RATING REPORT

Premier Sales (Private) Limited

REPORT DATE:
July 07, 2022

RATING ANALYSTS:
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Rating Category	Initial Rating	
	Long-term	**Short-term**
Entity	A	A-1
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*July' 07' 2022*	

COMPANY INFORMATION	
Incorporated in 2020	**External Auditors:** M. Saleem Associates Chartered Accountants
Private Limited Company	**Chairman:** Mr. Ebrahim Qassim
	Chief Executive Officer: Mr. Rafique Jackwani

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

Premier Sales (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
Premier Sales (Private) Limited is a private limited company incorporated in 2020. The Company is engaged trading and distribution of Pharmaceutical, FMCG and Allied products. PSPL operates 60 branches in 52 cities within Pakistan. The registered office of the Company is situated at Plot No. 1-A/15, Sector-15, Korangi Industrial Area, Karachi, Sindh.	Premier Sales (Private) Limited ('PSPL' or 'the Company') was incorporated in Pakistan on January 30, 2020 as a private limited company. PSPL is principally involved in trading and distribution of Pharmaceutical, FMCG and Allied products. The Company operates 60 branches in 52 cities within Pakistan.

Rating Drivers

Ratings take into account PSPL's operational track record and sponsor profile

PSPL is part of Premier Group of Companies (PG), a Pakistan-based business conglomerate, having a diversified group portfolio across various sectors including Textile (Zaman Textile Mills (Pvt) ltd), Pharmaceutical (PharmEvo. (Pvt) ltd), Household (Shield Corporation Ltd) and E-commerce platform (QnE- Online Grocery Store)

Ratings incorporate PSPL's market positioning and long term contracts with clients

In terms of business volumes PSPL can be categorized as the second largest distribution company operating in the country. The Company provides its services to diversified category of clients from Pharmaceutical and FMCG sectors. PSPL's revenue base is diversified across segments, with the most dominant sector being pharmaceutical, comprising 45% of the sales mix as of H1'FY22. The business mix does feature some client concentration with top-5 clients comprising 52% of the topline. However, the risk is addressed by the presence of long term contracts with these clients.

Ratings incorporate business risk profile of the distribution business

VIS classifies the business risk of Distribution business as 'Medium to Low', given 'Medium to Low' competitive intensity, technology risk and energy sensitivity and 'Medium' capital intensity and cyclicality. In case of PSPL, the business risk is in line with industry risk, as can be ascertained from the stability in gross margins. PSPL's net margin does depict sensitivity to changes in cost of doing business and benchmark rates, given that Company does rely on running finance lines to fund its working capital requirements. However, as gearing has reduced over the years, net margin has improved.

Going forward, the net margins may come under pressure, given significant hike in petroleum prices observed in Q4'FY22 (up 66% QoQ). However, the inflationary pressure will also translate in uptick in product pricing and hence the revenue on each product, as the same is a percentage of the product's selling price. Accordingly, there might be a short term pressure on profitability margins. However, these are likely normalize over medium term. Nevertheless, given higher inflationary pressure expectations, the same may translate in short to medium term demand contraction, which may affect the volumetric sales of PSPL. However, the same has been incorporated into the business risk profile for distribution business. Some comfort can be derived from the segment-wise diversification and product suite managed by the Company, which comprises consumer staples and pharmaceuticals; these feature relatively inelastic demand.

Ratings incorporate financial risk indicators of PSPL and projected debt mobilization plan

Total Equity of the PSPL includes subordinated loan from related parties. This loan is unsecured, free of interest, payable on demand and is provided by shareholders and directors of the Company. The Company maintained 100% profit retention for FY21, while also raining additional equity of Rs. 300m during the year. Given the internal capital generation capacity, full profit retention and equity infusion, gearing has been on a declining trend, albeit it remained in the high to medium category as of Dec'21.

Going forward, PSPL is planning capital expenditure in the range of Rs. 500-600m, which would be financed with debt to equity ratio of 30:70. Incorporating the same into our debt projections and assuming the Company retains 100% of the profit, PSPL's gearing is expected to rise to ~2x during the rating horizon. Ratings are underpinned on full profit retention and maintenance of sponsor loans in the Company, going forward.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 Sales (Private) Limited
Sector	Distribution & Logistics
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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 Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07-July-22	A	A-1	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Waqas Kodvavi	CFO	28 June 2022
Mr. Abdul Wahab	Accounts & IT	