RATING REPORT

Muller & Phipps Pakistan Private Limited

REPORT DATE:
January 15, 2021

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	*January 15, 2021*		*December 31, 2019*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Founded in 1912 *(Incorporated 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 Methodology – Industrial Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.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.

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, Dawood Hercules Corporation 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 Brand Pakistan (Private)

RATING RATIONALE

Muller & Phipps Pakistan Private Ltd. (M&P) has a long established history of more than a century of operating in logistic & distribution business. The company as a leading national distribution player provides pan Pakistan logistics & distribution, cold chain warehousing, sales, marketing and after sales support services. With total 67 principals, M&P has a strong and diversified principal base segmented into four different business divisions namely; pharmaceutical, telecommunication, consumer and health care.

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), TechSirat (Private) Limited and AGP Limited.

Pharmaceutical Segment

Pharmaceutical segment continues to remain the largest in terms of sales contribution; generating around one-half of total sales. As of Sep'20, the segment has 30 principals; of which top 5 contributes around two-fifth of total revenue. The company has established long-term relationships with most principals. The segment has witnessed a healthy growth over the last four years largely on the back of growing pharmaceutical industry in Pakistan. Moreover, the Covid-19 outbreak significantly increased the demand for medicines and medical equipment which further translated into industry and segment-wise growth. During 2020, M&P added Novartis Pharma Pakistan Limited as its new principal

Telecom Segment

Telecom segment has grown at a CAGR of 42% from 2016 to 2020 (A), surpassing growth in all other segments. Healthy demand for Chinese branded phones, continuous launch of new products and addition of new principals have been the key growth drivers. In 2020, new principals have been added i.e. Nokia HMD Global, Itel Mobile Limited, Techno Mobile Limited, and Oraimo Mobile Limited. Going forward, the management expects the growth trend to continue at a similar pace with plans to further expand the principal base. The Covid-19 pandemic served as a growth driver for the segment given the significant increase in demand for online services and technological devices. As of Sep'20, the segment comprises 10 principals which contribute more than one-fourth of total revenue. Samsung, Huawei, and Infinix are key major revenue contributors.

Consumer Segment

As of Sep'20, consumer segment has 20 principals constituting around two-tenth of overall revenues. Despite all challenges, growth in consumer segment was in line with the consumer market growth. Major principals in the segment include Unilever Pakistan and Pepsi Cola International. In 2020, M&P managed to increase business volumes from existing principals and expects to increase further addition of principals going forward. Moreover, growth from this segment is expected to be higher vis-à-vis preceding years on the back of increasing population and GDP growth revival as the economy recovers from the pandemic.

Limited.

Health Care Segment

Healthcare segment involves distribution of medical devices and surgical instruments. While contribution to revenues from this segment has remained limited, gross margins tends to be on the higher side. Leading principals include Johnson & Johnson Middle East, Convatec International Services and 3M Pakistan Pvt Ltd. As of Sep'20, the segment comprises 7 principals while the business in the outgoing year has witnessed a decline owing to Covid-19 outbreak.

Key Rating Drivers

Leading market position in the industry is a key rating driver

M&P is the market leader in the distribution industry in general and pharmaceutical segment in particular. The company also enjoys national distribution from principals in other business segments including telecom and healthcare.

Sound distribution infrastructure and extensive outreach are a competitive advantage

The company has an extensive outreach through its widespread and growing network of locations comprising of central warehouses, depots and service centers and vast coverage of retail customers. With its structure and available resources, the company has sufficient capacity to serve a wide outreach as evident from sizeable proportion of retail sales. The strength of the distribution network is characterized as one of the key rating drivers.

Business risk profile is supported by healthy demand outlook and overall economic recovery

Business risk profile is supported by long-term relations with top-tier clients, diversified principal base and segments catered with healthy demand outlook going forward. However, these positive factors are offset by fragmented and competitive nature of distribution industry which results in low profitability margins. Owing to the same, pricing power is also limited. Nonetheless, increasing topline for large national level players partly facilitates in absorbing rising operating cost.

Healthy sales growth on a timeline basis. However, profitability has remained in line with the industry margins.

In 2019, net sales of the company registered a double digit growth of ~22% and amounted to Rs. 124.1b (2018: 101.5b). The growth was primarily attributable to increase in sales of existing and new principal base (particularly in telecom segment and pharmaceutical segment). Although margins have remained persistent over the years, gross profit (in absolute terms) grew by ~16% in 2019. Net sales during 9M'20 were reported at Rs. 106.9b.

On the cost front, operating overheads also increased at a similar pace by ~16% whereas the finance costs has almost doubled in 2019 given higher interest rates and adoption of new IFRS (recognition of new lease liabilities). Moreover, increase in expense base in 2019 is also attributable to changes in IFRS treatment (pertaining to provision of trade debts). The effective tax rate continued to remain on the higher side owing to distribution companies falling under FTR regime. Higher financing charges along with taxation continue to impact the bottom-line of the company. However, excluding the impact of IFRS adoption, net profit was reported higher vis-à-vis previous year. Going forward, reduction in benchmark rate will support the profitability profile.

Liquidity and capitalization indicators are considered sound

Equity base grew by ~9% during 2019 on the back of internal capital generation and revaluation surplus reported in AGP shares. Dividend payout has increased to 15% (2018: 12%). Over the years, the company has managed to reduce its average receivable days particularly in telecom segment through continuous negotiation of credit terms with customers. As a result trade debts also reduced by one-half in 2019. However, proportion of credit sales continues to remain on the higher side. Moreover, ageing profile of trade debts is considered adequate. Debt profile of the company is largely short-term in nature with total debt amounting to Rs. 15.9b at end-Sep'20. Furthermore, inventory and trade debts provide sufficient coverage for short-term debt obligations

Sound corporate governance infrastructure

M&P has a well-designed organizational structure under assigned heads, directors, and sales team for carrying out operations across all business segments. Senior management team comprises of professionals having the relevant industry experience. The company has an integrated IT infrastructure for the finance, human resources, and sales and distribution departments. The policy and procedural framework is also comprehensive. Given the company's nature as a private limited company, board composition is currently constrained.

Financial Summary *(amounts in PKR millions)*		Appendix I
	2018	**2019**
BALANCE SHEET		
Paid Up Capital	300.0	300.0
Total Equity	6,271.7	6,822.4
INCOME STATEMENT		
Net Sales	101,498.0	124,137.5
Profit Before Tax	3,204.4	2,551.5
Profit After Tax	1,173.3	878.4
RATIO ANALYSIS		
FFO	1,027.1	2,005.3
Current Ratio	1.1	1.1
Gearing	2.4	1.9

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.
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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
15-Jan-21	A+	A-1	Stable	Reaffirmed
31-Dec-19	A+	A-1	Stable	Reaffirmed
31-Dec-18	A+	A-1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Tariq Khan	Director Finance & Company Secretary	January 5, 2021