

## RATING REPORT

### Ali Gohar & Company Pvt. Ltd

**REPORT DATE:**

September 28, 2018

**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-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	September 28, '18		November 07, '17	

#### COMPANY INFORMATION

Incorporated in 1968	External auditors: Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Arshad Gohar
Key Shareholders (with stake 5% or more): Mr. Arshad Gohar- 99%	Chief Executive Officer: Mr. Arshad Gohar

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Industrial Corporates (May 2016)

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

## Ali Gohar & Company Pvt. Ltd

### OVERVIEW OF THE INSTITUTION

*Ali Gohar & Company (Private) Limited (AG&C) was incorporated in Pakistan in 1968 as a Private Limited Company. The company is primarily engaged in distribution and supply of pharmaceutical products, surgical instruments and selected consumer goods. Financial statements for FY17 have been audited by Ernst & Young Ford Rhodes Sidat Hyder.*

### RATING RATIONALE

#### Leading Market Position

Ali Gohar & Company Pvt. Ltd (AG&C) is one of the leading distribution companies in the country with growing market share in all three segments that the Company operates; pharmaceutical, surgical instruments and consumer goods. The Company's client base has consistently grown over time with AG&C undertaking distribution for over a dozen principals. Majority of revenues still emanate from the pharmaceutical segment with growth noted from the surgical instrument and consumer goods segment.

#### Sound Distribution Infrastructure and Controls

Enhancing distribution infrastructure continues to be a strong focus of the management and a source of competitive advantage for AG&C. In this regard, a quality assurance department has been further strengthened during the outgoing year while a separate resource has been hired for cold chain management. Cold storage infrastructure has been strengthened and further improvements in the same are planned for the ongoing year. With its structure and available resources, the company has sufficient capacity to serve a wide outreach as evident from sizeable retail sales; strength of distribution network is among the rating drivers.

#### Low Business Risk

Ratings incorporate company's low business risk model whereby foreign currency, sales return and expiry risk is borne by the principals as per contractual arrangement for major portion of the Company's sales. The company is exposed to credit risk apart from instances where credit is given to customers on the request of the principal. In case of the latter, credit risk falls on the principal in case of default by the customer. Effective follow-up mechanism and prudent provisioning policy largely mitigates exposure to credit risk.

#### Healthy growth in revenues

After a dip in revenues in FY17, revenues recorded healthy growth during FY18. Increase in sales was a function of organic growth from existing clients, addition of new geographic regions for existing clients and increase in product portfolio for principals where AG&C has already been distributing products. Sales mix of the company is dominated by health care products contributing around two-third in total sales. Going forward, revenues for FY19 will be a function of increase in sales of existing principals and full year impact of addition of new geographic region and broadening of product range of existing principals.

#### Double Digit growth in profitability during FY18

Profit before tax witnessed double digit growth during FY18. Growth was attributable to healthy growth in revenues and higher other income attributable to increase in logistics business. Margins of the Company have largely remained stable despite competitive pressures due to increase in contribution of high margin business. Going forward, management is evaluating return on invested capital for different segments and will focus more towards high yielding segments as a part of its strategy.

**Liquidity:**

Liquidity profile of the company is considered sound in view of healthy cash flows. AG&C's working capital cycle is favorable given the extended payment period from its principals. While trade debts have increased on a timeline basis, ageing profile of trade debts is considered satisfactory; however utilization of short-term borrowings witnessed an increase during FY18 due to higher stock levels carried on the balance sheet. Increase in inventory levels pertained primarily to one principal. As per management, inventory levels and resultant borrowings are expected to decline in the ongoing year. Despite increase in borrowings, leverage indicators continue to be maintained at prudent levels. Going forward, future level of leverage indicators will continue to be tracked by JCR-VIS.

**Capitalization:**

Capitalization levels of the company have strengthened overtime on account of profit retention. Historically, majority of the company's profits have been retained internally in order to meet growth targets.

**Corporate Governance**

Overall corporate governance framework is supported by stable and professional management team and sound IT infrastructure.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Ali Gohar & Company Pvt. Ltd				
<b>Sector</b>	Distribution				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	RATING TYPE: ENTITY				
	09/28/2018	A	A-2	Stable	Reaffirm
	11/07/2017	A	A-2	Stable	Reaffirm
	3/03/2016	A	A-2	Stable	Upgrade
	4/16/2015	A-	A-2	Positive	Maintained
	1/21/2014	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-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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