



The Pakistan Credit Rating Agency Limited

# AGP LIMITED

## INSTRUMENT RATING

<b>Instrument</b>	<b>PRELIMINARY [MAY-17]</b>
Privately Placed, Secured Sukuk (PKR 2,448mln)	A
Outlook:	Stable

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<b>REPORT CONTENTS</b>
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

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MAY 2017

## About the Sukuk

- AGP Limited (AGP) is in process of issuing a privately placed, rated and secured Sukuk of ~PKR 2.5bln in order to refinance its existing long-term debt.
- With a tenor of 5 years, the instrument's principal and profit (3MK+1.3%) will be paid in 20 equal quarterly installments, starting from the 3<sup>rd</sup> month of issue date.
- The instrument, initially, would be secured with a ranking charge which would be upgraded to first pari passu charge over all present and future non-current assets (~PKR 3.1bln) of AGP and Aspin Pharma (associate).
- AGP's management is committed to maintain sufficient liquidity for the instrument.

## Issuer Profile and Ownership

- AGP is an unlisted public 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', 'Osdate', 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 9<sup>th</sup> 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.

## 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.

## Business Strategy

- AGP is poised 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 launched in CY16, with more in the pipeline.

## Financial Risk

- Working capital requirements largely met via internal sources. Minimal short-term borrowing (PKR 22mln) provides comfort to financial risk profile.
- Net cash cycle is better than peers, indicating strong working capital management.
- Borrowings almost completely 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 squeezed (end-Dec16: 0.9x) owing to size of principal and interest repayments; surplus cash and short-term borrowing lines may be utilized to meet contingencies. Post-instrument issue, debt servicing is likely to improve given a favourable repayment structure.

## RATING RATIONALE

The rating reflects 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 ongoing 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 instrument.

## KEY RATING DRIVERS

The instrument's rating is 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 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. New 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-Dec-16	31-Dec-15	31-Dec-14
	CY	CY	May-Dec14 (consolidated) <sup>1</sup>
Non-Current Assets	6,804	6,801	6,809
Current Assets	1,709	1,546	1,007
<b>Total Assets</b>	<b>8,513</b>	<b>8,347</b>	<b>7,817</b>
Shareholder's Equity	4,277	3,190	2,547
Debt	3,391	4,484	4,462
Other Liabilities	845	673	808
<b>Total Liabilities &amp; Equity</b>	<b>8,513</b>	<b>8,347</b>	<b>7,817</b>
INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
Turnover	4,206	3,748	1,453
Gross Profit	2,460	2,162	842
Other Income	(60)	(49)	(344)
Financial Charges	(361)	(515)	(266)
<b>Net Income</b>	<b>1,087</b>	<b>643</b>	<b>(253)</b>
Cashflow Statement	31-Dec-16	31-Dec-15	31-Dec-14
Free Cashflow from Operations (FCFO)	1,418	1,106	(306)
Net Cash changes in Working Capital	43	(22)	91
Net Cash from Operating Activities	1,043	506	(230)
Net Cash from Investing Activities	(106)	(108)	(6,954)
Net Cash from Financing Activities	(1,094)	10	7,274
Net Cash generated during the period	(157)	408	90
RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
<b>Performance</b>			
Turnover Growth	12.2%	50.5% <sup>2</sup>	N/A
Gross Margin	58.5%	57.7%	58.0%
Growth in Profitability (PAT)	69.0%	353.9%	N/A
ROE (based on average Equity during the period)	29.1%	22.4%	-21.2%
<b>Coverages</b>			
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.9	0.7	-1.2
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	44.2%	58.4%	63.7%

**Notes:**

- Consolidated figures as stated (for comparison) in Appollo Pharma Annual Report CY15.
- 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b> <b>AA</b> <b>AA-</b>	<p><b>Very high credit quality.</b> Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
<b>A+</b> <b>A</b> <b>A-</b>	<p><b>High credit quality.</b> Low expectation of credit risk.</p> <p>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>	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk.</p> <p>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>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing.</p> <p>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> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b></p> <p>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>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b></p> <p>“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>	
<b>D</b>	<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.



**Regulatory and Supplementary Disclosure**

<b>Name of Issuer</b>	AGP Limited												
<b>Name of Issue</b>	AGP Limited   Sukuk   TBI												
<b>Sector</b>	Pharmaceuticals												
<b>Type of Relationship</b>	Solicited												
<b>Purpose of the Rating</b>	Independent Risk Assessment												
<b>Rating History</b>	<table border="1"> <thead> <tr> <th>Dissemination Date</th> <th>Rating</th> <th>Outlook</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>24-May-17</td> <td>A</td> <td>Stable</td> <td>Preliminary</td> </tr> </tbody> </table>	Dissemination Date	Rating	Outlook	Action	24-May-17	A	Stable	Preliminary				
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<b>Amortization Schedule</b>	Refer to Annexure												
<b>Related Criteria and Research</b>	Pharmaceutical   Jan-2017												
<b>Rating Methodology</b>	Corporate Rating Methodology Sukuk Rating Methodology												
<b>Rating Analysts</b>	<table> <tr> <td>Haider Imran <a href="mailto:haider.imran@pacra.com">haider.imran@pacra.com</a> (92-42-35869504)</td> <td>Rai Umar Zafar <a href="mailto:rai.umar@pacra.com">rai.umar@pacra.com</a> (92-42-35869504)</td> </tr> </table>	Haider Imran <a href="mailto:haider.imran@pacra.com">haider.imran@pacra.com</a> (92-42-35869504)	Rai Umar Zafar <a href="mailto:rai.umar@pacra.com">rai.umar@pacra.com</a> (92-42-35869504)										
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<b>Probability of Default (PD)</b>	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. ( <a href="http://www.pacra.com">www.pacra.com</a> ). However, actual transition of rating may not follow the pattern observed in the past												

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln			Base	Spread			
Drawdown	2,448	0	Drawdown					
3rd Month	2,448	122	3rd Month	3M Kibor	130bps	45	168	2,326
6th Month	2,326	122	6th Month	3M Kibor	130bps	43	166	2,203
9th Month	2,203	122	9th Month	3M Kibor	130bps	41	163	2,081
12th Month	2,081	122	12th Month	3M Kibor	130bps	39	161	1,958
15th Month	1,958	122	15th Month	3M Kibor	130bps	36	159	1,836
18th Month	1,836	122	18th Month	3M Kibor	130bps	34	157	1,714
21st Month	1,714	122	21st Month	3M Kibor	130bps	32	154	1,591
24th Month	1,591	122	24th Month	3M Kibor	130bps	30	152	1,469
27th Month	1,469	122	27th Month	3M Kibor	130bps	27	150	1,346
30th Month	1,346	122	30th Month	3M Kibor	130bps	25	147	1,224
33rd Month	1,224	122	33rd Month	3M Kibor	130bps	23	145	1,102
36th Month	1,102	122	36th Month	3M Kibor	130bps	20	143	979
39th Month	979	122	39th Month	3M Kibor	130bps	18	141	857
42nd Month	857	122	42nd Month	3M Kibor	130bps	16	138	734
45th Month	734	122	45th Month	3M Kibor	130bps	14	136	612
48th Month	612	122	48th Month	3M Kibor	130bps	11	134	490
51st Month	490	122	51st Month	3M Kibor	130bps	9	131	367
54th Month	367	122	54th Month	3M Kibor	130bps	7	129	245
57th Month	245	122	57th Month	3M Kibor	130bps	5	127	122
60th Month	122	122	60th Month	3M Kibor	130bps	2	125	0