

RATING REPORT

Ali Gohar & Company Pvt. Ltd

REPORT DATE:

November 23, 2017

RATING ANALYSTS:

Muniba Khan

muniba.khan@jcrvis.com.pk

Sidra Ahsan Qureshi

sidra.qureshi@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A	A
Rating Date	November 07, '17	March 03, '16
Rating Outlook	Stable	Stable
Outlook Date	November 07, '17	March 03, '16

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):	Chief Executive Officer: Mr. Arshad Gohar
Mr. Arshad Gohar- 99%	

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 FY16 have been audited by Ernst & Young Ford Rhodes Sidat Hyder.

RATING RATIONALE

Ratings assigned to Ali Gohar & Company Pvt. Ltd (AG&C) derive strength from a sound distribution infrastructure yielding a low business risk and strong financial profile to the company. Current ratings also take into account AG&C's status as one of the leading national distributor in the country. Distribution industry in Pakistan is fragmented and competitive in nature resulting in low margins for industry players. With its structure and available resources, the company has sufficient capacity to serve a wide outreach; strength of distribution network is among the rating drivers.

In order to cover its business risk, AG&C has negotiated contractual agreements with its principals according to which foreign currency, sales return and expiry risk are borne by latter themselves. Credit may be extended to the customers on the request of principals, in which case credit risk is borne by the principal in case of default.

Sales & Profitability:

Net sales of the company have depicted a decline on account of one of its top contributors in sales exiting. However, in order to retrieve revenue base, company is making efforts to grow organically as well as adding new principals to its current portfolio. During FY17, distribution of products from newly added principals includes both health care products and FMCGs. Sales mix of the company is dominated by health care products contributing 65% in total sales. Given a higher margin offered in this particular segment, proportion of the same is projected to remain high. During FY17, reduced sales together with higher administrative expenses translated into a lower bottom line.

Capitalization:

Capitalization levels of the company have strengthened overtime on account of profit retention and minimal dividend payments. Historically, majority of the company's profits have been retained internally in order to meet growth targets. As per management, dividends paid by the company will continue to remain limited, going forward.

Liquidity:

Liquidity profile of the company is considered sound in view of improving cash flows and sizeable liquidity carried on balance sheet. While trade debts remain at manageable level, absolute amount of the same increased. Moreover, ageing profile of trade debts has slightly weakened on a timeline basis. AG&C's working capital cycle is favorable given the extended payment period from its principals; the same has slightly deteriorated during FY17. As a result, utilization of short-term borrowings witnessed an increase during the year to fund working capital requirements. Given the increase in equity base and limited debt levels, leverage indicators have remained on the lower side. Going forward, management will need to ensure that leverage indicators remain at similar levels.

Outlook:

Going forward, given the organic growth through existing clients, freshly negotiated agreements with new clients as well as upcoming arrangements are together expected to bring improvement in the company's sales. Moreover, exclusive arrangements with the incoming principals for high margin products are expected to translate into improved profitability. Nonetheless, given the ongoing stringency in business environment such as strict regulatory requirements, extensive due diligence exercise by principals and new inspection standards by clients, AG&C's management's key focus will remain to meet the quality standards and comply with regulations.

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

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

(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

'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.

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