RATING REPORT

Premier Agencies

REPORT DATE:

December 31, 2019

RATING ANALYST:

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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	*Dec 31, 2019*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 1975	**External auditors:** M. Saleem Associates, Chartered Accountants
Partnership firm	**Chairman:** Mr. Ebrahim Qassim
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Ebrahim Qassim
Mr. Ebrahim Qassim – 60%	
Mr. Muhammad Salman Qassim – 30%	
Mr. Muhammad Idress - 10%	

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

Premier Agencies

OVERVIEW OF THE INSTITUTION

Premier Agencies was established in 1975. The company logistics and distribution services across Pakistan. Head office of the company is based in Karachi, while the company also has 44 branches across Pakistan

Profile of CEO

Mr Ebrahim Qassim is a qualified Chartered Accountant. Prior to establishing his own business, Mr. Qassim worked as a professional manager in British pharmaceutical company for 3 years in different positions. He is a seasoned businessman. Presently his own group companies are, Premier Distributors, PharmEvo (Private) Limited, Zaman Textile Mills Limited and Shield Corporation Limited. Premier *Group's associated companies where he is a Director are English Biscuits (Peek Freans), and Coronet Foods. With 20% shareholding, he is also on the board of National Foods Limited.*

RATING RATIONALE

Premier Agencies (PA) is a partnership concern engaged in the distribution of Pharmaceutical Products, FMCG Products, Stationeries, Cosmetics and Toiletries. The company provides logistics & distribution, cold chain warehousing, sales, and after sales support services to its clients. PA is a part of Premier Group of Companies – a group which has diversified business interests as indicated below:

Pharmevo (Pvt.) Limited – It is a healthcare company engaged in the creation, development, manufacturing and marketing of pharmaceutical products, including over-the-counter (OTC) medicines, medical equipment and infant formulas.

Shield Corporation Limited – Shield Corporation Limited is a manufacturer of diapers, baby care, and tooth care products in Pakistan.

Zaman Textile Mills Limited – Zaman Textile Mills (Pvt.) Limited (ZTML) is principally engaged in manufacturing, processing, sale and trading of yarn and fabric. The company has been assigned A-/A-2 ratings by VIS Credit Rating Company (VIS).

Quick and Easy – Q&E is an online grocery store with services in Karachi.

Shareholding of PA is divided among three family members with Mr. Ebrahim Qassim being the majority stakeholder. The following table depicts the pattern of shareholding:

Figure 1: Shareholding pattern

Shareholder's Name	% of shareholding
Mr. Ebrahim Qassim	60%
Mr. Muhammad Salman Qassim	30%
Mr. Muhammad Idress	10%

Rating Drivers

Significant outreach, sound information technology infrastructure and effective controls are a competitive strength of the company

The company has fairly extensive outreach across Pakistan as indicated by its widespread and growing network of warehouses (44) and vast coverage of customers touching 87,415 retail outlets, 6,858 wholesales outlets, 3,230 medical clinics and pharmacies, 1,301 modern trade outlets, 1,477 institutions and 634 sub-distributors. The company manages a fleet of more than 800 vehicles, out of which 172 of them are owned by Premier Agencies, while the remaining vehicles are deployed on contractual basis. With its structure and available resources, the company has sufficient capacity to serve a wide network of customers. Strength of distribution network is among the rating drivers.

The company has sound information technology infrastructure and well defined controls to ensure effective monitoring of the overall supply chain network. At present, the management has deployed Premier S&D Software, which is in-house developed application that provides complete solution for Sales & Distribution Management and Digital Lending. Similarly, the company has also deployed Dynamic dashboard, which empowers users with comprehensive sales data along with capacity to conduct multi-level analysis of sales data. These systems enable the management to conduct real time monitoring of inventory and sales. Going forward, the management plans to implement Microsoft Dynamics ERP system.

Business Risk Factors

Competitive landscape: Distribution industry in Pakistan is very fragmented and competitive in nature resulting in low margins for industry players. Given the thin margins and high competition, the ability to pass on increasing costs to the customers is considered low. However, increasing topline for large national level industry players partly facilitates in absorbing rising cost of doing business. Furthermore, stringent controls over costs are considered essential to protect margins.

Demand stability: Pharmaceutical, health care and Fast Moving Consumer Segments (FMCG) which constitute approximately 65% of PA's total revenues have a long history of steady demand through economic cycles. Hence, demand risk of the company is considered to be on the lower side.

Diversified operations & exposure to top-tier clients: Ratings also incorporate company's exposure to considerable number of principals with diversified operations in pharmaceutical, healthcare and FMCG segments. PA's exposure to top-tier clients especially in the pharma sector which have had an established track record over the years of outperforming peers in terms of revenue growth bodes well for the future sales of PA.

Sales Concentration Risk: Although total number of principals is sizeable, customer concentration risk is considered to be on the higher side as top 10 principals comprised 76.4% (FY18: 76.6%; FY17: 78.3%) of the company's total revenue in FY19. This risk is partly mitigated with most large clients having a long term association with the Company and high switch over cost for clients.

Interest Rate and Forex Risk: Given the operational model of distribution companies, significant investment is required to maintain inventories. In view of this requirement, the company is exposed to significant short term borrowing to fund its working capital requirements which makes it vulnerable to any upward movement in interest rates directly impacting the bottom line of the company. As part of the company's revenue is generated through imported products, the company is also exposed to foreign currency risk; however this risk not significant as imported products accounted for only 2% of the company's sales in FY19.

Other operational risk factors:

Type of Risk	Explanation	Bearer of Risk
Price Risk	The risk of decrease in product prices	Principal (PA maintains consistent margins decided with the principal in the contract and any price decrease is borne by the principal)
Product Obsolescence Risk	The risk of product becoming obsolete, outdated or expired prior to sale	Principal
Product Recall Risk	Product recall due to any defect or safety issue	Principal
Product Pilferage Risk	Theft of contents of the product by employees	PA (this risk is partly mitigated through fidelity insurance obtained by the company)
Credit Risk	Risk of default on payments by the clients	PA (The company tries to manage this risk by dealing on cash payments with clients with no or poor credit history. Considerably low bad debts in relation to company's sales historically indicate low probability of such risk)
Event Risk	Stock destruction caused by natural calamities such as rain or man-made events such as fire, riots, etc.	PA (The company covers itself against such risks through different types of insurance)
Cash in Transit Risk	Risk of theft of cash in branches or cash collected from customers	PA (The company covers itself against such risks through fidelity insurance)

Financial Risk Assessment Factors

Robust growth witnessed in historical sales, while healthy growth in sales is expected to persist going forward. However low gross margins, and sizeable finance costs translate to limited bottom line and net margins

Net Sales of the company have grown at a CAGR of 19% during the last two years (from end-FY17 to end-FY19). Growth in sales was achieved primarily on account of organic growth from existing clients, while new clients were also added to portfolio. Volumetric increase was the primary driver of growth in topline. Pharmaceutical sales segment is the largest segment of the company and accounted for approximately half of the company's sales in FY19. It is the segment which has experienced highest growth in percentage terms during the last two years followed by the household segment.

Margins are fixed in percentage terms with all the principals; however, the same vary from customer to customer. As per management, gross margins increased in FY19 due to greater proportion of higher margin accounts in overall sales mix. High overheads especially salaries and wages and vehicle fuel and rent expenses coupled with significant finance costs culminate to thin net margins of the company. Finance costs have increased due to greater utilization of short term borrowings in line with growth in sales along with increase in benchmark rates. Net profit in absolute terms has almost doubled during the last two years. Going forward, double digit growth is projected in topline on account of volumetric increase. Growth in volumes will be achieved by increasing geographic penetration in Pakistan of existing clients with sound credit history. Management expects gross and net margins to sustain at existing level.

Equity base has registered sizeable growth on a timeline basis due to profit retention, induction of capital and interest free loan from family members. Leverage indicators have remained elevated due to sizeable short-term borrowings

Equity base of the company has grown at a CAGR of 26% during the last two years. Growth in equity base has been facilitated by profit retention, induction of additional capital and injection of interest free loan from family members. A sizeable proportion of this loan is expected to remain in this company over the rating horizon. The company utilizes only short term debt to fund working capital requirements. Short term borrowings amounted to Rs. 4.2b (FY18: Rs. 3.5b; FY17: Rs. 3.2b) at end-FY19. Given the sizeable quantum of short term borrowings, leverage indicators remain elevated. Leverage and gearing ratio stood at 1.9x (FY18: 2.1x; FY17: 2.3x) and 1.5x (FY18: 1.6x; FY17: 1.8x) at end-FY19.

Liquidity profile is constrained in view of limited cash flows; comfort is drawn from coverage of short term borrowings from stock in trade and trade debts. Working capital cycle depicts room for improvement as the same has increased during the outgoing year

Given the thin margins, cash flow generation is limited in relation to its outstanding short term obligations. FFO in relation to total debt amounted to only 1.28% (FY18: 1.38%; FY17: 0.3%). However, stock in trade and trade debts provide adequate coverage for short term borrowings (FY19: 156.8%; FY18: 158.5%; FY17: 151.8%). Current ratio of the Company has remained considerably over 1(x) over the last three years. In view of the internal limited cash flow generation, capability of the company to raise and service long term debt is considered limited. The management has no significant capex requirement over the rating horizon; hence, the need to raise long term debt is also non-existent. Working capital cycle has increased in FY19 due to addition pharmaceuticals accounts with longer repayment duration to overall portfolio.

Corporate Governance framework depicts room for improvement

As PA is a family-owned partnership company, the Board is composed of family members. In line with best practices, corporate governance framework may be improved through inclusion of independent directors on board and development of board level committees. However, PA has a well-designed organizational structure with a risk management and internal audit function in place. An experienced management team with relevant industry expertise is in place. Internal controls are also considered adequate.

Ratings draw comfort from diversified business profile and demonstrated support of sponsors having sound financial profile

PA is a part of Premier Group of Companies, a group which has presence across diversified sectors including pharmaceutical, textile, and fast moving consumer goods. Ratings incorporate demonstrated financial support from the sponsors in form of capital injection and interest free loan. Financial health of sponsors is considered sound.

Premier Agencies **Appendix I**

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET	**FY17**	**FY18**	**FY19**
Capital	918	1,086	1,567
Total Equity	1,758	2,222	2,807
INCOME STATEMENT			
Net Sales	30,467	36,807	42,996
Profit Before tax	169	199	322
Profit After Tax	121	143	243
RATIO ANALYSIS			
Gearing (x)	1.84	1.59	1.49
FFO	10	49	54
FFO to Total Debt (%)	0.3%	1.4%	1.3%
Current Ratio (x)	1.41	1.44	1.48

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	Premier Agencies
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	BBB+	A-2	Stable	Initial