RATING REPORT

Popular International (Private) Limited

REPORT DATE:
November 03, 2022

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A	A-1
Rating Date	*November 03, 2022*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1991	**External Auditors:** Parker Russell – A.J.S Chartered Accountants
Private Limited Company	**CEO & Chairman:** Iqbal Billoo
Key Shareholders (with stake 5% or more):	
Mr. Iqbal Billo ~92%	

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

Popular International (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Popular International (Private) Limited was incorporated in 1991, as a private limited company. The company is engaged in import, warehousing, marketing and distribution of pharmaceuticals, diagnostic and healthcare products. Registered office is situated in Karachi.

Corporate Profile

Popular International (Private) Limited (PIPL) has a three-decade track record of importing, warehousing, cold storage, marketing, distribution, and after-sales support for life saving medical devices and pharmaceutical products in Pakistan. Headquartered in Karachi, the company has 9 branches/representative offices in Hyderabad, Quetta, Peshawar, Lahore, Multan, Rawalpindi, Islamabad, and Faisalabad. The Company plans to expand their on ground presence in Sukkur and Gilgit in due course. At present, staff strength stands at 115 employees.

The sponsoring family is actively involved in business affairs, and there is a qualified senior management team with extensive experience in place. The Company remains a family owned business with the third generation managing the business. Given the involvement of three brothers (3rd generation), succession risk is fairly mitigated.

Business Segments

PIPL has a strong and diversified principal base with key principals namely Medtronic, Grifols, Raas, and Acon segmented into four different business divisions namely, Surgical, Biological, Diagnostic and Diabetic.

<u>Surgical Segment:</u>

Surgical segment is the flagship division of the Company contributing about 40% to total sales historically, although over time this contribution has reduced. It involves Acute Care Surgery, General & Gastrointestinal Surgery, Pediatric, Surgical Oncology, Vascular, Cardiothoracic, and Otolaryngology (ENT) equipment and related disposables (Switchers, OT Table, OT lights, threads for stitching, valve replacement kits, mashes for hernia etc). Medtronic, one of the largest medical equipment supplier companies, remains their key partner in this segment for many years.

<u>Biological segment:</u>

Biological Division is the sole producer of life-saving vaccines and anti-sera for immunization & therapeutic use (plasma proteins) to control infectious and non-communicable diseases in the country. It represents some of the renowned parents namely GRIFOLS, RAAS, and Reliance Life Services. The segment over the years has registered strong growth and accounted for 31% of total revenues in FY22.

<u>Diagnostic Segment:</u>

The Diagnostic division comprises departments of Virology/Molecular Biology, Microbiology, Hematology, Histopathology, Cytogenetic, Chemical Pathology, and Immunology. Leading products include infectious disease kits, hematology and lab instruments.

<u>Diabetic Care Segment:</u>

Includes mainly blood glucose monitoring system, which offers accurate and reliable results with hematocrit correction for exceptional diabetes. Also includes sugar strips

Key Rating Drivers

Exclusivity with key partners allows them to position themselves as a key market player.

By virtue of partnerships with key principals, the Company commands exclusivity in the market. This is further supported by the sophisticated nature of the product as well as through the provision of technical support and after-sale service. In addition, since all products supplied are regulated, they are registered with the Drug Regulatory Authority of Pakistan (DRAP), which prevents any other player to market the same, thereby deterring competition.

In the surgical division, the subject Company commands more than 75% of the market share in General Surgery, Hernia care, and Oncology. In the Biological division, they lead the immunoglobulin and plasma proteins market, while they also command more than 60% market share in diabetes testing under the Diabetic Care division.

Diversified business segments with overall steady demand supports business risk profile.

The pharmaceutical market in Pakistan has been growing at a Compound Annual Growth rate of 13% during the last 5 years. With a large population foothold, and lower per capita health spend compared to regional peers, Pakistan presents a wealth of opportunities in the wake of growing pollution, urbanization and higher incidences of diseases.

Diverse product line of the Company from acute care surgery to life saving vaccines and other monitoring systems, provides supports to the business risk profile of the Company.

Steady topline growth year over years.

Topline of the Company has grown on a steady basis year over year mainly due to volume increases. Moreover, revenue concentration also depicts improvement on a timeline basis. Dominant contribution of surgical segment has witnessed a decline with newer segments taking a larger share of the pie. Client concentration however remains on the higher side with strategic accounts and top 10 clients constituting about 42% of FY2021 sales. Sales to government segment accounts for approx. 50% of the revenue base. While credit risk with government clientele is low, payment delays remain a concern but are well managed.

Strong gross margins relative to peers, however, margins depict a declining trend.

Margins relative to other pharma distribution companies are higher. Their unique product offering including medical equipment and related disposables allows them a higher pricing power. However, gross margins have declined on a timeline basis mainly due to exponential rise in freight costs as well as currency devaluation and entry of company into new segments. Since a sizable share of their business is against tender/bid, margins remain exposed to any cost escalation. Nevertheless, the Company has been able to maintain and improve operational efficiencies over time, which is reflective in their improved net margins over time despite gross margins taking a hit.

Sound capitalization indicators reflects conservative financial management.

In comparison to peers, capitalization indicators have remained sound, which is reflective of management's conservative financial management strategy. Leverage levels have been maintained within a comfortable range of 1x. Availment of short-term lines is mainly against tender/bid bonds. The Company has not relied on long-term borrowings historically, however, they have secured a long-term loan for property acquisition for future warehousing. Nevertheless, equity base remains small. Going forward, profit retention for strengthening equity base will remain important for ratings.

External control framework presents room for improvement.

Adequate organizational structure with appropriate departmentalization is in place for carrying out operations across all business segments. IT infrastructure is considered sound with adequate system and policies in place. Connectivity and IT infrastructure strength have been pivotal in operational efficiency. Effectively advised adding more non-executive directors to the structure of the board may help to enhance operations.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

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 II

Name of Rated Entity	Popular International (Private) Limited
Sector	Distribution & Logistics
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see 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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.
Due Diligence Meeting Conducted	see below

Rating History

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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Abdul Rahim	Director	July 25, 2022