



The Pakistan Credit Rating Agency Limited

Rating Report

Medipak Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2024	BBB+	A2	Stable	Maintain	-
20-Jul-2023	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Medipak Limited ('Medipak' or 'the Company') is a prominent Pakistani public limited company specializing in life-saving intravenous (IV) infusion therapy solutions and administration sets. The ratings reflect on their long-standing position as a leader in the domestic market for both IV solutions and the essential sets used to administer them. Medipak, in collaboration with Fresenius AG, has established operational excellence in the competitive Pakistani IV infusion market, driven by rising healthcare awareness, improved access, aging population, and chronic disease prevalence. Back in 1982, Medipak made a contribution to creating self-reliance within infusion therapy in Pakistan by pioneering local manufacturing at the Kot Lakhpat (KLP) plant in Quaid-e-Azam Industrial Estate, with an area of 4.53 acres with a constructed area of 118,000 sq ft which includes a wide range of production facilities. During 2015, the Company carried out CAPEX to develop a second facility in Sundar Industrial Estate, built on 2 acres of land with a constructed area of ~100,000 sq ft (both facilities are cGMP-compliant). Medipak holds a nationwide marketing channel with over 200 distributors & 150 sales professionals. Currently, the pharmaceutical industry faces inflation, interest rates, and PKR devaluation, increasing raw material prices and operating costs, impacting margins and profitability. During 9MFY24, Medipak's topline showed 10.8% quarter-over-quarter growth; however, down from 34.8% in FY23. Furthermore, the bottom line has experienced a decline, a trend observed industry-wide. According to management, Medipak holds approximately 15.79% of the local intravenous (IV) market share. The sponsors have a solid understanding of the business. However, the board consists of close family member and lacks independent oversight, indicating room for improvement. The company is managed by professional leadership, and appropriate internal control systems are in place throughout the organization. Establishing a formal internal audit department would further improve the control environment. Going forward, Medipak is actively exploring new market niches to navigate the competitive landscape. The company is strategically diversifying its product portfolio by adding various small-volume parenteral (SVP) molecules, which are currently undergoing necessary regulatory approvals. This diversification is expected to significantly contribute to the company's revenue stream. Moreover, the company is considering an expansion into the deregulated non-essential drugs segment, which is expected to enhance future profit margins and drive potential growth. The financial risk profile is demonstrated by adequate cashflows, coverages, and working capital cycle. Its capital structure is moderately-leveraged, mainly encompassing STBs.

The ratings are dependent on the Company's ability to maintain its leadership position within its business niches in a dynamic market environment. Achieving consistent revenue growth, improving profit margins, and delivering on prudent financial management, as outlined in company projections, will remain critical.

Disclosure

Name of Rated Entity	Medipak Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24),Methodology Corporate Rating(Jul-23)
Related Research	Sector Study Pharmaceuticals(May-24)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Medipak Limited ('Medipak' or 'the Company'), incorporated in Pakistan on January 14, 1982 as a public limited company. The Company's registered office is located at 132/1 Quaid-e-Azam, Industrial Estate, Kot Lakhpat, Lahore.

Background Medipak was established in 1982 by Dr. Khalid J. Chowdhry & family with the founding philosophy of giving the best to life. The Company made a significant contribution to creating self-reliance within infusion therapy in Pakistan by pioneering the local manufacturing of quality and cost-effective products that have now been time-tested for decades. The Company has transitioned and is led by 2nd generation family members.

Operations Medipak is principally engaged in the manufacturing of IV infusion therapy life-saving products. It is also involved in manufacturing ophthalmic preparations, solid dosage forms, dialysis & irrigation solutions and medical devices. The Company's production facilities were set up through technical collaboration with multiple MNCs, including Fresenius AG (Germany). The Company is ISO 9001, 14001, 45001 & IEC 17025 certified.

Ownership

Ownership Structure Medipak is mainly owned by Sponsoring family through Dr. Muhammad Khalid J. Chowdhry and his family members. Majority stake resides with Dr. Khalid J. Chowdhry (77.24%) whereas 22.39% stake rests with other family members. A minor proportion of 0.37% rests with an individual member.

Stability Ownership structure seems stable as no major change in the shareholding is expected in near future. However, defined and streamlined shareholding pattern among family members along with formal line of succession can add strength.

Business Acumen Dr. Khalid J. Chowdhry & family (prime sponsors) have strong business acumen. Medipak has been operating in Pakistan for a number of decades now and made its presence by pioneering the first integrated Infusion Solution and IV Administration Set manufacturing. Moreover, the 'Chowdhry Family' has ventured into different sectors of Pakistan.

Financial Strength Medipak Limited, the flagship entity of Medipak Group, maintains a healthy financial profile with substantial access to domestic and international markets. The sponsors' ability to provide the support is considered good, should the need arises.

Governance

Board Structure The board of Medipak Limited comprises five members, including Chairman – Mr. Khalid J. Chowdhry, Advisor– Mr. Nasir J. Chowdhry, Chief Executive Officer – Mr. Naveed K. Chowdhry, and non-executive director – Ms. Naureen Khalid. There are no independent directors on the board. All the directors have been associated with the board for many decades now and a few hold related DTP trainings.

Members' Profile Three members involved in the business are experienced individuals and carry experience of 50+ years. Mr. Muhammad Khalid J. Chowdhry (Chairman) is the person behind the success of Medipak leading with his visionary leadership. He has been a representative on various companies' boards. Mr. Nasir J. Chowdhry holds a professional experience of many years as he holds director positions in other group companies as well.

Board Effectiveness The board has created two sub-committees i). Audit Committee and ii). Human Resource Committee to ensure effective governance. Board meetings of the Company are held quarterly in compliance with the principles of corporate governance, and all meeting minutes are documented properly.

Financial Transparency M/S. EY Ford Rhodes, the 'Big 4' accounting firm, was the external auditor of the Company. The auditors expressed an unqualified audit opinion on the Company's financial statements for FY23. Currently, there has been a change in the audit firm and now BDO Ebrahim & Co., are the external auditors of the company. The auditor is listed in Category "A" of the SBP's panel of auditors.

Management

Organizational Structure A well-defined organizational structure exists in the Company. The functions reporting to the CEO and MD are as follows: 1) Finance, 2) Marketing & Sales, 3) Administration, 4) IT, 5) Technical Services, 6) HRM, 7) Quality Assurance & Regulatory Affairs, 8) Plant Operations, 9) Material Management, & 10) Business Development. Each department is headed by an experienced professional.

Management Team Mr. Naveed K. Chowdhry (CEO) is equipped with a profound understanding of the IV industry and carries a wealth of experience of over 2 decades. He completed undergraduate studies at Cornell University (BA Econ'98) and holds graduate degrees from LUMS (MBA'01) and the London School of Economics & Political Sciences (MSc Fin & Eco '02). He has been supported in the business by a weathered MD (family member) - Ms. Naureen Khalid, having experience of leading multiple domains such as operations, marketing, business development, and finance for over 3 decades. She has graduated from LUMS (MBA'92) and further executive education from Harvard Business School (Owner/President Management Program'15).

Effectiveness With the support of an experienced team of professionals, Medipak is building up its business strengths and increasing its footprint. The functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives. Further, six management committees are in place to ensure control at all levels.

MIS Business management operations at the Company are streamlined through SAP ERP solutions. The Company is presently using SAP B1. It has multiple operational modules to keep track of daily and monthly reports required by the management.

Control Environment To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal control department that implements and monitors the policies and procedures of the Company.

Business Risk

Industry Dynamics Pakistan's Pharmaceutical sector recorded a revenue of PKR~778bln during CY23 with a YoY growth of ~9.9% (CY22: PKR~708bln). As of Jan'24, ~23 pharmaceutical manufacturers hold licenses to produce APIs. These companies together cater ~15.0% of API production, with the remaining 85.0% being imported. The sector is dominated by local/ national companies which account for more than ~67.0% of the total market share in terms of their revenue. Furthermore, the demand for I.V. solutions in Pakistan has been steadily increasing due to the rising prevalence of chronic disease, the aging population, and the need for effective drug delivery methods. Currently, the pharmaceutical industry is facing multiple challenges due to inflationary pressures, soaring interest rates, and the devaluation of the PKR.

Relative Position Medipak is one of the leading names in the country's I.V Solutions market. It also holds reasonable shares in other pharma segments including Ophthalmic preparations, Dialysis Solutions, Medical Devices (IV Infusion giving set), & Solid Dosage Forms.

Revenues Medipak's local sales make up the majority of revenue (~86%), followed by exports (~14%) which grew by ~10.8% quarter-over-quarter.

Margins During 9MFY24, the Company's gross margin decreased to ~20.5% as compared to ~27.6% in 9MFY23 (FY23: ~30.4%, FY22: ~28.3%) due to inflationary pressures, PKR devaluation, and high raw material import costs. Resultantly, the net profit margin stood at ~0.8% as compared to ~5.1% in 9MFY23 (FY23: ~5.2%, FY22: ~5.8%).

Sustainability Despite a large number of registered companies in the pharmaceutical sector of Pakistan, the Company holds a pioneer position in Infusion Solution and IV Administration Set manufacturing. The product portfolio of Medipak is critically important for the health and lifestyle of the population. Thus, the Company attempts to ensure routine BMR and plan in advance for needed expansions to better serve the consumer demand.

Financial Risk

Working Capital During 9MFY24, the Company's gross working capital days increased to ~133 days from ~113 days in 9MFY23 (FY23: ~123 days, FY22: ~118 days). Subsequently, net working cycle stood at ~129 days in 9MFY24 as compared to ~92 days in 9MFY23 (FY23: ~109 days, FY22: ~94 days).

Coverages Medipak's interest coverage ratio reached at 2.0x in 9MFY24 from 3.9x in 9MFY23 (FY23: 3.5x, FY22: 3.0x) whereas core debt coverage ratio stood at 1.6x in 9MFY24 as compared to 2.2x in 9MFY23 (FY23: 1.9x, FY22: 1.1x).

Capitalization In 9MFY24, Medipak held a moderately leveraged capital structure with a ratio of ~16.8% (FY23: ~21.6%, FY22: ~19.2%). The majority portion of the debt is comprised of short-term borrowings from various banks.



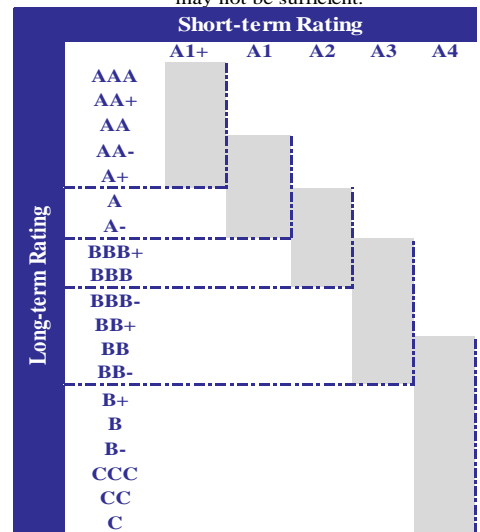
Medipak Limited Pharmaceutical	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	8.7%	34.8%	25.2%	3.8%
b Gross Profit Margin	20.5%	30.4%	28.3%	31.4%
c Net Profit Margin	0.8%	5.2%	5.8%	7.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	17.3%	2.6%	6.2%	-1.2%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	0.8%	4.7%	6.4%	17.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	133	123	118	121
b Net Working Capital (Average Days)	129	109	94	92
c Current Ratio (Current Assets / Current Liabilities)	2.9	3.5	3.3	3.6
3 Coverages				
a EBITDA / Finance Cost	2.5	4.2	4.6	4.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	1.9	1.1	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	0.7	2.1	1.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	16.8%	21.6%	19.2%	53.3%
b Interest or Markup Payable (Days)	35.9	90.5	116.8	75.8
c Entity Average Borrowing Rate	15.6%	17.0%	8.8%	9.1%

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+	
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-	
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	
CC	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.
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):
 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

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent