

RATING REPORT

Muller & Phipps Pakistan Private Limited

REPORT DATE:

June 14, 2023

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	June 14, 2023		April 18, 2022	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Founded in 1912 (<i>Incorporated in 1949</i>)	External auditors: EY Ford Rhodes Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Zain Ulabedin
Key Shareholders (with stake 5% or more): <i>The Getz Corporation USA – 58.71%</i>	Chief Executive Officer: Mr. Kamran Nishat

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Muller & Phipps Pakistan Private Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

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 Briogene Private Limited, AGP Limited, Dawood Hercules Corporation Limited, Cyan Limited and OBS-AGP (Private) Limited. He

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 ~7% 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. During 2022, owing to a fall in the market value of AGP Limited shares, long term investment has depicted a contraction of around ~30%.

Business Segments

M&P has a robust and diversified principal base with 61 principals segmented into four distinct business divisions including Pharmaceutical, Telecommunication, Consumer and Healthcare (HCU).

Pharmaceutical Segment:

Pharmaceutical segment continues to dominate the revenue base of the Company, with more than one half of the revenue emanating from the pharma division. At present, the segment comprises 26 principals; of which top 5 constitutes ~40% of total revenue. During 2022, The Company has on boarded three new principals namely Ferozsons Laboratories, BF Biosciences and Hamdard laboratories.

Telecommunication Segment:

Telecom segment has posted a strong growth on a timeline basis, outpacing growth vis-à-vis all other segments. The telecom segment accounts for one-fourth of the total revenue The telecom segment is further segregated into two divisions: laptop and mobile phone. The segment has 12 principals, with top two principals contributing 13% of the overall revenue base. At present, Samsung, Infinix and Tecno Mobile Limited are the leading revenue generating companies for this division (52%, 30%, and 18% respectively).

Consumer, Allied & Healthcare (HCU) Segment:

Consumer, Allied & HCU segment has an aggregate of 19 principals, representing ~20% of the sales revenue. The leading principals in consumer segment include Unilever Pakistan Ltd and Pepsi Cola International, contributing 13% to the Company's revenue base. Going forward, growth in consumer segment is expected to remain persistent in line with the demand of the consumers.

Healthcare segment is engaged in the distribution of medical devices and surgical instruments. Few renowned principals in HCU segment include Johnson & Johnson

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) Limited.

Middle East, Convatec International Services and 3M Pakistan Pvt Ltd. During 2022, the Company has on boarded Otsuka Pakistan as another principal, which would provide impetus to the topline of the healthcare segment.

Key Rating Drivers

Assigned rating incorporates M&P's leading market position in the industry

M&P is amongst the market leaders in the distribution industry, providing services to diversified category of clients, particularly in pharmaceutical and telecom sector. The company also has its presence in other business segments, including consumer, allied and healthcare sector.

Sizeable infrastructure, sufficient resources and extensive outreach continues to be the source of competitive advantage

The company has established its nationwide presence through its widespread and growing network of 135 locations comprising central warehouses, depots, service centers and vast coverage of customers. During the period under review, total 7 new locations were added. The logistics function uses a balanced mix of rented and owned vehicles for efficient delivery to retail outlets & wholesale market. Total fleet size has grown by 6%. Management continues to focus upon augmenting its outreach in order to cater to the growing consumer demand. The strength of the distribution network is characterized as one of the key rating driver.

Business risk profile derives strength from its diversified business segments, exposure to top-tier clients and overall healthy demand growth

Business risk profile draws support from its diversified principal base and business segments, established long-term relationships with top-tier principals and demand stability given that the pharmaceutical segments dominating the revenue mix. Albeit the same, these are offset by the fragmented and competitive nature of distribution industry, thereby construing into low margins for the industry. Similarly, pricing power also remains limited.

At present, telecom segment has come under distress given the operational bottlenecks faced by the mobile assemblers on the back of import curtailment measures by Government of Pakistan amid low foreign reserves, coupled with rising inflation as well as rupee devaluation. Generally, the overall industry finds itself in a challenging position on account of rising input cost led by spiraling inflation and rupee devaluation. Going forward, these factors might pose challenges for the Company.

Topline has been riding a growth trail on timeline basis, net margins have contracted on account of a sizeable finance cost

Net sales revenue of M&P has posted a growth of ~11.5% to come in at Rs.184b (2021: Rs.165b) in 2022. The growth was driven by a blend of high prices and increase in sales of existing and new principal base, particularly in pharmaceutical segment, while no growth was recorded in the telecom segment.

On the cost front, distribution expense registered the major increase on account of increase in freight cost on the back of increase in fuel prices. Despite, the increase, gross margins remained at prior year's level. Finance cost surged to Rs.2,377 million (2021: Rs.1,700 million) in 2022. The increase emanated primarily from increase in

policy rate by SBP. As a result, net margins dropped to 0.6% in 2022 (2021: 1.0%). Going forward, net margin is expected to improve given the expected reduction in short term borrowings on the back of efficient management of inventory and receivables, enabling recovery at a better pace and in turn would result in the reduction of finance costs.

Liquidity and capitalization indicators depict weakening

Following an increase in the equity base of M&P in 2021, it registered a drop of ~2% to Rs.9.7b (2021: Rs.9.9b). The decrease was the result of the unrealized loss on AGP shares. DSCR of the Company has shown a downward trajectory whereby it has weakened from 2.1x in 2020 to 1.3x in 2022. However, pressure on debt servicing is expected to ease given the anticipated decline in the short term borrowings. The inventory and trade debts provide sufficient coverage for short-term debt borrowings. Payable to associates account for about 50% of the creditors, which are being used as funding source to ease liquidity of the Company.

During last three years, management's focus has been geared towards liquidation of inventory at higher pace and rationalizing market receivables, thereby resulting in the reduction in Company's borrowings. As per management's strategy, the Company has renegotiated contracts with their principals, which has led to a reduction in the collection period for their receivables and better recovery. The proceeds against these receivables are being utilized for repayment of the short-term borrowings, thereby reducing the financial cost and resultantly improving NP margin.

Corporate governance infrastructure is considered Sound.

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 provided impetus to the IT infrastructure of the Company. Albeit the board composition is currently constrained by the Company's nature as a private limited company.

Financial Summary <i>(amounts in PKR millions)</i>	Appendix I		
	2020	2021	2022
<u>BALANCE SHEET</u>			
Paid Up Capital	300	300	300
Total Equity	9,209	9,950	9,741
<u>INCOME STATEMENT</u>			
Net Sales	150,712	165,199	184,169
Profit Before Tax	3,226	3,069	2,331
Profit After Tax	1,637	1,669	1,101
<u>RATIO ANALYSIS</u>			
FFO	2,987	2,872	2,471
Current Ratio	1.14	1.18	1.22
Gearing	2.03	1.70	1.67

REGULATORY DISCLOSURES		Appendix II			
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				
	14-June-23	A+	A-1	Stable	Reaffirmed
	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. Tariq Khan	Chief Financial Officer	March 30, 2023		
	Mr. Ghufuran Dilawar	General Manager Finance	March 30, 2023		
	Mr. Abdul Hafeez	Senior Manager Taxation	March 30, 2023		
	Mr. Atif Azeem	Senior Manager Financial Services & Credit Controller	March 30, 2023		
	Junaid Ahmed Siddiqui	Manager Finance	March 30, 2023		