RATING REPORT

Ali Gohar & Company (Pvt.) Ltd.

REPORT DATE:
January 30, 2024

RATING ANALYST:
Husnain Ali
husnain.ali@vis.com.pk

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	January 30, 2024		October 06, 2022	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1968	**External auditors:** BDO Ebrahim & Co. 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
Applicable Rating Criteria: **Corporates (May 2023)** https://docs.vis.com.pk/docs/CorporateMethodology.pdf **Rating Scale & Definitions** https://docs.vis.com.pk/docs/VISRatingScales.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 operates in three segments including pharmaceutical, healthcare and FMCG.

Profile of Chairman & CEO: *Mr. Arshad Gohar has been associated with Ali Gohar & Company since 1992. He received an undergraduate degree from Kalamazoo College and a graduate degree from Thunderbird School of Global Management. He is also a board member of, Hoechst Pakistan Limited, Nera Pharma (SMC-Private) Limited, AGC (Private) Limited and AGT Holdings (Private) Limited.*

RATING RATIONALE

Ali Gohar & Company (Pvt.) Ltd. ('AG&C' or 'the company'), established in 1968, is principally engaged in distribution of goods and services. The company operates in three segments including pharmaceutical, healthcare and FMCG. 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 customer retention. The company's registered office is located in Karachi.

At present, a diverse network of 40 warehouses and distribution centers serve clients across the country. During FY23, AG&C opened two new branches to better serve existing partners. The management is focused on adding marketing function of its pharma products and also enhancing cold storage. The company plans to rationalize costs by using solar power.

Low business risk: Ratings take into account the company's low business risk model, whereby the principals, in accordance with the terms of the contracts, bear the majority of the foreign exchange and expiry risk that emanates from the company's sales. Credit risk exposure is mitigated by follow-up mechanisms and provisioning procedures.

Operational update: Concentration risk persisted as majority of sales originated from top 10 partners in FY23. Nevertheless, the said risk is alleviated considering that these partners constitute multinational companies, including Eli Lilly, Alcon, L'Oreal, Roche and Nestle. AG&C is engaged in onboarding of new partners, while also considering the discontinuation of non-profitable businesses. The potential addition of new partners, coupled with organic growth with existing partners, is expected to contribute about double-digit growth in net sales during the ongoing year.

Sound distribution infrastructure and controls with ongoing cost rationalization: Enhancing the distribution infrastructure remains a key priority and serves as a significant competitive edge, complemented by the company's financial strength. AG&C is currently undertaking centralization and modernization of various functions while simultaneously focusing on cost rationalization. With its structure and available resources, the company has sufficient capacity to further its nationwide presence, as evident from the fact that it serves thousands of retailers and has a sizeable quantum of sales.

Decline in net profit on account of lower margins, higher operating expenses and taxation during the outgoing year: Net sales increased during FY23 and HY24 on account of growing demand from customers and higher prices. During FY23, FMCG segment's share of the overall sales mix increased mainly due to higher offtake of one major FMCG partner's products. Specific margins with majority of the partners remained unchanged during the outgoing year.

The proportion of local and imported goods sold remained largely unchanged during FY23. Gross margin fluctuation mainly stems from variability in sales mix. Operating expenses primarily increased on account of higher charges for fuel, freight and electricity, given the increase in prices witnessed all across. Other income, mainly emanating from short-term investment in mutual funds and service income, decreased during FY23. Net profit decreased during FY23. Net margin improved slightly during HY24. The management expects improvement in margins during the ongoing year on account of addition of new high margin principals and cost-rationalization.

Coverages impacted, though remained sound: Short-term investments, comprising mutual funds, stood lower by end-FY23. The company partly sold short-term investments to invest funds in its wholly-owned subsidiary during FY23. Trade debts increased on a timeline basis, though remained manageable. Current ratio decreased slightly by end-FY23 owing to higher short-term borrowings with a recovery witnessed subsequently. Short-term borrowings mobilized in FY23 were adequately covered by stock-in-trade and trade debts. Cash conversion cycle, though increased slightly, remained on a lower side. FFO remained range bound; FFO to total debt decreased, though remained sound in FY23. DSCR remained adequate in FY23.

Low leveraged capital structure: Tier-1 equity increased by end-FY23 on account of profit retention. During FY23, AG&C mobilized short-term borrowings; subsequent to FY22, long-term bank borrowings were retired. Lease liabilities have decreased on a timeline basis. Gearing ratio remained low; debt leverage remained range bound given higher equity base. The management intends to maintain a low leverage capital structure.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Ali Gohar & Company Pvt. Ltd
Sector	Distribution
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
01/30/2024	A	A-2	Stable	Reaffirm
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
03/03/2016	A	A-2	Stable	Upgrade
04/16/2015	A-	A-2	Positive	Maintain
01/21/2014	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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Nasrudin Kassam	COO	January 04, 2024
2	Mr. Imad Mohsin	CFO	
3	Ms. Shamshad Poonjani	Senior Manager Finance	