The Pakistan Credit Rating Agency Limited

Rating Report

Pharmagen Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Oct-2024	A-	A2	Stable	Maintain	-
25-Oct-2023	A-	A2	Stable	Maintain	-
25-Oct-2022	A-	A2	Stable	Maintain	-
25-Oct-2021	A-	A2	Stable	Maintain	-
06-Nov-2020	A-	A2	Stable	Upgrade	-
07-Nov-2019	BBB+	A2	Stable	Maintain	-
08-May-2019	BBB+	A2	Stable	Upgrade	-
31-Dec-2018	BBB	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pharmagen Limited ("PL" or the "Company") is recognized as the leading manufacturer of Active Pharmaceutical Ingredients (APIs) in Pakistan, serving a diverse range of clients, including prominent pharmaceutical companies such as GlaxoSmithKline Pakistan Limited, Sami Pharmaceuticals (Pvt.) Limited, Getz Pharma (Pvt.) Limited, AGP Limited, and Bosch Pharmaceuticals (Pvt.) Limited, among others. With an unwavering commitment to quality and innovation, Pharmagen Limited continues to be a key player in the pharmaceutical industry. Pharmagen Limited is reinforcing its market position by investing in advanced production facilities and expanding its product portfolio. The Company has recently completed its Paracetamol capacity expansion project, increasing the annual production capacity from ~960 MT to ~3,600MT. Additionally, an expansion project for Cefixime is currently underway, aimed at further enhancing the Company's revenue-generating potential. The pharmaceutical industry in Pakistan is able to produce merely ~15% of its required APIs domestically. As a result, the sector depends on imports for the remaining ~85%, underscoring the need for enhanced local production infrastructure and investment. The sector's cost of sales is significantly influenced by raw materials, which account for ~80% of the total. With DRAP regulating drug prices, profit margins are highly susceptible to fluctuations in exchange rates and changes in raw material costs. PL's top 5 products include Amoxycillin, Cephradine, Cefixime, Paracetamol and Ciprofloxacin, these contribute ~89% of total revenue. According to the management accounts, FY24 revenue has experienced a modest increase of ~5.5%. Despite cost-push inflation causing a decline in gross and operating margins, net margins showed slight improvement, driven by a reduction in debt servicing costs. The assigned ratings are supported by SAMI's strategic partnership with Pharmagen Limited, a key driver of PL's growth and sustainability. The Company also benefits from the sponsor's extensive industry experience and strategic vision, providing clear direction for long-term success. Going forward, management will prioritize process improvements, cost optimization, and expanding the product portfolio to enhance operational efficiency. The financial profile of the Company is considered adequate, with comfortable coverages, cashflows, and working capital cycle. The capital structure is modestly leveraged, with borrowings primarily consisting of short-term for working capital requirement.

The ratings are dependent on the successful execution of the proposed strategy, with a focus on maintaining the current market position and ensuring profitability, which aligns with the Company's growth objectives. Nevertheless, adherence to maintaining its debt metrics at an acceptable level is a prerequisite.

Disclosure	
Name of Rated Entity	Pharmagen Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Pharmaceuticals(May-24)
Rating Analysts	Kanwal Ejaz | kanwal.ejaz@pacra.com | +92-42-35869504

Profile

Legal Structure Pharmagen Limited ('the Company' or 'PL') was incorporated in Pakistan on November 24, 1990 as an unquoted public limited pharmaceutical Company.
Background The Company began its commercial operations in 1990 and operates a state-of-the-art, GMP-compliant production facility. Over the years, PL has achieved significant organic growth and diversified its product range.
Operations The Company manufactures and sells APIs (Active Pharmaceutical Ingredients) and finished pharmaceutical products through its wholly-owned subsidiary (Moringa Pharmaceuticals Pvt. Ltd). Over the years, PL has become Pakistan's leading API producer and a key supplier to both multinational and local pharmaceutical companies. The manufacturing facility is spread over ~8 acres of land and located on Lahore-Kasur Road. The Company has recently completed the capacity expansion project of Paracetamol-API. Looking ahead, PL is working to obtain the EDQM (European Directorate for the Quality of Medicines) certification. This certification will help PL expand into international markets, particularly in European region.

Ownership

Ownership Structure PL is primarily owned by Mr. Parvez Hussain's family (~44%) and Mr. Shamim Ahmed's family (~30%). Other strategic partners include Mr. Rahim Khan Trust / Kashmir Education Foundation (~15%), Mr. Rasheed Khan's family (~7%), and others (~4%).
Stability The Company's ownership is stable, with the second generation involved. Mr. Usman Hussain, Head of Marketing, is a potential future leader. PL needs a formal succession plan to secure its future and maintain leadership.
Business Acumen PL's ownership shows strong business acumen and long-term vision. New shareholders from SAMI, a top pharmaceutical Company in Pakistan, add valuable expertise and insights. This combination positions PL to seize new opportunities and maintain industry leadership.
Financial Strength The Company's sponsors exhibit robust financial strength, characterized by their investments in multiple companies and a solid financial profile. Their strategic acquisition of Moringa Pharmaceuticals (Pvt.) Ltd. in 2017 significantly strengthened their market position. However, the acquired company is currently experiencing financial challenges and has yet to reach its breakeven point. The sponsors' financial stability and diversified investments provide an adequate foundation for PL's continued growth and resilience in the pharmaceutical industry.

Governance

Board Structure PL's board has 11 members, including four from Mr. Parvez Hussain's family and others from three different families. This diversity brings various perspectives and expertise. Voluntary compliance with the Code of Corporate Governance can further improve the Company's standards.
Members' Profile PL's board is led by Chairman Mr. Muhammad Rasheed Khan, a seasoned banker with over seven decades of experience, who has been associated with PL for the past 30 years. Mr. Shamim Ahmed, a prominent businessman with substantial investments in the pharmaceutical sector, also serves on the board. Except for the CEO, Mr. Parvez Hussain Sufi and his son Mr. Usman, who hold executive roles, all other board members serve in non-executive capacities. Each board member is a seasoned professional with extensive experience in the pharmaceutical industry.
Board Effectiveness The board has established an Audit Committee consisting of three members to oversee accounting, reporting issues, and compliance with professional and regulatory requirements. However, there are no other committees in place, highlighting the need for sponsors to focus on enhancing corporate governance practices at PL.
Financial Transparency The Company's External Auditors, Kreston Hyder Bhumji & Co. Chartered Accountants (QCR-rated & belongs to category A of SBP) expressed an unqualified opinion on the financial statements for the year ended June 30, 2023. The audit for FY24 is currently underway.

Management

Organizational Structure The Company's organizational structure is clearly defined and segmented into eight functional departments, each led by skilled professionals: 1) Quality Assurance, 2) Operations, 3) Technical, 4) Marketing & Sales, 5) Finance, 6) Information Systems, 7) Human Resources & Administration, and 8) Internal Audit. This well-structured approach ensures streamlined operations and enhances overall efficiency, positioning the company for sustainable growth and innovation across all areas.
Management Team Mr. Parvez Hussain Sufi, the Managing Director and CEO of PL since its inception, brings nearly 45 years of experience, including 28 years of successfully managing industrial ventures, with a focus on pharmaceuticals and healthcare. A fellow member of both ICAEW and ICAP since 1976, he is supported by a seasoned management team with long-standing association with PL.
Effectiveness PL has established a Business Development Committee comprising directors and heads of departments (HODs). To enhance the efficient and effective execution of operational matters, PL should consider forming additional management committees. Each department's management hierarchy includes various levels, ensuring smooth and streamlined operations across the Company.
MIS PL has implemented a custom-built web-based ERP system, Vintage Pro ERP, deployed across both the head office and factory locations to ensure seamless data flow and optimize operational efficiency.
Control Environment PL adheres to stringent quality control standards, essential for the pharmaceutical industry. Furthermore, there is an established Internal Audit function, reporting directly to the Audit Committee. The internal audit function is outsourced to EY Ford Rhodes Chartered Accountants (one of the big four CA firms).

Business Risk

Industry Dynamics The global API market is set to grow from USD 216.5 billion in 2024 to USD 306.9 billion by 2029. In Pakistan, the API industry is emerging, with 23 manufacturers meeting only 15% of demand. DRAP is promoting local production, but the industry relies heavily on imports from China and faces foreign exchange risks. More technology partnerships and research are needed to reduce import reliance.
Relative Position Only six API producers are active in Pakistan, with many companies shifting to importing and trading APIs. PL, a leading producer, has a strong competitive edge, positioning it for significant growth and increased market share in the API sector.
Revenues During FY24, sales volumes increased by ~20% compared to the previous year. However, due to reduction in selling prices, PL's revenue grew modestly by only ~5.5%, reaching PKR ~15,421mln. The Company's top five products account for ~89% of total sales. Additionally, the annual expansion of the Paracetamol project by ~3,600 MT is expected to further drive the revenue growth.
Margins PL's gross margin declined to ~7.2% in FY24 (FY23: ~8.6%), driven by declining API sale prices and the effects of cost-push inflation. The operating margin also decreased to ~4.7% (FY23: ~6.3%) due to a rise in selling and distribution expenses. However, the net margin improved to ~1.8% (FY23: ~0.9%), primarily due to a reduction in debt servicing costs.
Sustainability Earnings prospects are expected to improve with the stabilization of the exchange rate. The capacity of the Penicillin, Cephalosporin, and Multi-purpose plants has been increased. Additionally, the expansion of the Paracetamol plant has been completed, with commercial manufacturing commencing from June 24. These developments are anticipated to enhance revenue streams in the near future. To enhance the forecasting and budgeting framework, it is essential to establish a structured monthly and quarterly review mechanism, alongside the development of prudent financial projections.

Financial Risk

Working Capital PL manages its working capital through internal funds and short-term borrowing, which increased to PKR ~868mln in FY24 from PKR ~550mln in FY23. Net working capital days decreased to ~46 days in FY24 from ~58 days in FY23 due to decrease in inventory days. The Company has ample capacity to borrow for working capital management as reflected by short-term trade leverage which stands at ~38% (FY23: ~42%).
Coverages The Company's free cash flow from operations (FCFO) recorded at PKR ~542mln in FY24, (FY23: PKR ~716mln). Though, interest Coverages of the Company improved and clocked in at ~1.9x in FY24 (FY23: ~1.3x), due to reduction in finance costs.
Capitalization The debt book of the Company is primarily made up of short-term borrowings, as of FY24, it remained at ~99% (FY23: ~98%). PL maintains modestly leveraged capital structure. The leverage ratio stood at ~18.4% in FY24 (FY23: ~23%).

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Financial Summary
PKR mln

Pharmagen Limited Pharmaceutical	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	4,769	4,752	3,331	2,474
2 Investments	-	-	-	-
3 Related Party Exposure	875	172	172	172
4 Current Assets	5,495	5,524	4,668	3,641
a Inventories	*1,702*	*1,895*	*2,037*	*1,008*
b Trade Receivables	*2,140*	*2,864*	*1,895*	*2,242*
5 Total Assets	11,138	10,448	8,171	6,287
6 Current Liabilities	2,574	2,858	1,789	1,274
a Trade Payables	*2,198*	*2,518*	*1,551*	*1,039*
7 Borrowings	874	556	866	852
8 Related Party Exposure	704	1,209	1,337	733
9 Non-Current Liabilities	-	19	17	16
10 Net Assets	6,986	5,806	4,161	3,411
11 Shareholders' Equity	6,986	5,806	4,161	3,411
B INCOME STATEMENT				
1 Sales	15,421	14,616	9,434	8,326
a Cost of Good Sold	*(14,314)*	*(13,361)*	*(8,812)*	*(7,743)*
2 Gross Profit	1,107	1,256	621	582
a Operating Expenses	(381)	(336)	(245)	(230)
3 Operating Profit	725	920	376	352
a Non Operating Income or (Expense)	*(23)*	*(49)*	*1*	*(89)*
4 Profit or (Loss) before Interest and Tax	703	871	377	263
a Total Finance Cost	*(283)*	*(557)*	*(280)*	*(162)*
b Taxation	*(138)*	*(187)*	*(46)*	*(22)*
6 Net Income Or (Loss)	281	127	51	80
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*542*	*716*	*233*	*254*
b Net Cash from Operating Activities before Working Capital Changes	*295*	*476*	*95*	*67*
c Changes in Working Capital	*(730)*	*(243)*	*197*	*473*
1 Net Cash provided by Operating Activities	(435)	233	291	540
2 Net Cash (Used in) or Available From Investing Activities	(829)	(1,482)	(508)	(51)
3 Net Cash (Used in) or Available From Financing Activities	1,277	1,207	376	(534)
4 Net Cash generated or (Used) during the period	13	(42)	159	(45)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	5.5%	54.9%	13.3%	--
b Gross Profit Margin	7.2%	8.6%	6.6%	7.0%
c Net Profit Margin	1.8%	0.9%	0.5%	1.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-1.2%	3.2%	4.6%	8.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	4.4%	2.5%	1.3%	2.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	102	109	139	142
b Net Working Capital (Average Days)	46	58	89	97
c Current Ratio (Current Assets / Current Liabilities)	2.1	1.9	2.6	2.9
3 Coverages				
a EBITDA / Finance Cost	2.8	1.8	1.6	2.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.3	0.8	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	7.0	-33.7	7.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	18.4%	23.3%	34.6%	31.6%
b Interest or Markup Payable (Days)	81.4	44.2	52.7	60.9
c Entity Average Borrowing Rate	18.3%	27.5%	14.4%	9.6%

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.

Scale	Long-Term Rating
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.

Scale	Short-Term Rating
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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

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.

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. Rating actions may include "maintain", "upgrade", or "downgrade".

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

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

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 | 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)

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 | 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)
Proprietary Information