



The Pakistan Credit Rating Agency Limited

Rating Report

Getz Pharma (Pvt.) Limited

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Rating History

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

Rating Rationale and Key Rating Drivers

Getz Pharma is the second-largest pharmaceutical company of Pakistan, by market share and sales revenues. 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. CPI-linked pricing criteria has allowed an increase in prices with respect to inflation and indicated a positive sign for the sector. The strength of Getz Pharma is based on the product suite that it markets in the local market and also in the export. The hallmark of the company is the accreditation that it has obtained from World Health Organization (WHO), Geneva as well as it is the first and only company in Pakistan that is certified and accredited by the European based Pharmaceutical Inspection Cooperation Scheme (PICs). The company has the research base in Pakistan as well as the production facilities; through which it feeds multiple countries around the globe. Financial performance of the company remained unaffected during Covid-19 outbreak, rather the demand front gained momentum on account of it, enabling the company to reserve good revenues. With an adequate product concentration, the revenues are dominated by local market and the export window is diverse. The profitability margins are strong with the history of dividend pay-outs. Lately, the debt book witnessed rise however, when compared to equity and cashflows it remains well managed. The leveraging of Getz Pharma is related to expansion project, which the company has been largely funding hitherto with internally generated equity. The production from the expansion is expected in coming year, yet the current operations remain capable of servicing the debt. This project is being envisaged as a giant leap for the company of which success is pivotal yet appears to be probable. The governance framework may improve in line with the standards for the large corporates

The ratings are dependent on the continued sustainability of financial performance indicators. Adequacy of cash flows and the availability of resources to make debt-related payments remains 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 Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20)
Related Research	Sector Study Pharmaceutical(May-20)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure Getz Pharma is a Private Limited pharmaceutical company, operating 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 business operations, which are based at its head office at Karachi in 2004. This is the only pharmaceutical company that appears in the list of 100 exporters of SBP.

Operations The main business activities are developed through its own R&D centre, manufacturing, marketing and sales of pharmaceutical products. Getz Pharma has 180+ products that are branded generics. The company manufactures, tablets, capsules, liquid & powdered injections, Metered Dose Inhalers (MDIs), and Dry Powder Inhalers. In last ten years, Getz Pharma has invested over PKR 22bln in plant, facilities, quality management systems, people and technology.

Ownership

Ownership Structure Getz Pharma is the wholly-owned subsidiary of Development Holdings Asia Limited, Bahamas (DHAL).

Stability The sponsoring company, 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 2,500 medical reps and over 100 marketing professionals employed by Getz Pharma.

Financial Strength Getz Brothers is engaged in diversified businesses. Apart from GPPL, Getz Bros. also owns shareholding in Muller & Phipps, Briogene Private Limited in Pakistan.

Governance

Board Structure Getz Pharma's Board comprises two experienced professionals from the pharmaceutical and healthcare industry background, as nominee directors representing Development Holdings Asia Limited. However, overall board composition has room for improvement through the induction of independent directors.

Members' Profile The Chief Executive & Managing Director, Mr. Khalid Mehmood is the man of last mile, playing a key role in company's success. He holds a profound professional background with a vast experience of over 39 years. Previously he was the President of WWF for 6 years and also worked in progressively responsible positions in the pharmaceutical and healthcare industry in the US, South America, Asia Pacific before turning the lights on at Getz Pharma. He is an MBA in Marketing from Rutgers School of Management, Rutgers University, USA also holds BS (Bachelors of Science) in Industrial Engineering from California State University, USA.

Board Effectiveness Two board meetings were held during CY19. Both the directors attended these meetings. However, no board committees are in place that raises concern on its effectiveness.

Financial Transparency EY Ford Rhodes Chartered Accountants are the external auditors of the company, the firm is QCR rated and in the A Category of SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the period ended Dec-19. With the rapid pace of growth, strengthening a formalized internal audit setup should be considered.

Management

Organizational Structure The Company has a traditional hierarchical organizational structure and department heads are directly reported 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 more than three decades of experience in the pharmaceutical Research & Development, operation and marketing of the Pharmaceutical industry. He is supported by an experienced core management team having a long association with Getz Pharma.

Effectiveness There exist management committee - Executive Committee comprising thirteen members, chaired by the CEO. Inclusion of CEO as Chairman, raise concern on management effectiveness.

MIS Getz Pharma has implemented and using all key modules of SAP ECC-6.0 The suite is providing a real-time end-to-end integrated solution for all operations including financial, sales and marketing, human capital management. SAP upgraded version S4 (HANA) has been implanted and gone live. Getz Pharma's Enterprise System-SAP HANA is GMP-V and is certified by Germany Accreditation Body for Enterprise Management.

Control Environment A detailed MIS comprising details such as income statement, segment-wise and region-wise breakup of revenue and profit, efficiency variance reports, receivables, payables and inventory aging report, operational expenditure summary, etc. is submitted to the CEO. The business intelligence module, thus, provides a bird's-eye view of the company's data at a glance, aiding the top management in strategic decision-making.

Business Risk

Industry Dynamics The size of Pakistan's pharmaceutical industry YTD Aug'20 is PKR 317bln. There are 601 players in the industry. The share of local manufacturers in the industry is ~69%. Healthcare services and medical devices are in high demand in view of supportive demographic trends with ageing population and continuous emergence of new diseases. Recently, The Drug Regulatory Authority of Pakistan (DRAP) increased prices of 253 medicines by up to 22 to 35% over the course of years, which has allow the industry players to enhance their revenue base.

Relative Position Getz Pharma has a blend of own range of branded generics. The company is the second-largest player in the domestic Pharma industry and also ranked as the 53rd largest exporter among all categories of country's exporters by SBP. Whereas the top ten companies constitute approximately 46% of the market. Getz Pharma's top ten products constitute ~8% of the total market share. However, its currency exchange risk is relatively protected because exports constitute about 25% of the total revenues. It is the only Pharmaceutical company that has received international accreditations by the WHO-Geneva, as far back as 2015.

Revenues Gross Sales of the company for CY19 registered an increase of ~14% to PKR 35.4bln, mainly on the back of volumetric increase. Whereas Gross Sales for first 6 months of the year 2020 grew by ~13% (PKR ~20bln).

Margins During the period under review overall margins have remained strong but slightly muted on account of rupee devaluation, making imports more expensive, coupled with high CPI index - resulting in increased COGS. Going forward, the impact of rupee devaluation and high inflation will be mitigated by increased prices of medicines in the later part of the year 2020,

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

Financial Risk

Working Capital The cash cycle days have increased over the periods: 1HCY20-89days, CY19-87days, CY18: 77 days), which is mainly triggered by increase in inventory, taking on the effect of COVID-19 outbreak. The working capital requirements are managed by both internally generated cashflows and short term borrowings: (1HCY20: PKR 5.7bln, CY19: PKR 6.3bln).

Coverages Getz Pharma has a sizeable free cash flows (FCFO) and stood at PKR 9.2bln (CY18: PKR 7.9bln) with a slight increase in profitability during CY19. The financial risk profile remained healthy over the year, despite large capex.

Capitalization Capital structure of Getz Pharma is moderately leveraged (~42%). Total interest-bearing debt of the company has moved to PKR 10bln (CY18: PKR 2bln) during CY19, out of which 37% constitutes short term debt. The total debt to equity ratio was reported at 42%. During 6MCY20 total borrowings increased by PKR 432mln. The increase in debt profile is mainly due to the expansion, which is being largely funded through equity (PKR 15bln).



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Financial Summary
PKR mn

Getz Pharma (Private) Limited Pharmaceutical	Jun-20 6M	Dec-19 12M	Dec-18 12M	Dec-17 12M
A BALANCE SHEET				
1 Non-Current Assets	17,558	16,778	13,820	10,586
2 Investments	117	117	-	4,032
3 Related Party Exposure	229	218	219	25
4 Current Assets	17,157	13,686	13,655	8,495
5 Total Assets	35,060	30,799	27,694	23,138
6 Current Liabilities	8,337	5,648	4,388	3,843
7 Borrowings	10,903	10,471	2,803	1,100
8 Related Party Exposure	134	154	157	79
9 Non-Current Liabilities	360	358	235	425
10 Net Assets	15,327	14,168	20,111	17,691
11 Shareholders' Equity	15,327	14,168	20,111	17,691
B INCOME STATEMENT				
1 Sales - Last 4 Years	19,952	35,362	30,922	26,658
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	6,733	9,246	7,951	7,442
b Net Cash from Operating Activities before Working Capital Changes	6,266	8,778	7,865	7,383
c Changes in Working Capital	(1,835)	(1,264)	(2,458)	(701)
1 Net Cash provided by Operating Activities	4,430	7,513	5,407	6,682
2 Net Cash (Used in) or Available From Investing Activities	(798)	(3,467)	433	(2,692)
3 Net Cash (Used in) or Available From Financing Activities	(3,266)	(6,637)	(3,653)	(3,663)
4 Net Cash generated or (Used) during the period	366	(2,591)	2,188	327
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.8%	14.4%	16.0%	18.4%
b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	24.5%	22.6%	17.8%	25.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	119	110	96	114
b Net Working Capital (Average Days)	89	87	77	97
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.4	3.1	2.2
3 Coverages				
a EBITDA / Finance Cost	17.4	27.3	194.6	268.2
b FCFO / Finance Cost+CMLTB+Excess STB	6.6	12.4	36.4	44.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.5	0.1	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	41.6%	42.5%	12.2%	5.9%
b Entity Average Borrowing Rate	8.7%	5.9%	2.9%	4.1%

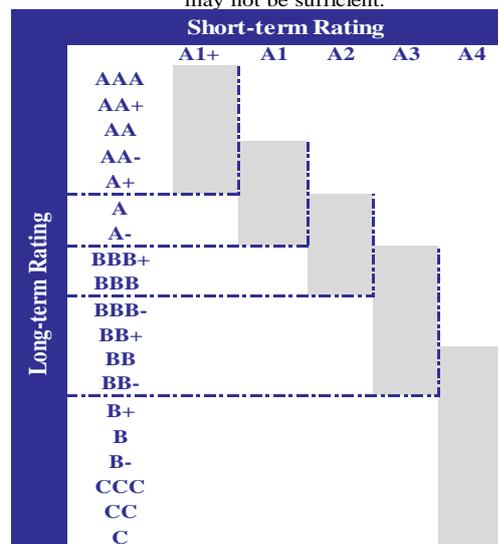
#	Notes
	* Quarterly/Half year figures are pro rated where applicable

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 Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 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.

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

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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)

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- 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

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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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