



The Pakistan Credit Rating Agency Limited

Rating Report

Global Marketing Services

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Nov-2019	BB+	A3	Stable	Maintain	-
14-May-2019	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Global Marketing Service (GMS) derives revenue from sales of medical equipment and other supplies, which serve as a key ingredient in the health diagnostic sector. GMS has two primary segments of operations: Clinical and Cardiac. Cardiac division is being made an independent partnership, in which the current partners holding directly and indirectly is approx. 80%. There is intense competition in the sector, as evident from falling margin and heightened cost of doing business. GMS is striving to hold its position. The firm is led by Mr. Zafar, Owner, as assisted by other partners, some of whom are long standing with the firm. The ratings of GMS reflect its adequate business fundamentals. The firm imports all of their inventory, hence exposed to currency fluctuation and pricing risk. GMS is poised to derive benefits from new product-line introduced under cardiac division, though currently in red zone. This could help GMS to diversify in different segments and reduces the concentration risk. Overall financial profile is characterized by low capital base and formal and non-formal leveraging. Although profitability has been deteriorated, the company has designed a strategy to boost the same. The important development is that the medical division has turned into profitable operations in the latest period.

The ratings are dependent on the company's ability to sustain business volume and margins. In the wake of dwindling profitability, upholding financial discipline is important.

Disclosure

Name of Rated Entity	Global Marketing Services
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Pharmaceutical(Apr-19)
Rating Analysts	Usama Liaquat usama.liaquat@pacra.com +92-42-35869504

Profile

Legal Structure Global Marketing Services (hereinafter referred to as 'the firm' or 'GMS') was incorporated in March 1999 as a firm registered under Partnership Act, 1932.

Background Serving the health industry since 2000, the firm has steadily expanded its line of products and created a presence in various diagnostic markets, attaining a respective stature in healthcare and Research/Life Science Solutions. The firm also runs a cardiac division to provide consumables for cardiac medical devices.

Operations The firm is engaged in supply of pharmaceuticals, healthcare and life science solutions from more than 30 manufacturers around the globe. Firm's focus areas include biomedical investigation, research, life sciences, blood banking, hematology and other medical devices. Corporate head office of the firm is in Islamabad. Corporate, Marketing, Distribution and Storage facilities are located in Rawalpindi.

Ownership

Ownership Structure Mr. Zafar Mehmood holds majority ownership (68%) of the firm. Remaining ownership is held by Mr. Muhammad Ayub (20%) and Mr. Fahad Ahmed Khan (12%). 80% of the ownership of medical division is held by Mr. Zafar, while the remaining 20% is equally held by Mr. Asif Mahmood and Malik Saeed.

Stability The sponsors have drafted a formal partnership agreement. Although, Mr. Zafar and Mr. Ayub have strong business relationship of 20 years, there is a need for formal succession planning in order to ensure future prospects of the firm are taken care of in the hour of need.

Business Acumen The sponsors have business presence of 20 years. Mr. Zafar has set up ViSol group of companies that undertakes the supply of pharmaceuticals, healthcare and life science solutions. ViSol represents strategically placed business hubs providing maximum coverage across GCC, Asia, Africa and North America.

Financial Strength Financial strength of the sponsors is considered adequate as they have been able to finance the business through capital injection. Further, Mr. Zafar has previously forwarded an amount of ~PKR 260mln to the firm as interest-free loan. Additional capital was injected by sponsors in the medical division, about PKR 125 mln in FY19

Governance

Board Structure The overall control of the firm vests in two sponsors, Mr. Zafar Mahmood (CEO) and Mr. Ayub (director of operations) who are involved in the decision making tasks for running the company.

Members' Profile The sponsors have expertise of relevant industry. Mr. Zafar also looks after ViSol group of companies in its corporate office in UAE. Both the sponsors hold degree of MBA from University of Azad Jammu & Kashmir and have an experience of 20 years in the business

Board Effectiveness Although compliance of corporate governance is not necessary for the firm but for there is a room for better governance – appointment of independent director on the board. CEO chairs meeting of all departmental heads, held on periodic basis, to review performance and set targets.

Financial Transparency The external auditors of the firm, Zahid Farooq & Co. Chartered Accountants, expressed an unqualified opinion pertaining to annual financial statements for FY18. There is a room for improvement as internal controls of the firm are not subject to any internal audit and further, external auditor of the firm is not listed on SBP's panel of auditors.

Management

Organizational Structure The firm has a well-defined organizational structure, divided into various functional departments including (i) Supply Chain, (ii) Operations, (iii) Sales & Marketing, (iv) IT, (v) Finance, (vi) Quality Management, and (vii) Business Development.

Management Team Mr. Zafar Mahmood, CEO, has industry presence of around 20 years which gives him ample experience and business acumen to run the business successfully. Apart from the firm, Mr. Zafar holds majority shares in ViSole group of companies, which operates in GCC, Asia, Africa and North America. He is accompanied with an experienced management team, which has long association with the firm.

Effectiveness Functions of the management are clear and well defined to effectively achieve its underlying objective. Internal controls are in place and have been effectively implemented including extensive supply chain management procedures to ensure efficient receipt, storage and transport of stock.

MIS The firm has installed SAP 9.3 based software from Ms. Abacus Consulting. Senior management including CEO monitors business performance through key MIS reports.

Control Environment The firm has a separate compliance department that regularly monitors effective implementation of internal controls through compliance audits and reports instances of non compliances to the board on monthly basis. Global Marketing is the first medical firm of Pakistan to earn certification for ISO 9001:2015 & Good Distribution Practice for Medical Devices (GDPMD).

Business Risk

Industry Dynamics Healthcare services industry is considerably a low risk industry in view of limited demand cyclicality. Healthcare services and medical devices are in high demand in view of supportive demographic trends with ageing population, growth in income levels and continuous emergence of new diseases.

Relative Position The firm enjoys exclusive alliances with world leading principals in the In Vitro Diagnostics, Transfusion Medicine, Disposable and other allied segments. Global Marketing has achieved sustained ranking in the top quartile of industry.

Revenues In FY19, topline of the firm clocked-in at PKR 1,672mln (FY18: 1,509mln, FY17: 952mln) up by ~10.8%, a humble growth rate as compared to last years 59% increase. The substantial increase was underpinned by new product line brought in under Medical (Cardiac) Division raising revenue stream up PKR 281mln (FY18: 238mln). Major customers for Medical division included NICVD, AFIC, PIAC and HMC. The firm generates revenue in accordance to seasonal trend, as public sector executes major contracts near year end. Revenue brought in by clinical division is almost 3 times that of medical division, however it is minimally translated into profitability.

Margins There was a slight increase in gross margins of the firm to 28% (FY18: 25%, FY17: 37%) -which was mainly due to improved gross profit of the medical division which increased almost 250%- However, this did not proportionately trickle into the net profit, since "Currency devaluation, increase in duties and operational costs" contributed to increase in 'cost of sales' of the firm to PKR 1,192mln in FY19 (FY18: 1,126mln; FY17: 596mln). Moreover, there was an Exchange loss of PKR 89 mln (FY18: 35mln, FY17: 7mln) and Finance cost jumped to PKR 73mln (FY18: 41mln, FY17: 24mln) due to increase in interest rates. All these factors further deteriorated the profitability, as the firm posted net profit of PKR 44mln (FY18: 47mln, FY17: 99mln) with almost same contribution from both divisions. Upon a separately conducting vertical analysis of the divisions it is revealed that 4% of revenue from Medical Div is translated into profit, as compared to Clinical Div where PAT/Revenue is only 1% despite a much higher turnover.

Sustainability With PKR 125mln capital injection after the 200mln injected last year, the firm eyes growth in the newly introduced medical division. In addition to consumables product-line, firm has contracted supply of cardiac medical devices costing PKR 20mln each to AFIC and HMC.

Financial Risk

Working Capital Although the firm maintained its stock in trade, the net working capital days increased to 101 days (FY18: 94 days, FY17:113 days) due to delay in receivables and payables. The firm has a healthy current ratio with slight decrease over the years FY19: 2.2x (FY18: 2.7x; FY17: 3.5x).

Coverages Free Cash Flow from operations of the firm stood at PKR 127mln (FY18: 121 mln, FY17: 151 mln). Increase in finance cost has resulted in the overall decrease in coverage ratios as the interest coverage ratio of the firm fell to ~2.1x (FY18: ~3.6x, FY17: ~6.8x). Clinical Div invested PKR 132mln into the Medical div, which explains the increase in debt of MD, however the sponsors do not consider the firm has any significant markup risk, since majority of these debts are secured and considered good.

Capitalization Total debt of the firm as at FY19 stood at PKR 343mln (FY18: 309mln, FY17: 204mln). Out of which PKR 170mln is an interest free loan advance issued by the sponsor, Mr. Zafer Mahmood, and the remaining amount is obtained from associates of sponsors. The Debt to Debt + equity ratio decreased to 31% (FY17: 33%) which indicates a constricting room-to-borrow. The non-funded facility of Site & Usance L/C was obtained from JS Bank and is secured against property owned by sponsors.



Global Marketing Services Pharmaceutical	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	205	159	127
2 Investments	-	-	-
3 Related Party Exposure	135	2	2
4 Current Assets	1,394	1,216	850
a Inventories	517	371	376
b Trade Receivables	511	440	163
5 Total Assets	1,734	1,377	979
6 Current Liabilities	632	448	246
a Trade Payables	533	377	199
7 Borrowings	173	95	55
8 Related Party Exposure	170	214	159
9 Non-Current Liabilities	-	-	-
10 Net Assets	759	621	519
11 Shareholders' Equity	759	621	519

B INCOME STATEMENT

1 Sales	1,672	1,509	952
a Cost of Good Sold	(1,192)	(1,126)	(596)
2 Gross Profit	480	383	357
a Operating Expenses	(270)	(229)	(212)
3 Operating Profit	210	154	145
a Non Operating Income or (Expense)	(86)	(31)	6
4 Profit or (Loss) before Interest and Tax	123	122	151
a Total Finance Cost	(79)	(45)	(26)
b Taxation	-	(31)	(27)
6 Net Income Or (Loss)	44	47	99

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	127	121	151
b Net Cash from Operating Activities before Working Capital Changes	127	82	127
c Changes in Working Capital	-	(211)	(140)
1 Net Cash provided by Operating Activities	127	(129)	(13)
2 Net Cash (Used in) or Available From Investing Activities	-	(65)	(99)
3 Net Cash (Used in) or Available From Financing Activities	-	158	136
4 Net Cash generated or (Used) during the period	127	(36)	23

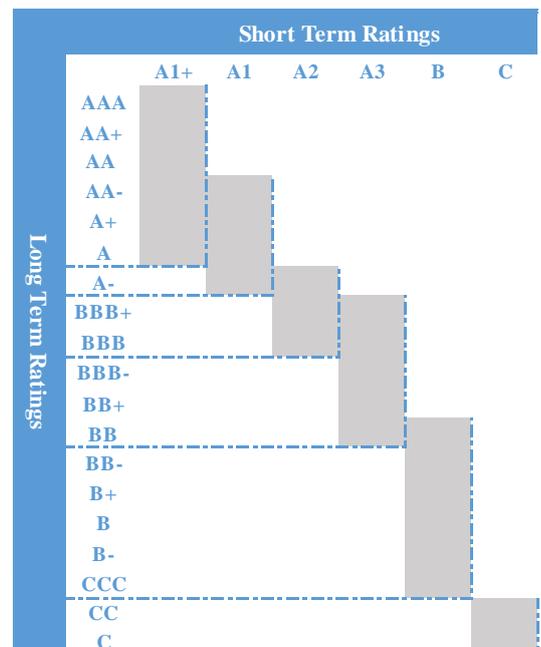
D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	10.8%	58.5%	19.5%
b Gross Profit Margin	28.7%	25.4%	37.4%
c Net Profit Margin	2.7%	3.1%	10.4%
d Cash Conversion Efficiency (EBITDA/Sales)	9.2%	9.8%	17.5%
e Return on Equity (ROE)	6.4%	8.2%	21.5%
2 Working Capital Management			
a Gross Working Capital (Average Days)	201	163	184
b Net Working Capital (Average Days)	101	94	113
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.2	2.7	3.5
3 Coverages			
a EBITDA / Finance Cost	2.1	3.6	6.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	2.9	6.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.4	3.9	1.7
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	31.2%	33.2%	29.1%
b Interest or Markup Payable (Days)	99.2	69.2	30.7
c Average Borrowing Rate	22.4%	15.9%	15.5%

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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