

Report Date: January 21, 2014

Rating	Initial
Entity Rating	A-/A-2
Outlook	Stable
Date	Jan 21, '14

Ali Gohar & Company (Private) Limited

Rating Rationale

Distribution industry in Pakistan is highly fragmented with significant number of regional distributors. In recent times, increasing trend towards consolidation has been witnessed with large players in the fast moving consumer good and pharmaceutical industry moving towards national distribution arrangements. Ali Gohar & Company (Private) Limited (AG&C) benefits from its positioning as one of the leading national level distributor in the country, providing coverage across Pakistan through 20 distribution centers. Apart from pharmaceuticals, which is the company's primary business segment, the company is also involved in distribution of beauty products and select fast moving consumer good items.

The assigned ratings incorporate low business risk and sound financial risk profile of AG&C. Ratings also reflect company's status as one of the leading national distributor in the country, stable positive cash flows, experienced & professional management team and favorable working capital cycle which results in limited external funding requirements. Moreover, the company has a dominant share of distribution in specific specialized segments. AG&CL has a robust distribution network and the use of technology allows the company to actively monitor operations. Exchange risk on imported goods is borne by principals in addition to which a sizeable portion of trade debt is also recoverable from the company's principals.

While there is concentration in sales with top three principals, comprising the company's core customer base (from the pharmaceutical segment), accounting for over two-thirds of total sales, these companies have had a lengthy association with AG&CL. Steady demand for pharmaceutical products of these companies contributes to stable operating profile for the company. Management expects incremental distribution volumes and improved long-term top-line growth prospects from its association with a newly added principal in FY13. Despite discontinuation of certain loss making clients in FY13, the company has projected steady growth in sales on account of expected addition of new principals along with anticipated organic growth from existing principals.

In lieu of the distribution services, the company charges a fixed margin which have remained largely steady. Margins tend to be higher for the medical devices segment where sales have witnessed an increase recently. Gross profit in absolute terms has witnessed an increasing trend on account of growth in sales. Given the fixed nature of distribution margins in the industry, bottom line profits have not increased at the same pace, in the back drop of rising cost of doing business. In absolute terms, net profit has increased on a timeline basis. Going forward, enhanced focus on specialized segments is planned in order to augment margins and profitability.

AG&CL enjoys a favorably working capital cycle, with an extended period allowed for payment to principals while conversion of inventory into cash takes a much shorter time. Significant increase in trade debts outstanding for more than a year in recent periods has partly been on account of delays in repayments by government entities. Risk of non-payment is mitigated to an extent as a sizeable portion is recoverable from the principal with the remaining pertaining to government entities where eventual recovery is expected.

Net equity of the company has increased over time on account of profit generation. The company did not have any debt on its balance sheet at year-end FY13. Funds from operations have remained steady for the past two years. There are no plans to acquire debt and capital expenditure is proposed to be funded through internal sources, as in the past. Moreover, AG&CL carries sizeable liquid assets on its balance sheet.

About the Institution:

Ali Gohar & Company Limited (AG&CL) 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 FY13 have been audited by Ernst & Young Ford Rhodes Sidat Hyder

Chairman & CEO: Mr. Arshad Gohar

Rating Analyst:

Sobia Maqbool, CFA
Talha Iqbal

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
01-Jan-14	A-	Stable	A-2	Initial