RATING REPORT

Ali Gohar & Company Pvt. Ltd

REPORT DATE:
October 06, 2022

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	*October 06, 21*		*August 09, 21*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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):	**Chief Executive Officer:** Mr. Arshad Gohar
Mr. Arshad Gohar- 99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Ali Gohar & Company Pvt. Ltd

OVERVIEW OF THE INSTITUTION

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 FY21 have been audited by EY Ford Rhodes Chartered Accountants.

RATING RATIONALE

Prominent 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 amongst the leading national level distribution companies in the country. The Company's client base has consistently grown over time further supported by high levels of customer retention. Majority of revenues continue to emanate from the pharmaceutical segment (around 46% in FY22). The company also has a diverse distribution network of 31 warehouses and distribution centers across the country. During FY22, the company opened three new branches while the capacity of one branch doubled. In terms of capital expenditure planned going forward, the company plans to incur capex through internal generation for installation of solar panels.

Low Business Risk

Ratings incorporate company's low business risk model whereby foreign currency and expiry risk is borne by the principals as per contractual arrangement for major portion of the Company's sales. . Effective follow up mechanism and prudent provisioning policy largely mitigates exposure to credit risk. Moreover, considering the risk associated with the credit based business model, the management has adopted a conservative approach towards adding new principals that generate sales on cash.

Double-digit growth in topline as a result of organic growth and addition of new principals in the consumer goods segment.

Revenue of the company increased by 16%. In addition to the organic growth achieved via higher prices and volumes from existing principals, AG&C also entered into an agreement with Shell to distribute lubricants in Bahawalpur and Rahim Yar Khan. Proportion of FMCG segment in the overall mix has also gone up attributable to higher revenue from existing business lines and addition of lubricants business.. Around 90% of the products distributed are procured locally with imported goods comprising the remaining portion of revenue base of the company.

Going forward, management expects revenue to follow a stable growth. Further, given FMCG and healthcare segments being price unregulated, management expects growth in these divisions over the rating horizon.

Profitability indicator have remained stable due to long-term nature of contracts.

Gross profit margins of the company largely remained stable, with a dip as compared to previous years due to change in sales mix towards higher contribution of lower margin products.
With the management's focus on cost rationalization, operating expenses grew in line with sales revenue and finance cost reduced significantly due to lower quantum of borrowings. These, along

with higher other income emanating primarily from investment in mutual funds also supported net margins of the company in FY21 and FY22.

Going forward, even though the gross margins are likely to be maintained at current levels, overall net profitability which is already thin, is expected to be affected by the inflationary pressures in the economy. Hence, addition of new principals and further enhancement in operational efficiency are important factors from the ratings perspective.

Strong liquidity profile as evident from healthy cash flow coverages against borrowings. Improvement in working capital cycle management noted on a timeline basis.

Funds from operations (FFO) for FY22 remained at a similar level vis-à-vis the previous year, despite some uptick in bottom-line profitability. However, with a fall in borrowings, a significant improvement was observed in debt servicing coverage and cash flow coverage against total debt. Improvement in cash conversion cycle as a conscious business effort through tightened credit policy for customers and reduction in inventory holding period was noted in the outgoing and ongoing year. Hence, utilization of short-term borrowings remained minimal. Liquidity profile is further supported by exposure in short-term mutual fund investments. Management of liquidity profile over the rating horizon in view of planned routine capex and equity investment in subsidiary is considered important.

Leverage indicators are reflective of a conservative capital structure.

Equity base of the company has consistently grown over the years on account of profit retention. Short-term credit lines are utilized to a certain extent during the year in accordance with needs of the business. With improved working capital cycle, consequent reduction in short-term borrowings levels and repayment of long-term debt, gearing ratio of the entity remains on the lower side. Going forward, considering no additional drawdown of debt is planned, the management expects leverage indicators to remain at low levels in view of the projected growth in equity base.

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, along with the financial strength. With its structure and available resources, the company has sufficient capacity to establish a nationwide presence, as evident from the fact that it serves thousands of retailers and has a sizeable quantum of sales.

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	(see table below)
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/06/2022	A	A-2	Stable	Reaffirm
08/09/2021	A	A-2	Stable	Reaffirm
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

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Nasrudin Kassam	Chief Operating Officer	September 16, 2022
2	Mr. Imad Mohsin	Financial Controller	
3	Mr. Talha Zia	Manager Financial Planning & Analysis	