

RATING REPORT

Popular International (Private) Limited

REPORT DATE:

December 8, 2023

RATING ANALYST:

Gul Aina Sohail

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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	Stable		Stable	
Rating Date	December 8, 2023		November 03, 2022	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 1991	External auditors: Parker Russell – A.J.S Chartered Accountants
Private Limited Company	CEO & Chairman: Iqbal Billoo
Key Shareholders:	
Mr. Iqbal Billoo – 92%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)

<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>

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.

Company Profile

Popular International (Private) Limited (PIPL or ‘the Company’) 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 over 200 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 seven different business divisions namely, Surgical, Biological, Diagnostic, Orthopedic, Diabetic, Hospitals, and Dialysis.

Surgical Segment:

Surgical segment is the flagship division of the Company contributing about 36% to total sales historically, although over time this contribution has reduced. It involves Acute Care Surgery, General & Gastrointestinal Surgery, Vascular, Surgical Oncology, Pediatric, Cardiothoracic, and Otolaryngology (ENT) equipment and related disposables (OT lights, OT Table, valve replacement kits, threads for stitching, meshes for hernia etc.). Medtronic, one of the largest medical equipment supplier companies, remains their key partner in this segment for several years.

Biological Segment:

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 steady growth and accounted for 20% of total revenues in FY23.

Diagnostic Segment:

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, belonging to renowned brands like Human Diagnostics and Acon Biotech.

Orthopedic Segment:

Orthopedic segment focuses on the branch of medicine dealing with prevention and correction of disorders and injuries of bones, ligaments, muscles, and tendons. Its leading products include Amnotech, Wright, and Stryker.

Diabetic Care Segment:

The Diabetic Care division includes mainly blood glucose monitoring system, which offers reliable and accurate results with hematocrit correction for exceptional diabetes. It also includes sugar strips. Some major brands within this segment are Potech and Acon Biotech.

Hospitals Segment:

Hospitals segment involves provision of various equipment and supplies essential for functioning hospitals. They include medical consumables, surgical instruments, and other items needed for healthcare delivery. Premium brands in this division are Bicakcilar, Amnotech, and Integra.

Dialysis Segment:

The Dialysis division is involved in provision of equipment and supplies for the treatment of kidney failure or impaired kidney functions. Leading brands under this segment comprise of LifeMed, Bain Medical, and Renacon.

Key Rating Drivers**Ratings Incorporate Strong Market Position in Respective Business Segments**

Given the sophisticated nature of the products and partnerships with major partners, the Company has acquired a prominent presence in the market. PIPL is also registered with the Drug Regulatory Authority of Pakistan (DRAP), adding to its monopoly in supply of regulated products and hence, restricting competition.

In the surgical division, surgical sutures sold by PIPL have 60% market share in the total sales of surgical disposables – contributing 33% in the revenue of the division. In the Biological division, the Company leads the immunoglobulin and plasma proteins market, commanding over 40% market share. Similarly, the Company also captures over 75% of the public sector sales of the sugar strips, making up 45% of the total revenue of the Diabetic Care division.

Business Risk Profile Supported by Diverse Business Segments

Pakistan's healthcare sector is expected to grow steadily in future. With rising population, growing health awareness, and increase in healthcare facilities, the sector experiences a plethora of opportunities due to urbanization and higher incidences of diseases. This ensures healthy demand for healthcare-related products. Therefore, the Company's business risk profile is assisted by the extensive range of divisions within PIPL, offering lifesaving drugs, surgical and hospital instruments, and vaccinations.

Expanding Infrastructure to Ensure Better Outreach

The Company maintains significant nationwide presence, owing to its 9 warehouses, covering distribution in over 106 cities across Pakistan. During FY23, PIPL underwent various projects to improve its outreach even more. The establishment of branch office in Dubai aims to facilitate foreign vendors and improve relations with suppliers. Additionally, the initiation of Popular Pharmacy acts as a vertical integration by connecting with the end-users directly through ecommerce activities. Development and implementation of future strategies to expand efficiency of such initiatives shall remain important to the ratings.

Steady Topline Growth on Timeline Basis

The Company's topline continues to experience a steady annual growth on the back of growing prices and healthy volumetric increases. Given its market position, the topline growth is expected to continue. Moreover, Surgical segment remains the dominant contributor in total revenues, followed by Biological

division, standing at around 36% and 20% respectively. Additionally, client concentration depicts slight improvement, as the top 10 clients constitute about 36% (FY: 46%) of FY23's sales.

Ratings Incorporate Uptick in Margins

Despite the instability in exchange rates during the year, PIPL maintained healthy GP margin by catering for such volatilities through pricing adjustments. Additionally, the Company has also been able to maintain its operational efficiency by controlling costs, resulting in higher operating margins. However, due to higher borrowings and interest rates, the elevated finance costs reduced the net margin improvement to 1.4%. Going forward, maintenance of margins will be critical for ratings.

Strong Capitalization and Liquidity profile

PIPL's capitalization profile remains strong on the basis of adequate equity base, 100% profit retention, and comfortable leverage and gearing levels. In the later part of FY22, the Company secured long term borrowings of Rs. 350 million to fund property acquisition for increasing warehousing. However, gearing levels remain comfortable at 0.2x and 0.24x in FY22 and FY23 respectively. The management doesn't plan on acquiring additional long-term loan or CAPEX until the existing is fully repaid. Ratings remain sensitive to profit retention for augmentation of equity base.

Improvements in IT infrastructure

IT infrastructure is paramount to operational efficiency and PIPL's IT structure and connectivity are considered sound. The Company has had a well-integrated ERP system in place for carrying out operations across business segments. During FY23, PIPL also updated the current ERP system to cloud-based, making it accessible worldwide. The management aims to increase overall productivity – especially in inventory and cash management.

Popular International (Private) Limited

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	08-12-2023	A	A-1	Stable	Reaffirmed
	03-11-2022	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.				
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Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Mr. Abdul Rahim	Director	November 7, 2023	
	2	Mr. Hassan Ashraf	Finance Manager	November 7, 2023	
	3	Mr. Ismail Muhammad	Assistant Manager – Accounts & Finance	November 7, 2023	
	4	Mr. Shehryar Ahmed	Team Lead Dialyzer Division	November 7, 2023	