RATING REPORT

Muller & Phipps Pakistan Private Limited

REPORT DATE:
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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-1	A+	A-1
Rating Date	*December 31, 2019*		*December 31, 2018*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Formed in 1912 (incorporated in Pakistan in 1949)	**External auditors:** EY Ford Rhodes Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Zain ul Abadin
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Kamran Nishat
The Getz Corporation USA – 58.71%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://vis.com.pk/docs/Corporate-Methodology-201605.pdf

Muller & Phipps Pakistan Private Limited

OVERVIEW OF THE INSTITUTION

Muller & Phipps was incorporated as a private limited company. The company is engaged in import and distribution of pharmaceuticals, consumers, telecommunication and hospital care products. It also undertakes contract marketing activities for certain pharmaceutical companies.

Profile of Chairman
Mr. Zain Ul Abideen serves as the chairman of the Company. He has been associated with the company for decades and has a professional experience of more than 40 years. He has attended various professional courses. He is also serving on the educational board of Hasnain Academy

Profile of CEO
Mr. Kamran Nishat serves as the Managing Director and the CEO of the company. He has been a part of M&P since 19 years. He is a fellow member of ICAP and serves on the board of Biogene Private Limited, AGP Limited and Cyan Limited. He is also serving on the boards of M&P Express Logistics (Private) Limited, TechSirat (Private) Limited, TechSirat Technologies (Private) Limited, M&P Logistics (Private) Limited, Logex (Private) Limited and Veribest

RATING RATIONALE

Incorporated in 1949, Muller & Phipps Pakistan Private Ltd. (M&P) has significant experience in logistic & distribution business and currently operates as a leading national distribution player in the industry. The company provides logistics & distribution, cold chain warehousing, sales, marketing and after sales support services to its clients. With total 53 principals, M&P has a strong and diversified customer base divided into four different business segments (pharmaceutical, telecommunication, consumer and health care) with pan Pakistan presence. Besides distribution, M&P also has investments in companies that complement and support its operations including M&P Express Logistics (Private) Limited (M&P Express) (formerly OCS Pakistan Private Limited) and AGP Limited. M&P has extended significant support to M&P Express in its business operations which have continued to increase on a timeline basis.

Pharmaceutical Segment
As of Nov'19, pharmaceutical segment has around 20 principals; out of which top 6 contribute more than two-fifth of M&P's topline while the overall segment generates around half of company's total sales. M&P has had a lengthy relationship with most principals. During CY18 HCY19, the segment has witnessed a significant growth in sales on the back of growing pharmaceutical industry in Pakistan.

Telecom Segment
M&P has witnessed a substantial growth in telecom segment sales on a timeline basis. The same trend is expected to continue with sales projected to more than double in CY19. Major growth drivers for the segment are healthy demand for Chinese branded phones and continuous launch of new products. The segment represents more than one-fourth of company's topline where Samsung and Huawei are key major revenue contributors out of total 6 principals.

Consumer Segment
As of Nov'19, consumer segment has around 19 principals constituting around one-fifth of overall revenues. Nonetheless, growth in this segment has remained limited over the years due to increased regulatory requirements of CNIC for local sub distributors/vendors. Major principals in the segment include Unilever Pakistan and Pepsi Cola International which contribute around 16% of company's topline. Growth in CY20 from this segment is expected to be higher vis-à-vis preceding years.

Health Care Segment
Healthcare segment involves distribution of medical devices and surgical instruments. While contribution of health care segment revenues to overall topline remains limited, gross margins in this segment tends to be on the higher side. Leading principals from the segment include Johnson & Johnson Middle East, Convatec International Services and 3M Pakistan Pvt Ltd.

Key Rating Drivers

Leading market position
Assigned ratings incorporate M&P's leading market position in the distribution industry in general and pharmaceutical industry in particular. M&P also enjoys national distribution

Brand Pakistan (Private) Limited.

from principals in other segments of business.

Sound distribution infrastructure and extensive outreach are a competitive advantage
The company's extensive outreach through its widespread and growing network of locations comprising of central warehouses, depots and service centers and vast coverage of retail customers across Pakistan is a key rating driver. With its structure and available resources, the company has sufficient capacity to serve a wide outreach as evident from sizeable proportion of retail sales in overall sales; strength of distribution network is among the rating drivers.

Adequate business risk profile
M&P's business risk profile is supported by diversified operations, stable demand outlook for different segments and exposure to top-tier clients. These positive factors are offset by fragmented and competitive nature of the distribution industry resulting in low margins for industry players. Given the thin margins and high competition, pricing power in order to pass on increasing cost is considered low. However, increasing topline for large national level industry players partly facilitates in absorbing rising cost of doing business.

Financial Analysis

Sales & Profitability
Net sales of the company have increased to Rs. 101.5b (CY17: Rs. 78.8b) in CY18; registering a year on year growth of ~29%. Increase in net sales can be primarily attributed to growth in existing principals specifically in the telecom segment followed by pharmaceutical segment. Gross profit grew by 26% in CY18 in absolute terms; however, margins have remained at around prior year level.

On cost front, overheads have increased by ~12% whereas finance cost depicted a noticeable jump in CY18 on the back of higher utilization of short term borrowings and increase in benchmark rates. However, the same has reduced significantly on account of the change from credit to cash sales. During 2018, the company has earned one-off capital gain on AGP shares which were sold as a result of IPO. Due to distribution companies falling under final taxation regime, effective tax rate has remained on the higher side (CY18: 63.4%; CY17: 66.3%). However, the impact of super tax shall be removed from the tax year 2020 which will facilitate in reduction in effective tax rate.

Liquidity and Capitalization
Equity base grew considerably on account of healthy internal capital generation and revaluation surplus of AGP shares while dividend payout has remained at around similar levels. Extended working capital cycle in distribution companies requires sizeable utilization of short-term debt which eventually reflects in elevated leverage indictors. However, M&P during 2019 significantly reduced its credits sales in a specific sector through negotiating credit terms with existing customers which has resulted in lower short term financing requirements. Ageing profile of trade debts is adequate. Inventory and trade debts provide sufficient coverage for short-term debt obligations while current ratio was reported at 1.1x at end-CY18.

Sound corporate governance infrastructure
A well-designed organizational structure is in place. All the business segments have assigned

	different heads, directors and sales teams to carry out the operations. Senior management team comprises professionals having relevant industry experience. An integrated IT infrastructure is also in place for financials, human resource and sales & distribution functions. Policy and procedural framework is comprehensive. Given the company's nature as a private limited company, board composition is currently constrained.

Financial Summary (amounts in PKR millions)		Appendix I
	CY17	**CY18**
BALANCE SHEET		
Paid Up Capital	300.0	300.0
Total Equity	3,605.4	5,971.7
INCOME STATEMENT		
Net Sales	78,805.0	101,498.0
Profit Before Tax	1,673.9	3,204.4
Profit After Tax	564.8	1,173.3
RATIO ANALYSIS		
FFO	829.3	1,657.1
Current Ratio	1.0	1.1
Gearing	3.5	2.4

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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 III
Name of Rated Entity	Muller & Phipps Pakistan Private Limited
Sector	Distribution & Logistics
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		
31-Dec-19	A+	A-1	Stable	Reaffirmed
31-Dec-18	A+	A-1	Stable	Initial