

RATING REPORT

Ali Gohar & Company Pvt. Ltd

REPORT DATE:

July 8th, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	July 8 th , 20		September 28, '18	

COMPANY INFORMATION

Incorporated in 1968	External auditors: EY Ford Rhodes Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Arshad Gohar
Key Shareholders (with stake 5% or more): Mr. Arshad Gohar- 99%	Chief Executive Officer: Mr. Arshad Gohar

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Industrial Corporates (May 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Ali Gohar & Company Pvt. Ltd

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>Ali Gohar & Company (Private) Limited (AG&C) was incorporated in Pakistan in 1968 as a Private Limited Company. The company is primarily engaged in distribution and supply of pharmaceutical products, medical devices and selected consumer goods. Financial statements for FY19 have been audited by EY Ford Rhodes Chartered Accountants.</i></p>	<p>Leading Market Position Ali Gohar & Company Pvt. Ltd (AG&C) is principally engaged in distribution of goods and services. The Company operates in three segments including pharmaceutical, medical devices and consumer goods. The assigned ratings take into account AG&C’s position as one of the leading national level distribution companies in the country. The Company’s client base has consistently grown over time while customer retention has remained high historically. Majority of revenues still emanate from the pharmaceutical segment with growth noted from the surgical instrument and consumer goods segment.</p> <p>Low Business Risk Ratings incorporate company’s low business risk model whereby foreign currency, sales return and expiry risk is borne by the principals as per contractual arrangement for major portion of the Company’s sales. The company is exposed to credit risk apart from instances where credit is given to customers on the request of the principal. In case of the latter, credit risk falls on the principal in case of default by the customer. Effective follow-up mechanism and prudent provisioning policy largely mitigates exposure to credit risk.</p> <p>Net sales increased by 21% during FY19 with growth largely being a function of existing principals and full year impact of new principals added in FY18. Growth in revenues was slower than preceding year. Organic growth from existing principals and new client additions are expected to result in double digit increase in sales in FY20 Gross sales increased by 8% during FY19. Increase in net sales at around 21.0% was higher than gross sales growth due to lower sales returns and discounts during the period. Increase in net sales can be primarily attributed to growth in existing principals. Barring two principals, the top ten principals of AG&C depicted a double growth vis-à-vis the preceding year. Full year impact of new principals added in FY18 also contributed to growth in revenues. Organic growth from existing principals and new client additions are expected to result in double digit increase in sales in FY20.</p> <p>Growth in topline has not translated into increase in profitability due to decline in gross margins, higher finance cost and effective tax rate. Gross margins have depicted a declining trend due to increase in proportion of sales of FMCGs in overall sales mix where margins tend to be lower vis-à-vis other segments. Moreover, margin revision from a client also contributed to decline in gross margins. In absolute terms overheads increased but growth in expenses was largely in line with sales growth. Decline in gross margins alongwith higher finance cost (due to increase in benchmark rates) and higher effective rate contributed to decline in profitability during FY19. Improving profitability profile over the rating horizon would be a key rating driver.</p> <p>Capitalization indicators reflective of conservative financial policy while liquidity indicators remain sound Equity base of the company has consistently grown over the years on account of profit retention. High profit retention and low leveraged capital structure are reflective of conservative financial policy. Borrowing mobilized comprises only short-term borrowings with trade debts and stock in trade providing strong coverage against short-term borrowings. Liquidity profile draws comfort from adequate cash flow from operations, satisfactory working capital cycle and strong current ratio which has historically remained over 1.5(x)</p>

Sound Distribution Infrastructure and Controls

Enhancing distribution infrastructure continues to be a strong focus of the management and a source of competitive advantage for AG&C. With its structure and available resources, the company has sufficient capacity to serve a wide outreach as evident from sizeable retail sales; strength of distribution network is among the rating drivers.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for ‘bank loan rating’ denotes that the rating is based on the credit quality of the entity and security structure of the facility.

‘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.vis.com.pk/images/policy_ratings.pdf

‘SD’ Rating: An ‘SD’ rating is assigned when 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.

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Ali Gohar & Company Pvt. Ltd				
Sector	Distribution				
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				
	07/08/2020	A	A-2	Stable	Reaffirm
	09/28/2018	A	A-2	Stable	Reaffirm
	11/07/2017	A	A-2	Stable	Reaffirm
	3/03/2016	A	A-2	Stable	Upgrade
	4/16/2015	A-	A-2	Positive	Maintained
1/21/2014	A-	A-2	Stable	Initial	
Instrument Structure	N/A				
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted	Name	Designation	Date		
	1 Mr. Arshad Gohar	Managing Director	2 nd December 2019		