

RATING REPORT

Macter International Limited (Macter)

REPORT DATE:

June 1, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	June 1, 2018	

COMPANY INFORMATION

Incorporated in 1992	External auditors: Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Dr. Amanullah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Asif Misbah
Misbah Family – 73.3%	
Pharmalux Holdings Limited – 16.4%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016)

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Macter International Limited (Macter)**OVERVIEW OF THE INSTITUTION****RATING RATIONALE**

In 1992, Macter International Limited (Macter) was incorporated as a private limited company. Subsequently, it was converted into a public limited company in 2011. In 2017, Macter was listed on Pakistan Stock Exchange Limited. Registered office is located in Karachi, Pakistan.

Profile of Chairman

Dr. Amanullah acquired M.B.B.S degree from Sindh Medical College Karachi and possesses extensive experience in management of a private business group. He is also engaged with social charities and serves as President of Kiran Patient Welfare Society & Zubaida Machiyara Trust.

Profile of Chief Executive Officer

Mr. Asif Misbah has been associated with Macter for over two decades. He holds an MBA degree from Institute of Business Administration, Karachi.

Macter International Limited (Macter) is a publicly listed Pakistani pharmaceutical company engaged in manufacture and marketing of medicines for over three decades. Its business is categorized in two segments – branded generics and contract manufacturing. Since inception, Macter has been operated by Misbah Family which owns majority stake in the organization. Apart from drugs, the promoters are involved in management of cosmetics and printing concerns. Remaining shareholding is vested with a financial services group, other institutions and general public. Senior management team comprises professionals having significant experience in the pharmaceutical industry.

Macter operates through two manufacturing facilities with an annual capacity of ~89m units for drug production in the form of tablets, capsules, syrups, suspensions, dry powder, injections, ointments, creams, drops and inhalers. To improve efficiency, the company is in process of shifting its entire processing arm to a new plant undergoing construction at a new location within the city. Macter is also engaged in toll manufacturing for prominent multinational firms, as well as exports which represented 2.3% and 7.2% (including indirect exports to Afghanistan) respectively, of net sales during FY17.

Business Risk: JCR-VIS considers pharmaceutical sector to comprise low business risk given the relatively stable demand and demographic profile of the country. Key sector risks include regulatory risk (delay in new product approvals), rupee depreciation and significant dependence on Drug Regulatory Authority of Pakistan for approval of hardship cases.

Market Share: Ratings incorporate market position of Macter with a market share of ~1% for FY17 in Pakistani pharmaceutical industry and low relative market share of top five products. However, as per IMS Health statistics (MAT Q32017), Macter was the fastest growing company in terms of revenues from new products launched amongst all pharmaceutical firms in the country.

Product Portfolio & Therapeutic Coverage: Macter is present across over 40 therapy segments including anti-biotic, anti-viral, respiratory, vitamin and respiratory through over 50 treatments. Current marketing portfolio is characterized by low product concentration risk with top four brands (Sofomac, Salmicort, Cobolmin & Titan) accounting for around one-fourth of turnover. Further, Macter's domestic business is characterized by adequate therapeutic diversity as top five therapy segments represented ~87% of top line during 1HFY18. Management has identified new product development as key growth driver and envisages progression within respiratory, oncology and nutraceutical areas. Accordingly, sales mix is expected to improve over the medium term. Looking forward, ability of the firm to compete in its existing product segments, achieve sales targets and consistently develop new treatments will remain important growth drivers.

Marketing, Sales & Distribution: The organization has a nation-wide sales network comprising 136 distributors covering over 20,000 doctors and more than 40,000 pharmacies. A focused field force of 623 officers caters to specialist doctors. Moreover, existence of business intelligence tools facilitates timely decision making. Historically, street sales have remained the forte of the company. Other channels include specialty and institutional distributors along with government tenders.

Profitability: Ratings derive strength from healthy margins and year-on-year revenue growth of ~20% outpacing industry growth of ~8% in FY17. Increase in volumetric sales and focus on high

margin products translated into enhanced gross margins and earnings. Any adverse movement in raw material prices could have an adverse impact on margins. Over the medium term, rupee depreciation and limited room to raise prices are expected to result in slight margin attrition. Nevertheless, overall profitability is expected to grow on account of volumetric increase in sales. Growth momentum has been sustained in the ongoing year with significant increase in sales during 1HFY18 vis-à-vis corresponding period last year.

Liquidity & Capital Structure: Over past half-decade, equity base has increased at a compound annual growth rate of ~8% while fund flow from operations has augmented on the back of earnings growth. Accordingly, adjusted debt servicing coverage ratio¹ was reported at 2.61x in FY17. Adjusted debt leverage² stood above 1(x) while adjusted gearing³ increased to 0.97x (FY16: 0.91x) by end of same period. For ongoing fiscal year, management has budgeted sizeable capex which will be financed through a mix of Ijarah and Diminishing Musharakah borrowing along with internally generated capital. Despite projected increase in debt, gearing is expected to remain around current levels due to profit retention while debt servicing is likely to stay strong over the rating horizon. Looking forward, ratings will continue to be dependent on maintenance of leveraging profile and cash flow coverage within benchmarks for the assigned ratings.

Governance & Management: Corporate governance framework is supported by adequate board composition and oversight. Information technology infrastructure is considered sound with presence of SAP based enterprise resource planning system, adequate back-up procedures and disaster recovery mechanism. Internal audit function is outsourced to KPMG Taseer Hadi & Co. Chartered Accountants with comprehensive coverage and scope.

¹ adjusted for commitments for Ijarah rentals in respect of plant and machinery, motor vehicles and equipment

² adjusted for commitments for Ijarah rentals in respect of plant and machinery, motor vehicles and equipment

³ adjusted for Murabaha payables and commitments for Ijarah rentals in respect of plant and machinery, motor vehicles and equipment

Board of Directors Profile

Annexure I

Dr. Amanullah - Chairman

Dr. Amanullah holds M.B.B.S degree from Sind Medical College (Karachi). He has extensive experience in the management of a private business group. Dr. Amanullah is also engaged in social contributions and he is President of Kiran Patient Welfare Society and Zubaida Machiyara Trust.

Mr. Asif Misbah

A business graduate from the IBA (Karachi), Mr. Asif is the Chairman and Managing Director of Macter. He has been associated with Macter since 1994. Mr. Asif has led the efforts to: develop a high performance team and culture; restructure the organization to improve performance and profitability; improve corporate governance and the transition from a privately held to a publicly listed company; amongst other strategic initiatives. Mr. Asif serves on the Boards of NGOs in the education and health sectors. He has also been the Chairman of PPMA's Biologics and Pharma Ethics committees.

Mr. Swaleh Misbah Khan

Mr. Swaleh Misbah Khan joined Macter as a Director in 1992. He holds a degree in Chemical Engineering (Hons) from United Kingdom. He has twenty years of extensive experience in pharmaceutical manufacturing, facility & process validation, cGMP audit, quality management systems, HVAC system design for pharmaceutical applications, supply chain management, biotech reactor design and fluid mechanics.

Mr. Shaikh Aamir Naveed

Mr. Shaikh Aamir Naveed has more than 28 years of extensive experience and has held key positions such as Business Manager, Head of Marketing-International and Business Development, and National Sales Manager in prominent pharmaceutical companies like ICI, Macter International, Sanofi Avantis and Upjhon (Pfizer).

Mr. Sheikh Muhammad Waseem

Mr. Sheikh Muhammed Waseem became a Non-Executive Director of Macter International Limited in 2011. He is a fellow member of Institute of Chartered Accountants of Pakistan. His area of expertise includes audit and assurance, accounting, corporate, tax advisory, share valuation, risk management, arbitration and reconciliation, mergers and acquisitions and Islamic finance.

Mr. Muhammad Sajid, CFA

Mr. Muhammad Sajid has around 25 years of experience pertaining to private equity investments, managing listed financial institutions, leading successful investment banking & structured finance teams and corporate venturing of new companies & businesses. He has more than 15 years of senior management experience having served as CEO and Director on boards of commercial banks, investment banks, investment funds, asset management companies and a number of listed companies.

Mr. Sohaib Umar

Mr. Sohaib Umar is a senior Islamic finance professional with over two decades of diverse experience in advisory, corporate finance, private equity and capital markets. He is currently working as Advisor, Islamic Financial Services Development with Central Bank of Bahrain (CBB). In this role, he has been responsible for recommending and overseeing new strategic initiatives and regulations by the CBB in Islamic banking, Takaful and capital markets. He is also serving as Administrator of the Waqf Fund, a CBB-supervised endowment for Islamic finance training, education and research. Previously, he worked as Executive Manager at Ernst & Young Bahrain in their global center of excellence in Islamic finance advisory. He led the development of Islamic banking regulatory framework for a GCC country.

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He started his professional career in equity brokerage as a research analyst. He became head of research for CLSA Emerging Markets Pakistan office and was later transferred to the head office in Hong Kong where he spent the next two years. He came back to Pakistan in 2002 as CEO of TMT Ventures, a venture capital company which invested in promising start-ups in technology, media and telecom companies. He served on the boards of investee companies, overseeing strategy and accelerating growth. He has an MBA in Finance and is also a CFA. He contributes regularly to Islamic finance thought leadership. He is also serving as a member of the Governance & Ethics Board of AAOIFI, the leading standard setting body for Islamic finance industry.

Mr. Mohammed Aslam

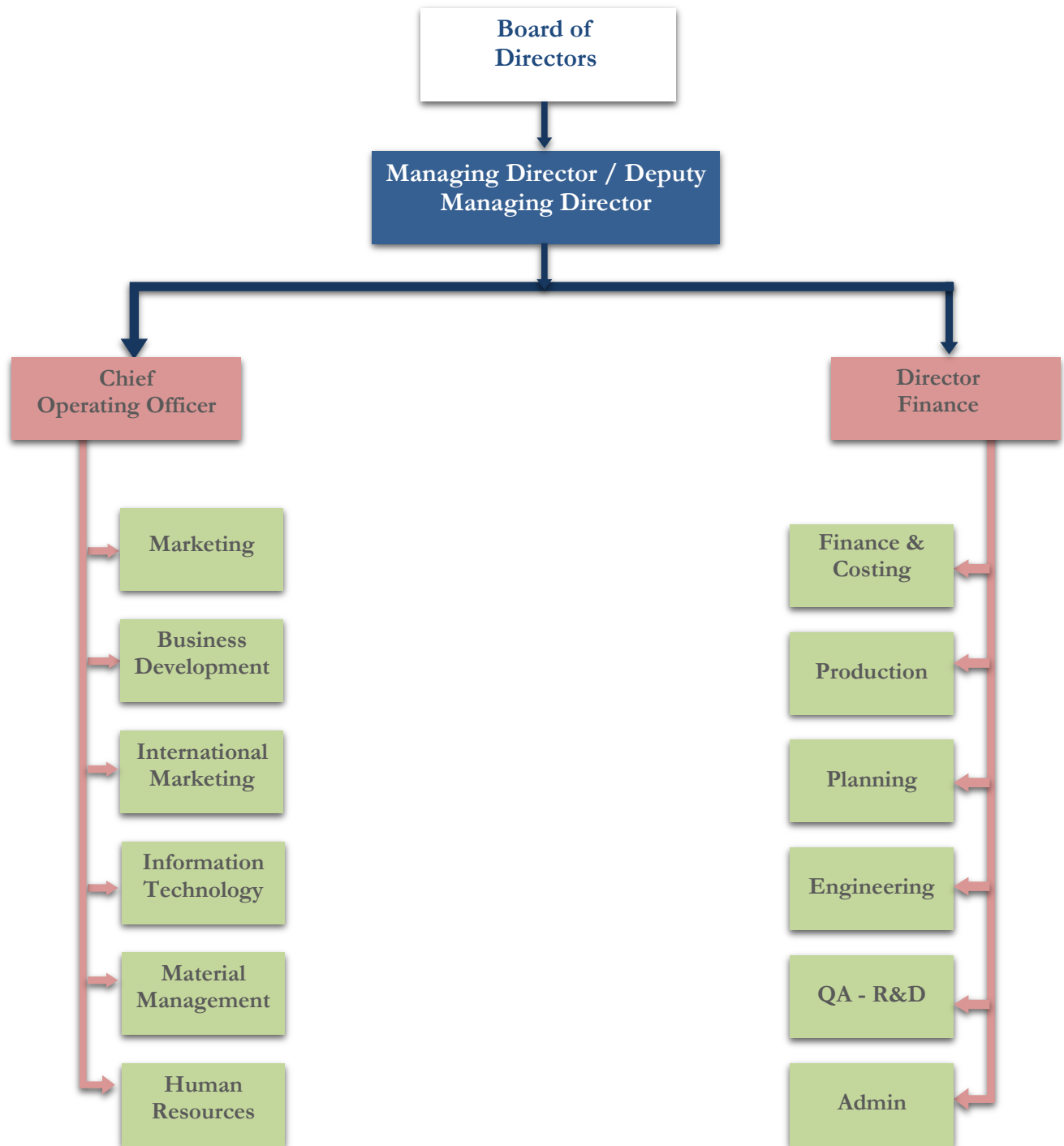
Mr. Mohammed Aslam is a pharmaceutical scientist by education from Columbia University. He has a thorough exposure of most of the functions of pharmaceutical industry. He joined the company as Director in 2011 and was responsible for Corporate Development until September 2014 when he retired from Macter. Mr. Aslam holds 38 years of experience in General Management, Marketing, Finance, Materials, Regulatory, Planning and (Financial) Control, and Production. Prior to joining Macter, he served Sandoz / Novartis for 30 years and retired as the Country Head for Pakistan. He also served GSK in its Pakistan Operations and worked as a Pharmaceutical Scientist in the USA.

Mr. Islahuddin Siddiqui

Mr. Islahuddin Siddiqui is a prominent sports figure of Pakistan and retired as Additional Collector Customs. As a hockey player for Pakistan's team, he won the silver medal in the 1972 Olympics and bronze medal in the 1976 Olympics. The Pakistan government awarded him 'Pride of Performance' in 1982 and 'Sitara-e-Imtiaz' for his services to Pakistan hockey in the year 2007. Despite retirement from sports, he remains associated with hockey as the Chairman of Olympian Islahuddin-Doctor Shah Hockey Academy imparting training to around 250 Children on daily basis.

Organogram

Annexure II



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Macter International Limited

Appendix I

FINANCIAL SUMMARY		
	<i>(in R.s. millions)</i>	
<u>BALANCE SHEET</u>	FY17(A)	FY16(A)
Fixed Assets	845.2	740.7
Stock-in-Trade	905.1	625.3
Trade Debts	535.6	415.7
Cash & Bank Balances	102.1	273.7
Total Assets	2,739.9	2,392.2
Adjusted Trade and Other Payables*	596.0	484.7
Adjusted Long Term Debt**	426.4	305.3
Adjusted Short Term Debt*	682.4	594.1
Total Equity	1,143.2	984.0
<u>INCOME STATEMENT</u>	FY17(A)	FY16(A)
Net Sales	3,630.0	3,064.4
Gross Profit	1,673.4	1,257.2
Administrative Expenses	201.5	187.2
Distribution Costs	1,061.3	806.6
Profit After Tax	274.2	147.1
<u>RATIO ANALYSIS</u>	FY17(A)	FY16(A)
Gross Margin (%)	46.1%	41.0%
Net Working Capital	463.8	431.1
FFO to Adjusted Total Debt (x)	0.32	0.26
FFO to Adjusted Long Term Debt (x)	0.84	0.76
Adjusted Gearing (x)	0.97	0.91
Adjusted Debt Leverage (x)	1.65	1.56
Adjusted Debt Servicing Coverage Ratio (x)	2.61	n/a
Return on Average Assets (%)	10.7%	n/a
Return on Average Equity (%)	25.8%	n/a
* adjusted for Murabaha payables		
**adjusted for commitments for Ijarah rentals in respect of plant & machinery, motor vehicles and equipment		

RATING SCALE & DEFINITION

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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REGULATORY DISCLOSURES		Appendix III				
Name of Rated Entity	Macter International Limited					
Sector	Pharmaceutical					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	RATING TYPE: ENTITY					
	1-June-18	A	A-1	Stable	Initial	
Instrument Structure	n/a					
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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