RATING REPORT

Muller & Phipps Pakistan Private Limited

REPORT DATE:
April 18, 2022

RATING ANALYST:
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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	*April 18, 2022*		*January 15, 2021*	
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 Ulabedin
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 (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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, warehousing 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 Ulabedin 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 two decades. He is a fellow member of ICAP and serves on the board of Biogene Private Limited, AGP Limited, Dawood Hercules Corporation Limited, Cyan Limited and OBS-AGP (Private) Limited. He is also serving on the boards of M&P Express Logistics

RATING RATIONALE

Corporate Profile

Muller & Phipps Pakistan Private Ltd. (M&P) has a long established operating history of more than a century 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.

Long-term Investment Portfolio

Long-term investment portfolio represents around ~10% of total asset base, comprising investments in 3 wholly-owned subsidiaries (M&P Express Logistics (Private) Ltd., Tech Sirat (Private) Ltd. and Veribest Brands (Private) Ltd.) and 1 associate (13.5% stake in AGP Limited). These investments complement and support business operations of the company.

Business Segments

M&P has a strong and diversified principal base with 57 principals segmented into four different business divisions namely; Pharmaceutical, Telecommunication, Consumer and Healthcare (HCU).

Pharmaceutical Segment:

Pharmaceutical segment continues to remain the flagship division of the company with contribution of nearly one-half in total sales. At present, the segment has 26 principals; of which top 4 constitutes ~30% of total revenue. Pharma division has depicted robust growth on a timeline basis with a 5-year CAGR reporting at ~19%. In addition, the pandemic accelerated pharmaceutical industry growth which translated into 22% segment-wise growth during 9M'21 vis-à-vis SPLY. Since last review, 3 new principals including Pfizer Pakistan Limited, OBS-AGP Private Limited and Haskan Pharma have been added.

Telecommunication Segment:

Telecom segment has registered a strong growth trend with a 5-year sales revenue CAGR reporting at 29%; exceeding growth vis-à-vis all other segments. The segment generates one-third of overall revenues with total 12 principals; of which 2 new principals including Xiaomi H.K Limited and TP Link Corporation were added during the review period. At present, the leading revenue generating principals are Samsung, Infinix and Techno Mobile Limited.

Consumer, Allied & Healthcare (HCU) Segment:

Consumer, Allied & HCU segment in total has 19 principals which constitute ~20% of the sales revenue. The leading principals in consumer segment include Unilever Pakistan Ltd and Pepsi Cola International. Going forward, the management expects healthy growth in this segment on the back of increasing population and sustained economic recovery post pandemic. Moreover, a new principal 'Unilever Asia (Private) Ltd.' was added during the period under review.

Healthcare segment is engaged in the distribution of medical devices and surgical

(Private) Limited, TechSirat (Private) Limited, TechSirat Technologies (Private) Limited, M&P Logistics (Private) Limited, Logex (Private) Limited and Veribest Brand Pakistan (Private) Limited.

instruments. Few renowned principals in HCU segment are Johnson & Johnson Middle East, Convatec International Services and 3M Pakistan Pvt Ltd.

Key Rating Drivers

Leading market position in the industry is a key rating driver.
M&P is amongst the market leaders in the distribution industry and particularly in pharmaceutical and telecom sector. The company also enjoys national distribution from principals in other business segments.

Sizeable infrastructure, sufficient resources and extensive outreach provides competitive advantage.
The company has an extensive outreach through its widespread and growing network of 128 locations comprising central warehouses, depots, service centers and vast coverage of customers. During the period under review, total 15 new locations were added while overall storage capacity has increased by ~15% over the last 24 months. The logistics function has a balanced mix of rented and owned vehicles for delivery to retail outlets & wholesale market. Total fleet size has increased by ~6% since last review. The strength of the distribution network is also characterized as one of the key rating drivers.

Business risk factors are positive given diversified business segments, exposure to top-tier clients and overall steady demand growth.
Business risk profile is supported by diversified principal base and business segments, established long-term relationships with top-tier principals and demand stability given major revenues emanating from pharmaceutical and telecom segments. Moreover, these positive factors are impacted by fragmented and competitive nature of distribution industry resulting in low margins for industry players. Given the same, pricing power also remains limited. Also, with growing documentation in the economy large distribution companies like M&P are gaining preference among the corporate sector.

Sales revenue continue to witness the double-digit growth trend while operating margins have remained in line with the industry margins.
Net sales revenue of the company has posted a 5-Year CAGR of ~19.2% and amounted to Rs. 165.1b (2020: Rs. 150.7b) in 2021 (as per unaudited figures). The growth was primarily attributable to increase in sales of existing and new principal base, particularly in pharmaceutical segment followed by telecom.

The increase in expansion of distribution network including delivery vans, addition of new locations and SLA on account of newly deployed 'Oracle Fusion', has resulted in an increase in operating overheads. Financial charges have remained at around prior years' level despite that the markup rates have increased during FY21 as against a declining trend in previous year. Considerable improvement has been noted in the effective tax on account of major shift from imported branded cellphones to locally assembled cellphones. In absolute terms, gross profit grew by ~5% in FY21; however, margins have sustained at prior year's level.

Liquidity and capitalization indicators are considered sound
Equity base crossed the Rs. 9b mark in 2020 and further grew by ~7% in 2021 on the back of internal capital generation and unrealized gain reported in AGP shares. Overall credit sales constitute ~32% of total sales while ageing profile of trade debts is

considered adequate. Debt profile is largely short-term in nature. The inventory and trade debts provide sufficient coverage for short-term debt obligations.

Corporate governance infrastructure is considered adequate.
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 seasoned professionals with relevant industry experience. IT infrastructure is considered sound with adequate system and policies in place. Moreover, oracle-based integrated ERP system named as 'Oracle Fusion' has been recently deployed. 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**	**2020**
BALANCE SHEET			
Paid Up Capital	300.0	300.0	300.0
Total Equity	6,271.7	6,822.4	9,209.4
INCOME STATEMENT			
Net Sales	101,498.0	124,137.5	150,712.4
Profit Before Tax	3,204.4	2,551.5	3,226.3
Profit After Tax	1,173.3	878.4	1,637.1
RATIO ANALYSIS			
FFO	1,027.1	2,013.1	2,987.3
Current Ratio	1.1	1.1	1.1
Gearing	2.4	1.9	2.0

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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	18-Apr-22	A+	A-1	Stable	Reaffirmed
	15-Jan-21	A+	A-1	Stable	Reaffirmed
	31-Dec-19	A+	A-1	Stable	Reaffirmed
	31-Dec-18	A+	A-1	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 Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Muhammad Tariq Khan	Director Finance & Company Secretary	March 15, 2022		