The Pakistan Credit Rating Agency Limited

Rating Report

Martin Dow Marker Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-May-2024	A+	A1	Stable	Maintain	-
02-Jun-2023	A+	A1	Stable	Maintain	-
03-Jun-2022	A+	A1	Stable	Maintain	-
04-Jun-2021	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Martin Dow Marker Limited (herein referred to as "MDM" or the "Company") formerly known as Merck (Pvt.) Ltd is a notable name in the pharmaceutical sector of Pakistan. The Company operates under the umbrella of Martin Dow Group, one of the largest locally owned pharmaceutical companies, which comprises three other companies, and constitutes well-known brands under its domain including; Rocephin, Concor, Evion & Glucophage, etc. The group is known for its high-end acquisitions and investments, denoting good financial strength. The local pharmaceutical industry size reached up to PKR 778bln in FY23 reflecting a YoY growth of ~10%, where Martin Dow Group is ranked at No.06 on a consolidated basis. Pakistan’s pharma industry is dominated by a few big players and top 10 companies hold ~49% of the market share. In recent years, the segment’s profitability remained under pressure due to the high cost of raw materials owing to PKR depreciation, as the sector imports ~85% of its APIs. Moreover, elevated interest rates have also diluted the bottom line of many players. Additionally, being price regulated the sector has limited ability to pass on the impact of cost escalations to the consumers. However, PKR stabilization and DRAP’s approval for price adjustments have provided the pharma industry with some breathing space in recent quarters. Over the years, MDM has developed a broad product base comprising products from segments including; diabetes, cardiology, analgesics, oncology, and vitamins, among others. The leadership flows from its distinctive ownership that vests in the hands of two reputable families coming with enriched professional backgrounds; Akhai & Marker family, while MDM is mainly governed by the descendant of the former, demonstrating profound business acumen. The Group is extremely conscious about quality standards and follows international best practices and guidelines. The assigned rating takes comfort in Martin Dow Group association and strategic alliances with renowned multinational groups such as Roche, Merck, Sanofi & Boehringer Ingelheim. From time to time the Company has invested in modernizing and integrating new technologies into its manufacturing facilities which are cGMP compliant. During the year under review, the company’s topline showed a growth of ~26% and clocked in at PKR 23,934mln. However, a significant dilution in the net profitability was observed on the back of ~145% increase in the finance costs of the company. The financial risk profile of the Company is considered adequate with reduced coverages, moderate cashflows, and a slightly stretched working capital cycle. The capital structure is leveraged, and the debt book is dominated by short-term borrowings to fund the working capital needs.

The ratings are dependent on the improvement of the profitability matrix and market share while retaining sufficient cash flows and coverages. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite. Improvement in governance structure remains important for the ratings.

Disclosure

Name of Rated Entity	Martin Dow Marker 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 Martin Dow Marker Limited (herein referred to as 'MDM' or 'the Company') formerly known as Merck Pvt Limited, is an unlisted public limited company. The registered office of the company is located at Plot No. 7, Jail Road, Quetta Balochistan.

Background In 2016, Merck Pakistan became part of the Martin Dow Group. Afterward, it was renamed to Martin Dow Marker Ltd. Germany's Merck KGaA executed a binding contract to divest its shareholding in Pakistan to Martin Dow Ltd (The Parent Company), a leading pharmaceutical. At present, MDM operates under the umbrella of Martin Dow Group - founded in 1995 by Mr. Jawed Akhai (Late), Martin Dow Group stands as one of the largest locally-owned pharmaceutical companies in Pakistan.

Operations The Company has been established to carry on manufacturing and marketing of pharmaceutical products. It holds a portfolio of 60+ brands under its name and also markets drugs for therapeutic areas like diabetes, cardiology, vitamins, analgesics, antibiotics, etc. The company's manufacturing facilities comprise two plants: Quetta plant & Karachi Plant. It is the only authorized licensed manufacturer of 'Merck Germany' in Pakistan. It is also the sole manufacturer of 'pharma grade soft gel' products such as Evion and Sangobion in the country.

Ownership

Ownership Structure Martin Dow Limited has a major stake in the company with 75% shareholding while the remaining 25% is held by members of the Marker Family. The ultimate beneficial ownership lies with Mr. Ali Akhai – son of Mr. Jawed Akhai(late).

Stability The sponsoring members of Martin Dow Group are reputed names and well entrenched in the pharmaceutical business for decades. Martin Dow is positioned in the top 10 largest pharmaceutical groups operating in Pakistan. Martin Dow has strategic alliances to manufacture licensed products from international reputes like Merck Sanofi, Roche, and Boehringer Ingelheim, providing international expertise and exposure to operate efficiently as a leading pharmaceutical group.

Business Acumen Martin Dow had been known for its high-end acquisitions and investments. The legacy now continues with Mr. Ali Akhai (the main sponsor). He possesses considerable expertise and exposure in the pharmaceutical sector.

Financial Strength Martin Dow Group (MDG) has 4 companies: Martin Dow Limited, Martin Dow Marker Ltd, Martin Dow Specialties Pvt Ltd, and Seatle Pvt Ltd. It is well poised in the industry with a group size of PKR 36.30bln as of Dec'23. The future prospects of the company are considered strong.

Governance

Board Structure MDM has a three-member board including Mr. Ali Akhai (the Chairman), Mr. Javed Ghulam Muhammad (the CEO) and Mr. Syed Dawood - the Independent Director. Mr. Dawood has been associated with MDM since 2018. All members of the board are well-qualified and professionally sound.

Members' Profile Mr. Ali Akhai is the present Chairman. He is a foreign-qualified double Master's degree holder from Brunel University UK. Mr. Ali played his part in the leadership team that successfully acquired the majority shareholding of Merck (Pvt) Ltd in 2016. While the other two members have extensive expertise in the pharmaceutical industry.

Board Effectiveness The company is compliant with its respective statutory requirements. However, there is no fixed number of meetings that are to be held in a year. Both the Chairman and the CEO conduct meetings when it is required.

Financial Transparency The auditors of the company, A.F Ferguson & Co. (Member of PWC International),one of the Big 4, are listed in the Category "A" on the SBP's panel of auditors, and have expressed an unqualified opinion on the financial statements for the year ended Dec-23.

Management

Organizational Structure The organizational structure of the company is divided into multilevel functional departments headed by able professionals. All heads of the departments report to the CEO who then reports to Chairman.

Management Team Mr. Javed Ghulam Muhammad is the Group MD/CEO and is a qualified fellow member of the Institute of Cost & Management Accountants of Pakistan. His professional journey spreads over 25 years during which he has worked in diversified functions at several key positions in leading multinational and national companies. He is accompanied by a team of qualified and experienced professionals.

Effectiveness The Company does not have any formal management committees in place. However, business affairs are overseen in an efficient manner due to the presence of an effective organizational structure and proper delegation of responsibilities and reporting lines.

MIS MDM has been equipped with SAP S/4 HANA since 2018 comprising a number of SAP modules. Reporting is held on a monthly basis and reviewed by the heads of the departments.

Control Environment The internal audit function of the company has been outsourced to M/S EY Ford Rhodes & Co who report directly to the chairman.. Further, stringent quality control mechanism is in place to ascertain the quality of products.

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. During FY23, the pharmaceutical sector showed a growth of ~10% YoY and recorded a revenue of PKR 778bln. The import size in FY23 remained ~PKR 348.5bln. During past couple of years, the industry faced some challenges including delays in the establishment of LCs, and excessive foreign exchange losses due to PKR devaluation, as the industry imports ~85% of its APIs to fulfill its raw material needs. Moreover, the industry has limited ability to pass on the impact of increased costs to the end consumers unilaterally as the prices are regulated. However, PKR stabilization and DRAP's approval for necessary price adjustments has provided the sector with some breathing space in the recent quarters.

Relative Position MDM is a leader in many therapeutic areas. Martin Dow Marker is the only authorized distributor of Merck Germany in Pakistan. It is the only company to have a pharma-grade Soft gel capsule manufacturing facility in the country.

Revenues During CY23, the company's sales clocked at PKR 23,934mln (CY22: 19,046mln) showing a growth of ~26% during the year. Moreover, the export segment also grew by ~41 and contributed PKR 1,559mln in the topline compared to PKR 1,106mln in CY22. The top 5 selling products of the company are 'Evion' followed by 'Concor, Laxoberon, Neurobion and Sangobion. The company has been able to sustain the growth trend although the majority of the growth is driven by price hikes.

Margins MDM sustained the Gross margin at an adequate level, especially in this challenging environment where raw material prices increased sharply on account of persistent PKR devaluation from the last two years and steep increase in energy and other production costs. However, dilution in the net margin was observed primarily on the back of an increase in finance cost due to elevated interest rates and a hefty foreign exchange loss of PKR 590mln incurred by the company.

Sustainability Martin Dow Marker is well poised in the industry bearing the fruits of its association with the leading pharmaceutical companies. It is continuously focusing on adding new products to strengthen its product portfolio. Over the last 12 months, seven new products have been launched and added to their portfolio reflecting an optimal mix of acute and chronic disease segments mainly cardiovascular followed by antibiotics, multivitamins etc. In 2024, MDM expects to launch nine new products mainly concentrated on Antidiabetics and Cardiovascular segments.

Financial Risk

Working Capital MDM's net cash cycle has remained comfortable for the last 2 to 3 years (CY23, 49 days, CY22: 59 days; CY21: 66 days). This trend reflects that their credit terms with their suppliers are improving gradually. The working capital needs are fulfilled through internal cash flows and short-term borrowing.

Coverages MDM has FCFO of PKR 2,324mln during CY23 (CY22 PKR 2,158mln). FCFO has increased despite a substantial increase in the finance costs of the company and dilution in net profitability and has resulted in a depleted debt servicing ability of 1.7x (CY22, 3.9x) mainly on the back of magnifying finance cost as interest rates have been on upward trend during the year.

Capitalization The debt booked is dominated by Short-term borrowings of PKR 5,495mln (CY22: PKR 4,971mln) to meet their working capital requirements. STB contributes 87.6% of total borrowings. The company has increased debt in the capital mix as the leverage ratio has increased to 49.9% during CY23.

The Pakistan Credit Rating Agency Limited

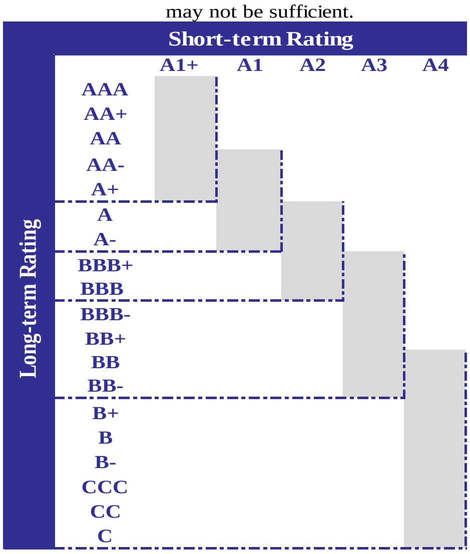
Martin Dow Marker Limited Pharmaceutical	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET			
1 Non-Current Assets	6,417	6,216	6,162
2 Investments	128	-	-
3 Related Party Exposure	3,344	2,808	1,952
4 Current Assets	9,276	8,018	5,865
5 Total Assets	19,165	17,042	13,979
6 Current Liabilities	5,808	4,382	2,669
7 Borrowings	6,274	5,201	2,887
8 Related Party Exposure	270	270	270
9 Non-Current Liabilities	509	389	332
10 Net Assets	6,303	6,800	7,821
11 Shareholders' Equity	6,303	6,800	7,821
B INCOME STATEMENT			
1 Sales	23,934	19,046	16,081
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*2,324*	*2,158*	*2,582*
b Net Cash from Operating Activities before Working Capital Changes	*1,089*	*1,793*	*2,334*
c Changes in Working Capital	*196*	*(1,317)*	*(321)*
1 Net Cash provided by Operating Activities	1,285	476	2,013
2 Net Cash (Used in) or Available From Investing Activities	(898)	(268)	(974)
3 Net Cash (Used in) or Available From Financing Activities	(76)	(215)	(1,123)
4 Net Cash generated or (Used) during the period	311	(6)	(84)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	25.7%	18.4%	10.1%
b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.5%	4.4%	14.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	102	100	103
b Net Working Capital (Average Days)	49	59	66
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.8	2.2
3 Coverages			
a EBITDA / Finance Cost	2.0	4.5	11.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	1.1	9.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	1.0	0.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.9%	43.3%	27.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0

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