

RATING REPORT

Premier Sales (Private) Limited

REPORT DATE:

September 11, 2024

RATING ANALYSTS:

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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 Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	September 11, 2024		August 10, 2023	

COMPANY INFORMATION

Incorporated in 2020

External Auditors: M. Saleem Associates Chartered Accountants

Private Limited Company

Chairman: Mr. Ebrahim Qassim

Key Shareholders (with stake 10% or more):

Chief Executive Officer: Mr. Rafique Jackwani

Mubammad Jamil Qassim - 16.88%

M Haroon Qassim - 16.88%

Kulsum Bano - 19.69%

Ebrahim Qassim - 20.63%

Mubammad Salman Qassim - 16.88%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates

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

VIS Issue/ Issuer Rating Scale:

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

Premier Sales (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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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 64 branches in 58 cities within Pakistan. The head office and registered office are located in Karachi.

Premier Sales (Private) Limited (‘PSPL’ or ‘the Company’) was incorporated in Pakistan on January 30, 2020 with the head office and the registered office located in Karachi. The Company is engaged in trading and distribution of Pharmaceuticals, FMCG and Allied products. PSPL is part of Premier Group of Companies (PG), which has a diversified group portfolio across various sectors including Textile (Zaman Textile Mills (Pvt) Ltd), Pharmaceuticals (PharmEvo (Pvt) Ltd), and Household (Shield Corporation Ltd).

Operational update

The ratings reflect medium to low business risk profile of the Company wherein the principals (an entity to whom the Company provides distribution services) bear the majority of foreign exchange and expiry risks. Most of the procurements are made against advance payments, while distribution of goods is made, either on cash or credit, through a wide network of branches nationwide. A centralized order management system is in place at the Company’s head office, whereas warehousing facilities are located across all regional and branches offices. Credit risk emanating from sales on credit is managed through close monitoring and provisioning procedures.

The Company’s contracts with its principals require inventory holding of 2-4 weeks for FMCG stocks and 6-8 weeks for pharmaceuticals. PSPL relies on short-term borrowings to fund the inventories. Advance payments, also financed through short-term borrowings, are extended to some new principals, primarily in the pharmaceutical segment. Additionally, PSPL is also involved in contract marketing for two pharmaceutical companies and one beauty care company.

PSPL holds the second largest market share in the distribution sector behind Muller & Phillips (Pvt) Ltd. in terms of sales value. As of June 2024, PSPL had 64 branches across 58 cities and more than 1000 delivery vans providing distribution services to more than 60 principals. The Company has 71,000 square feet (1.63 acres) of a new warehousing facility situated at SITE Sukkur that was completed in Dec’23. Another warehouse located at SITE-II in Ahsanabad, Karachi, is nearing completion and is expected to be operational by Feb’25. This will take the total warehouse area to 155,000 square feet (3.56 acres).

Over the last two years, PSPL has added prominent international and local companies to its principals’ portfolio including Chiesi Pharmaceuticals (Private) Limited, Shan Foods, Mehran Spice & Food Industries, Pfizer Pakistan Ltd, Unilever Pakistan Foods Limited and Mitchells Fruit Farms. Furthermore, PSPL has enhanced its customer base by 6.2% in FY24. These outlets include leading retailers and pharmacies including Imtiaz Super Market, D Watson, Bin Hashim, Chase Up, Clinix, Al-Fatah Stores and Jalal Sons. Concentration risk is low given the diverse product portfolio of FMCG, medicine and allied products and considering that the top 10 clients contributed only 7.7% revenue (FY23: 7.3%) in FY24.

Rating Drivers

Despite increase in sales, margins remain suppressed due to high operating costs and financial charges

Ratings take into account the Company’s market position as one of the leading distribution companies in Pakistan with sales of PKR 138.4b in FY24. Net sales increased by 28.3% (FY23:

PKR 108.1b) in FY24 on account of growing customer base and demand stability. This growth in sales is supported by robust growth in sales of pharmaceutical segment (FY24: PKR 75.0b, FY23: PKR 53.0b) and FMCG (FY24: PKR 40.7b, FY23: PKR 35.5b). Segment-wise contribution to sales is as follows:

	FY21	FY22	FY23	FY24
<i>FMCG</i>	26%	33%	33%	29%
<i>Medicine</i>	43%	43%	49%	54%
<i>Household</i>	29%	23%	18%	16%
<i>Imported Items</i>	2%	1%	1%	1%

Gross profit increased significantly to PKR 11.1b (FY23: PKR 8.6b) in FY24. However, gross margin remained unchanged (FY24: 8.0%, FY23: 8.0%) with increase in procurement and distribution costs in tandem with rise in the topline. Operating expenses reached PKR 7.2b (FY23: PKR 6.4b) in FY24 owing to rise in salaries and wages expense. Financial charges increased to PKR 2.6b (FY23: PKR 1.5b) in FY24 on account of higher average borrowings and elevated interest rates. Boosted by strong sales and healthy gross profit, net profit increased to PKR 1.1b (FY23: PKR 428.8m) in FY24, slightly increasing the net margin to 0.8% (FY23: 0.4%) in FY24. The low net margin is consistent with the industry peers, underscoring the sector's overall margin challenges.

Net sales and net profit are projected to reach PKR 171.5b and PKR 1.3b in FY25 respectively, as per management. However, growth in profitability is largely dependent on renegotiating margins with principals coupled with enhancement in existing business lines for the sake of maintaining and improving margin in the face of increasing operating costs and financial charges, moving forward.

Debt coverages remain weak during review period

FFO increased to PKR 1.0b (FY23: PKR 539.3m) in FY24 on account of surge in profitability. FFO to total debt coverage remained low at 0.06x (FY23: 0.04x) in FY24 despite significant increase in total borrowings. DSCR showed minor improvement to 1.37x (FY23: 1.31x) at end-FY24 due to increase in FFO. Short-term debt coverage deteriorated slightly to 1.11x (FY23: 1.16x, FY22: 1.16x) in FY24 owing to growth in short-term borrowings. Similarly, current ratio decreased to 1.21x (FY23: 1.26x) at end-FY24. However, cash cycle improved (FY24: 39 days, FY23: 44 days) given improvement in inventory days. Debt coverages are expected to improve by end-FY25 on account of improvement in profitability and expectation of decrease in financial charges.

High financial risk given significant working capital requirement and ongoing capital expenditure

Total equity increased to PKR 5.1b (end-FY23: PKR 4.2b, end-FY22: PKR 3.7b) by end-FY24 on account of profit retention and sponsor support. The sponsors have been providing working capital support to the Company, which is expected to continue going forward. Sponsor loans of PKR 2.3b (end-FY23: PKR 2.3b) remain intact at end-FY24, maintenance of the same, as well as additional support from sponsors will remain important to ease off pressure on funding requirements.

Capitalization risk remains elevated with additional borrowings for working requirements as well as for funding the Company's under construction warehousing facilities at Ahsanabad, Karachi and Sukkur. As a result, total debt has increased to PKR 16.2b (end-FY23: PKR 12.4b, end-FY22: PKR 10.0b), resulting in deterioration of gearing ratio and debt leverage to 3.17x (end-FY23:

2.98x, end-FY22: 2.68x) and 3.64x (end-FY23: 3.51x, end-FY22: PKR 3.08x) at end-FY24 respectively. Going forward improvement in capitalization indicators remains important for the assigned ratings.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Premier Sales (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 Watch	Rating Action
	RATING TYPE: ENTITY				
	11-Sep-24	A	A-1	Stable	Reaffirmed
	10-Aug-23	A	A-1	Stable	Reaffirmed
	07-July-22	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 Meetings Conducted	Name	Designation		Date	
	Mr. Waqas Kodvavi	GM Finance & Admin		15-Aug-24	
	Mr. Abdul Wahab	GM Accounts & IT			
	Mr. Zohaib Yaseen	Deputy Manager Finance			