

RATING REPORT

Muller & Phipps Pakistan Private Limited

REPORT DATE:

September 09, 2024

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	September 09, 2024		June 14, 2023	
Rating Outlook/ Rating Watch	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 Ul Abedin
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

<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, established as a private limited company, operates in the import, warehousing, and distribution sectors for pharmaceuticals, consumer goods, telecommunication products, and hospital care items. Additionally, the Company provides contract marketing services for various pharmaceutical firms.

Profile of Chairman

Mr. Zain Ul Abedin serves as the chairman of the Company. He has been associated with the Company for decades and has a professional experience of more than 60 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 associated with M&P for more than 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

Corporate Profile

Muller & Phipps Pakistan Private Ltd. (“M&P” or “the Company”) boasts a long operational history exceeding a century in the logistics and distribution sector. As a leading national distributor, the Company offers comprehensive logistics and distribution services across Pakistan, including cold chain warehousing, sales, marketing, and after-sales support.

Long-term Investment Portfolio

Long-term investment portfolio comprises investments worth PKR 6.4 billion in 3 wholly-owned subsidiaries (M&P Express Logistics (Private) Ltd., Tech Sirat (Private) Ltd. and Veribest Brands (Private) Ltd.) and two associates - AGP Limited and Starlight Holdings Private Limited. These investments complement and support business operations of the Company.

Business Segments

M&P boasts a diverse range of principal partners, totaling 62, which are categorized into four distinct business divisions: Pharmaceutical, Telecommunications, Consumer, and Healthcare (HCU).

Pharmaceutical Segment:

The Pharmaceutical segment has shown consistent growth in revenue contribution, increasing from 44% of total sales in 2020 to 50% in 2021, 56% in 2022, and 58% in 2023, thereby continually dominating the Company’s revenue base. Currently, this segment includes 36 principals, with the top five accounting for approximately 41% of the total revenue. In 2023, the Company on boarded four new principals: OBS Pakistan Private Limited, OBS Pharma Private Limited, Wyeth Pakistan Limited, and Servier Research & Pharma.

Telecommunication Segment:

The share of the Telecom sector in total revenues has varied over time, with its contribution standing at 19% in 2023, down from 24% in 2022 and 30% in 2021. Despite these fluctuations, the Telecom segment has experienced strong growth over the years with total number of principal base at 8 as of March 2024. Presently, Infinix, Tecno Mobile Limited, and Samsung are the leading revenue-generating companies in this division. Additionally, ZTE Corporation has recently been added as a new principal.

Consumer, & Healthcare (HCU) Segment:

The Consumer and Healthcare (HCU) segments together consist of 19 principals, accounting for about 22% of sales revenue in 2023. Leading companies in the Consumer segment include Unilever Pakistan Ltd and Pepsi Cola International, which together contribute around 12% to the Company’s overall revenue. Going forward contribution of the consumer segment is expected to increase with growth in the sector in response to consumer demand. The Healthcare segment focuses on distributing medical devices and surgical instruments.

and OBS-AGP (Private) 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) Limited.

Key Rating Drivers

Assigned rating reflects M&P's leadership position, sizeable infrastructure, sufficient resources and extensive outreach

M&P holds position of a leading player in the distribution sector serving a diverse range of business partners, with a strong focus on the pharmaceutical and telecom industries. Additionally, the Company is active in other sectors, including consumer goods, allied industries, and healthcare.

The Company has established a nationwide presence through its extensive and expanding network of over 150 locations, which includes central warehouses, depots, service centers, and broad customer coverage. During the CY23 period 15 new locations were added. The logistics function employs a balanced mix of rented and owned vehicles to ensure efficient delivery to retail outlets and the wholesale market, with the total fleet size continuing to grow. Management remains focused on enhancing outreach to address the increasing consumer demand.

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

The business risk profile benefits from a diversified principal base and business segments with a total number of principals reaching to 62 in Mar'24 including 8 new added during CY23 as well as established long-term relationships with top-tier principals. The stability of demand is supported by the pharmaceutical segment, which dominates the revenue mix. However, advantage accruing from such strengths is limited by the fragmented and competitive nature of the distribution industry, which results in low profit margins and limited pricing power.

Topline continues to grow while net margins remain under pressure

In 2023, M&P achieved a net sales revenue growth of approximately 19.1%, reaching PKR 219.3 billion, compared to PKR 184.2 billion in 2022 and PKR 165.2 billion in 2021. This growth was primarily driven by increase in sales volumes from both existing and new principal bases within the Pharma and consumer sectors and some elevation in pricing. The Pharma Sector remained the largest contributor to total revenue, accounting for 58% of the sales in 2023, followed by the Consumer Sector, which made up 20%, and the Telecom Sector, which represented 19% of the total revenues. The Healthcare Sector contributed a small 2%. Top-10 client concentration remained high at 69%, with 25% of sales coming from a single client, Getz Pharma Pvt Limited. Comfort is drawn from Getz Group's ownership of the Company and its established relationships with various Business Partners.

On the cost side, expenses rose in line with the prevailing inflationary pressures. The Company successfully maintained a gross margin of 7.1% for CY23, a slight increase from 6.9% in CY22, on account of upward price renegotiation with its principals. However, finance costs increased significantly to PKR 3.8 billion in CY23, up from PKR 2.4 billion in CY22, amid higher debt levels and high interest rates environment during the period. Short term debt increased in line with growth in business. Consequently, the net margin declined to 0.3% in 2023, compared to 0.6% in 2022. For the first quarter of CY24, the Company reported gross margins of 6.9% and net

margins of 0.3%. Looking ahead, the gross and net margins are projected to remain intact for the full year CY24.

Liquidity and capitalization indicators depict weakening but remain within manageable levels

Equity base of the Company has grown at a marginal rate of 6% in CY23 amid thin net profits and internal cash generation. The Company announced a cash dividend of PKR 60 per share totaling at PKR 180 million during CY23. This has resulted in total equity of PKR 10.4 billion at end-Dec'23, compared to PKR 9.7 billion at end-Dec'22.

The Company's debt levels rose by approximately 59.6%, reaching PKR 26.0 billion as of December 2023, up from PKR 16.3 billion in December 2022. This increase is primarily due to a surge in short-term borrowings, which reached PKR 21.9 billion in December 2023 compared to PKR 12.4 billion a year earlier. This is in line with growth in sale volumes requiring higher working capital to make advance payments for purchases from principals in order to grow the client base and the top line.

Resultantly, the gearing position of the Company has weakened to 2.5x as of Dec'23 compared to 1.7x during the prior year. Simultaneously, leverage ratio of the Company has also increased to 4.3x (Dec'22: 3.0x). The Company projects gearing and leverage position to slightly improve to 2.4x and 4.0x respectively by Dec'24.

FFO inched up to PKR 2.6 billion in Dec'23 from PKR 2.5 billion in Dec'22. FFO Coverage of the Company has slightly weakened, whereby, FFO to Total Debt coverage is 0.1x as of Dec'23 (Dec'22: 0.15x). Short-term debt coverage remained stable at moderate levels of 1.5x (Dec'22: 1.9x) during the same period indicating that inventory and trade debts provide sufficient coverage for short-term borrowings. The Company projects the Company's liquidity position for CY24 to remain at satisfactory levels with a current ratio of 1.1x.

Corporate governance and IT 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 Fusion-based integrated ERP system has provided impetus to the IT infrastructure of the Company.

FINANCIAL SUMMARY		APPENDIX -I		
	CY21	CY22	CY23	Q1'CY24
<u>BALANCE SHEET</u>				
Paid Up Capital	300	300	300	300
Core Equity/Total Equity	9,950	9,741	10,350	10,557
<u>INCOME STATEMENT</u>				
Net Sales	165,199	184,169	219,286	68,386
Profit Before Tax	3,069	2,331	2,302	746
Profit After Tax	1,669	1,101	683	207
<u>RATIO ANALYSIS</u>				
FFO	2,872	2,471	2,604	842
Current Ratio (x)	1.18	1.22	1.06	1.06
Gearing (x)	1.70	1.67	2.51	2.78

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				
	09-Sep-24	A+	A-1	Stable	Reaffirmed
	14-Jun-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. Muhammad Tariq Khan	Director Finance and Company Secretary			
	Mr. Ghufran Dilawar	General Manager Finance		Aug 22, 2024	
	Mr. Atif Azeem	Senior Manager Financial Services & Credit Controller			
	Mr. Noman Yousuf	Manager Receivables			