt availability of MIS for higher management

Performance

- The company has sustained growth progress with strong margins
- The company benefits from its product slate and well-presented distribution network

Business Strategy

- AGP is poised to derive benefits from group synergies in the form of (i) bulk discounts from suppliers of raw materials, (ii) better bank relationship, and (iii) strength-wise parking of products
- Tax benefit expected next year due to Appollo's losses carried forward
- Change in distributor from Ali Gohar and Co. to M&P would increase AGP's outreach on the back of better distributor's experience, more extensive branch network, superior technology and MIS reporting
- New products on the cards; five launched already in CY16

Financial Risk

- Working capital requirements met via internal sources. Absence of short-term borrowings provides comfort to financial risk profile
- Net cash cycle better than peers
- Long-term debt was procured by Appollo Pharma to finance the acquisition of AGPP and AGPH in July'14, only debt AGP has
- Semi-annual repayments started beginning-CY16
- Though AGP's free cash flows (FCFO) are strong, topped up with surplus cash, these provide adequate debt-service coverage
- The company has stand by financing arrangement to meet any contingency

RATING RATIONALE

The ratings reflect AGP's strong business fundamentals. The pharmaceutical industry has witnessed a higher rate of sustained growth over the years. The demand is almost inelastic. Product pricing is a challenge, yet cost efficiencies are benefiting the industry players. At the same time, AGP's core profitability is strong; downward revision in margins must remain range-bound. Cash flows are strong and sizeable, adequate to service debt. The debt has been procured by the incumbent sponsors to acquire the company, routed through an SPV, which was later on merged and renamed as "AGP Limited". The presence of OBS Group in the pharmaceutical sector provides strength to AGP's positioning within the industry in the form of group synergies.

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 remain important for the ratings. Meanwhile, compliance with internally-defined leveraged metrics is a pre-requisite.

INDUSTRY SNAPSHOT

Pharmaceutical Industry in Pakistan comprises 655 players, of which 25 are multinationals (MNCs) controlling 37% of the market share. Market is dominated by 50 top players (90% market share). MNCs taking exit from Pakistan due to pricing issues. New CPI-linked pricing criteria to raise drug prices in Jul-16 is expected to bode well for the industry.



AGP Limited	30-Sep-16	31-Dec-15	PKR mln
BALANCE SHEET	9M	Annual	31-Dec-14
	Merged Entity*		Annual
			AGP Pvt Ltd
Non-Current Assets	6,822	6,801	6,809
Current Assets	1,309	1,550	1,007
Total Assets	8,130	8,351	7,817
Shareholder's Equity	3,934	3,190	2,547
Debt	3,363	4,484	4,462
Other Liabilities	832	677	808
Total Liabilities & Equity	8,130	8,351	7,817
INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Turnover	3,092	3,748	3,338
RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Performance			
Turnover Growth	10.4%	12.3%	7.3%
Profitability Growth	37.6%	-26.3%	7.8%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	4.0	0.7	1.0
Capital Structure (Total Debt/Total Debt+Equity)	46.1%	58.4%	0.0%

* Merger, in Dec15, of three companies: (i) Appollo Pharma (Appollo), ii) AGP Private Limited (AGPP) and iii) AGP Healthcare Private Limited (AGPH)



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 AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p>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.</p> <p>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.</p>	<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>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>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.</p>	
B+ B B-	<p>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.</p>	
CCC CC C	<p>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.</p>	
D	<p>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.

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'.

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.

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.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/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.



Rated Entity

Name of Rated Entity AGP Limited
Sector Pharmaceutical
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Rating Action
26-Jan-17	A-	A2	Stable	Initial

Related Criteria and Research

Methodology: Corporate Rating Methodology
Research: Pharmaceutical Sector | Overview | January 2017

Rating Analysts

Muneeb Rashid muneeb.rashid@pacra.com (92-42-35869504)	Amara S. Gondal amara.gondal@pacra.com (92-42-35869504)
---	---

Rating Team Statement

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.

Disclaimer

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest.

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Office PACRA.

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities.

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 ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent; abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell.

Probability of Default (PD)

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 each rating notch. These studies are available at our website (www.pacra.com). However, actual transition of a particular rating may not follow the pattern observed in the past.