The Pakistan Credit Rating Agency Limited

Rating Report

Getz Pharma (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2023	AA	A1+	Stable	Upgrade	-
30-Dec-2022	AA-	A1	Stable	Maintain	-
30-Dec-2021	AA-	A1	Stable	Maintain	-
30-Dec-2020	AA-	A1	Stable	Maintain	-
31-Dec-2019	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Getz Pharma Pakistan (Private) Limited (herein referred to as “Getz Pharma" or "the company") is the largest pharmaceutical company in the Pakistan pharma industry being ranked at No.1 for the last few years as per IQVIA reports. Getz Pharma is an international research-driven, branded generic pharmaceutical company specializing in the formulation development, manufacturing, testing, and marketing of a wide range of quality, affordable medicines and one of the few companies whose manufacturing facility, in Pakistan, is approved by the WHO, Geneva. The company’s manufacturing facility, named Astola, is a state-of-the-art plant that is the only LEEDS (Leadership in Environment Engineering & Design) certified plant with PLATINUM ratings by the US Green Building Council, U.S.A, in South Asia. Getz Pharma is the only pharmaceutical company listed among the top 50 exporters of the country as per SBP’s recent statistics. The board of Getz Pharma comprises experienced and professional experts. The Board size is adequate as the management is mindful of the corporate governance requirements and fulfills the applicable statutory criteria. The company has an indigenous and diversified portfolio in chronic and acute therapeutic disease segments comprising over 140 products. The business growth is driven by organic portfolio growth, capacity expansion, and new launches. During recent years, the pharma sector has been facing some industry-specific challenges, including significant cost escalation owing to hyperinflation and massive PKR devaluation as the industry is predominantly reliant on imports to meet its API needs, Also, the elevated interest rates have increased the costs of borrowing resulting in hindrance to growth and profitability matrix as the sector has limited ability to pass on the impact to consumers. However, Getz Pharma has shown impressive resilience as evidenced by the substantial growth of ~31% in the top line of the company during 9MCY23 (~24%, CY22). Moreover, the company has been able to expand its exports which now constitute ~30% of the total revenue, providing a natural hedge against adverse exchange rate fluctuations. As a result, the company has sustained healthy profitability margins. Going forward, Getz Pharma will benefit from the synergies emerging from its international presence. The financial risk profile of the company is strong with comfortable coverages and healthy cashflows augmented by an upright working capital cycle. Capital structure is leveraged where borrowings are comprised of long-term and short-term tenors to support acceleration, brand development in the exporting markets, and working capital requirements.

The ratings are dependent on the continued sustainability of financial performance indicators. Adequacy of cash flows, sustainability of coverages and the availability of resources to make debt-related payments remain critical. Meanwhile, compliance with internally-defined leveraging metrics is a prerequisite. Sanguine governance practices are essential.

Disclosure

Name of Rated Entity	Getz Pharma (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Pharmaceutical(May-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Getz Pharma is a Private Limited operating in the pharmaceutical sector in Pakistan since 1995.

Background Getz Pharma was established in 1995 by acquiring a locally owned small pharmaceutical Company, called Saitex Laboratories Pvt. Ltd. The name of the Company was changed to Getz Pharma shortly after the acquisition. The Company started its international operations, which are based in Karachi in 2004. The Company achieved the number one position in terms of sales as reported by IQVIA in just 26 years. This year the Company bagged the top pharmaceutical exporter award for the 15th consecutive year.

Operations The business activities are undertaken through its own R&D center, manufacturing plant, and marketing and sales teams. Getz Pharma has 200+ products that are branded generics. The Company manufactures tablets, capsules, liquid & powdered injections, Metered Dose Inhalers, and Dry Powder Inhalers.

Ownership

Ownership Structure Getz Pharma is the wholly-owned subsidiary of Development Holdings Asia Limited, Bahamas (DHAL). DHAL is owned by Red Castle (40%) and DHAL-BVI (60%).

Stability The sponsoring companies, Red Castle and DHAL BVI are well entrenched in the pharmaceutical manufacturing and distribution industry, having a vast line of businesses in several countries in the areas of Healthcare, FMCG, Chemicals & construction market segments.

Business Acumen Getz Group, established in the 1880s, is a leading market player in the pharmaceutical industry. Getz Pharma has a strong presence all over Pakistan and generates its demand through a field sales force of over 3,200 medical reps and over 100 marketing professionals employed by the Company.

Financial Strength Getz Brothers are engaged in diversified businesses. Apart from Company, Getz Bros. also owns shareholding in Muller & Phipps, Briogene Private Limited in Pakistan and several other Companies in the region

Governance

Board Structure Getz Pharma’s Board comprises of two experienced professionals from the pharmaceutical and healthcare industry background, as nominee directors representing Development Holdings Asia Limited.

Members’ Profile The Chief Executive & Managing Director, Mr. Khalid Mahmood is the person playing a key role in the Company's success. He holds a profound professional background with a vast experience of over 3 decades. Previously, he worked in progressively responsible positions in the pharmaceutical and healthcare industry in the USA and various other regions. Mr. Raymond Simkins is the President of Getz Bros., and the Getz Group. Mr. Simkins has ~48 years of experience in managing of companies in the USA, Europe and Asia. Prior to taking over as the President of Getz Bros. in 2003, he was the chairman and chief executive of Getz Bros. Inc, Japan,

Board Effectiveness Monthly submissions are made to the Directors on business performance. The Board also meets on a regular basis to review the strategy, significant developments, risks and opportunities.

Financial Transparency EY Ford Rhodes Chartered Accountants, listed among the top four audit firms in SBP’s panel of auditors, are the external auditors. They have expressed an unqualified opinion on the financial statements for the period ended December 2022.

Management

Organizational Structure The Company has a traditional hierarchical organizational structure and department heads directly report to the CEO. The organizational structure of the Company is divided into 15 functional departments and headed by highly qualified and experienced professionals

Management Team Mr. Khalid Mehmood is the Chief Executive & Managing Director of Getz Pharma. He has over 3 decades of experience in the pharmaceutical Research & Development, operation and marketing. He is supported by an experienced core management team that has a long association with Getz Pharma

Effectiveness There is a management committee - the Executive Committee, comprising fourteen members, chaired by the CEO.

MIS Getz Pharma has implemented and using all key modules of SAP ECC-6.0 The suite provides a real-time end-to-end integrated solution for all operations including financial, sales and marketing, production, procurement, quality management, and human capital management. SAP upgraded database version (HANA) has gone live. Getz Pharma’s Enterprise System-SAP HANA is GMP-V and is certified by the German Accreditation Body for Enterprise Management.

Control Environment A detailed MIS comprising an income statement, segment-wise and region-wise breakup of revenue and profit, variance reports, receivables, payables and inventory aging report, operational expenditure summary, etc. is submitted to the CEO monthly. The Business Intelligence module provides a bird’s-eye view of the Company’s data at a glance,

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. Currently, the size of the industry is around PKR 778bln (Aug-2023) (Dec 22, PKR 705bln). According to IQVIA report the top ten companies hold approximately 48.7% of the market. Owing to the significant reliance of the sector on imported raw materials (APIs), it is inherently exposed to the risk of supply disruption and foreign exchange losses due to PKR devaluation. Increased costs of borrowing due to elevated interest rates have also hindered the 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.

Relative Position Getz Pharma has a blend of its own range of 'branded generics'. The Company is the largest player in the domestic pharma industry. Being among the top 50 exporters nationally. Its currency exchange risk is relatively protected because exports constitute 31% of the total revenues. It is the only Pharmaceutical Company that has received international accreditations by the WHO-Geneva, as far back as 2015. It holds a market share of ~7% with some of the most popular medicines i.e. RISEK & Nexum.

Revenues Revenue of the Company for 9MCY23 registered an increase of 30.7% to PKR 57.2bln (CY22: PKR 58.5bln) owing to volumetric growth and price increase on the back of inflation. Export sales of Getz has contributed PKR 17.9bln in 9MCY23.

Margins Gross margins have diluted slightly during 9MCY23 to 49.9% after consistently following an upward trajectory for the last three years, However, during the period under review, overall margins have remained strong but partly set off by rupee depreciation, making imports more expensive, coupled with high cost of borrowing owing to elevated interest rates. However, the profit base has witnessed steady growth over the years: The company has sustained a healthy bottom line in 9MCY23 of PKR 9.3bln (PKR 9.4bln, CY22)

Sustainability Getz Pharma is poised to derive benefits from Group synergies in the form of (i) bulk discounts from suppliers (ii) better bank relationships. The Company has recently undergone a major expansion as 'Astola Project', a greenfield manufacturing/ packing facility. Since the Company’s existing facility had reached its maximum capacity, the facility will cater to the fast-growing local & export market till 2025 and beyond.

Financial Risk

Working Capital The gross cash cycle days have increased during the period: 9MCY23, 169 days, CY22 149 days, and CY21 118 days. The working capital requirements are managed by both internally generated cashflows and short-term borrowings. The stretched working capital cycle was witnessed on the back of an increase in inventory days to 125 days (98 days, CY22) indicative of the company’s strategy to pile up inventory to counter ongoing PKR devaluation and supply chain challenges.

Coverages The company maintains healthy coverages as of 9MCY23 indicated by FCFO to Finance Cost ratio of 5.7x (7.3x, CY22) and Debt Payback ratio of 0.5x. The coverages have diluted during 9MCY23 owing to an increase in finance costs due to high interest rates.

Capitalization The capital structure of Getz Pharma is moderately leveraged (41.5%). The total debt of the Company is PKR 21bln during 9MCY23. The bifurcation of borrowing is as follows: PKR 14,490mln short-term borrowings for working capital, PKR 4,355mln long-term. The STB is mainly being used to accumulate inventory to ensure continuity of operations.

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Financial Summary
PKR mln

Getz Pharma (Pvt) Ltd Pharmaceutical	Sep-23 9M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	24,687	23,511	21,607	18,989
2 Investments	1,645	4,132	117	117
3 Related Party Exposure	187	181	143	168
4 Current Assets	48,852	40,510	18,193	19,399
5 Total Assets	75,371	68,335	40,060	38,673
6 Current Liabilities	22,259	20,012	11,026	8,824
7 Borrowings	21,072	25,626	12,883	14,712
8 Related Party Exposure	839	754	238	255
9 Non-Current Liabilities	370	482	839	385
10 Net Assets	30,831	21,459	15,074	14,497
11 Shareholders' Equity	30,830	21,459	15,074	14,497
B INCOME STATEMENT				
1 Sales	57,285	58,453	47,214	41,775
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*12,802*	*12,571*	*12,786*	*12,556*
b Net Cash from Operating Activities before Working Capital Changes	*10,574*	*10,863*	*11,802*	*11,682*
c Changes in Working Capital	*(2,737)*	*(14,435)*	*1,790*	*(2,286)*
1 Net Cash provided by Operating Activities	7,836	(3,572)	13,592	9,396
2 Net Cash (Used in) or Available From Investing Activities	(5,551)	(7,351)	(3,042)	(2,449)
3 Net Cash (Used in) or Available From Financing Activities	(2,467)	10,212	(12,120)	(4,576)
4 Net Cash generated or (Used) during the period	(182)	(710)	(1,571)	2,370
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	30.7%	23.8%	13.0%	0.0%
b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	17.6%	-3.2%	30.9%	24.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	169	149	118	132
b Net Working Capital (Average Days)	123	106	89	105
c Current Ratio (Current Assets / Current Liabilities)	2.2	2.0	1.6	2.2
3 Coverages				
a EBITDA / Finance Cost	7.1	9.6	17.2	17.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.3	2.8	3.3	4.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	0.7	0.7	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.6%	54.4%	46.1%	50.4%
b Entity Average Borrowing Rate	12.7%	9.8%	6.3%	6.5%

Credit Rating

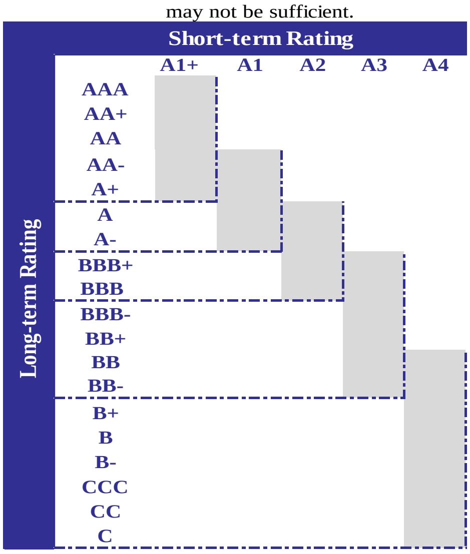
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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.

Short-term Rating

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



*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 surveill 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.

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 Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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