The Pakistan Credit Rating Agency Limited

Rating Report

Global Marketing Services

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Sep-2024	BBB+	A2	Stable	Upgrade	-
19-Sep-2023	BBB	A2	Stable	Maintain	-
23-Sep-2022	BBB	A2	Stable	Maintain	-
23-Sep-2021	BBB	A2	Stable	Upgrade	-
23-Sep-2020	BBB-	A3	Stable	Upgrade	-
13-Nov-2019	BB+	A3	Stable	Maintain	-
14-May-2019	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Global Marketing Services (GMS or "the Company") has established a strong reputation within the clinical and medical laboratory equipment sector, which plays a crucial role in health diagnostics. GMS operates through two distinct business divisions: Clinical and Medical. These divisions encompass a diverse range of products, including offerings from core and molecular diagnostics, Onco DX, medical and hospital solutions, and clinical genomics. The Clinical division contributed ~71% to the topline during FY24 and focuses on laboratory diagnostic and testing equipment, while the Medical division contributed ~29% to the topline during FY24 and primarily specializes in equipment related to cardiology, electrophysiology, surgical connections, and infection prevention technologies. The rating upgrade reflects a substantial growth of approximately ~23% in the Company's top line during FY24, along with improved profitability margins at all levels, despite a challenging macroeconomic environment characterized by high inflation and elevated interest rates during much of the year. However, GMS benefited from the stabilization of the PKR during FY24, further bolstering its financial performance. Additionally, the ratings also take comfort from the Company's strong relationships with over 15 globally recognized principals, including Biomerieux, Abbott Medical, Cordis, Johnson & Johnson Medical, and Steris Corporation, as well as its robust customer base comprising esteemed health institutions in both public and private sectors. The recent acquisition of a sizeable product range of Abbott Medical has remained instrumental in sales growth of ~48% in the medical division. Looking ahead, the sponsors plan to corporatize both business divisions separately. The process for the Medical division is already underway, with the existing operations being transferred to "Global Medical Solutions (Pvt) Ltd." However, completion is contingent upon navigating the technicalities associated with transferring the business to the new entity, particularly in light of relevant DRAP regulations. GMS has implemented an internal audit and compliance function that conducts regular audits to ensure adherence to pertinent quality standards. The Company is led by Mr. Zafar, the majority stakeholder in both divisions, with support from other partners. As GMS imports all of its inventory, it is susceptible to currency fluctuations and related foreign exchange risks. To mitigate these risks, the Company has secured long-term contracts with major customers, allowing it to price products based on the prevailing USD exchange rate. The current governance structure lacks formal board committees and independent oversight thus depicts room for improvement.The overall financial risk profile of GMS is characterized by sound working capital management, stable cash flows and coverage, a solid capital base, and a non-leveraged capital structure. The Company is well-positioned to sustain its position as health awareness increases, prompting greater public focus on personal well-being and preventive healthcare.

The ratings are contingent on the firm's ability to sustain its top line, maintain profitability metrics, and generate sufficient cash flows to drive growth. Successfully executing the proposed business and corporatization plan is essential. Furthermore, improvement in the governance structure shall remain imperative.

Disclosure

Name of Rated Entity	Global Marketing Services
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Pharmaceuticals(May-24)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@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 the Partnership Act, 1932.

Background Since its establishment in 2000, the firm has consistently broadened its product offerings and established a strong presence in lab diagnostic equipment market, gaining significant recognition in the healthcare and research/life sciences sectors. Additionally, the company operates a dedicated cardiac division that supplies consumables for cardiac medical devices.

Operations The firm supplies pharmaceuticals, healthcare, and life science solutions from over 30 manufacturers worldwide. It operates through two divisions: Clinical and Medical. Key focus areas include biomedical research, life sciences, blood banking, hematology, and various medical devices.

Ownership

Ownership Structure Mr. Zafar Mahmood holds a majority stake in the clinical division, owning 68% of the shares, followed by Muhammad Ayub with 20% and Miss Naheed Dilshad with 12%. In the medical division, Mr. Zafar Mahmood holds a 58% ownership stake, while Miss Naheed Dilshad holds 32% and Mr. Muhammad Ayub owns 10%.

Stability The sponsors have created a formal partnership agreement. Mr. Zafar Mehmood and Mr. Ayub have maintained a strong business relationship for over 20 years. However, there is a pressing need for a structured corporatization plan and a formal succession strategy, which would significantly enhance the stability of ownership.

Business Acumen The sponsors have a business presence of more than two decades. Mr. Zafar Mahmood 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. Moreover, Mr. Ayub also has extensive experience in the relevant industry spanning over 2 decades.

Financial Strength The sponsors' financial strength is deemed adequate, as they have successfully financed the business through capital injections. Additionally, they provide supplementary financial support through equity when necessary.

Governance

Board Structure The board comprises three sponsors which include Mr. Zafar Mahmood (CEO of the Company), Mr. Ayub (director of operations) & Ms. Naheed Dilshad.

Members' Profile The sponsors possess extensive expertise in the relevant industry. Mr. Zafar Mehmood also oversees the ViSol Group of Companies from its corporate office in the UAE. Both Mr. Zafar Mahmood and Mr. Muhammad Ayub hold MBA degrees from reputable universities and bring over 20 years of experience in business. Additionally, Ms. Naheed Dilshad is a medical graduate and a qualified healthcare practitioner.

Board Effectiveness While compliance with corporate governance is not mandatory for the firm, there is an opportunity for improved governance through the appointment of independent directors and chairman to the board. The CEO chairs regular meetings with all departmental heads to review performance and establish targets.

Financial Transparency The firm's external auditors, Suriya Nauman Rehan & Co. Chartered Accountants, listed in the category "B" on the SBP's panel of auditors, expressed an unqualified opinion on annual financial statements for FY24. GMS has also set up an internal audit department that directly reports to higher management. Monthly reports are being generated which are reviewed by them as well.

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, the CEO, has over 20 years of industry experience, equipping him with the expertise and business acumen necessary for successful leadership. He is supported by an experienced management team that has long been associated with the firm. Mr. Shahid Hussain serves as the Director of Sales, holding an MBA and bringing over two decades of relevant industry experience. Additionally, there is an urgent need to fill the currently vacant CFO position.

Effectiveness The management functions are clearly defined and designed to effectively achieve the organization's objectives. Internal controls have been successfully implemented, including comprehensive supply chain management procedures that ensure efficient receipt, storage, and transport of stock. However, the absence of formal management committees represents an opportunity to enhance the overall effectiveness of the management structure.

MIS The firm has implemented SAP 9.3-based software from M/S Abacus Consulting. Senior management, including the CEO, monitors business performance through key Management Information System (MIS) reports. Well-designed dashboards are utilized and real-time variance analyses is conducted to enhance the effectiveness of decision-making.

Control Environment The firm has established a dedicated internal audit department that regularly assesses the effective implementation of internal controls through compliance audits, reporting any instances of non-compliance to the board on a monthly basis. Notably, GMS is the first medical firm in Pakistan to achieve certification for ISO 9001:2015 and Good Distribution Practice for Medical Devices (GDPMD).

Business Risk

Industry Dynamics The healthcare services industry is considered a low-risk industry in view of limited demand cyclicality. During FY24, the size of the industry was recorded at PKR 918bln reflecting a growth of ~22% YoY. According to IQVIA report the top ten pharmaceutical companies constitute ~49% of the market. Owing to the significant reliance of the sector on imported raw materials (APIs), it is inherently exposed to the risk of exchange losses due to currency fluctuation. Increased borrowing costs due to elevated interest rates also hindered the profitability growth of the sector. However, DRAP's approval for price adjustments, deregulation of prices of non-essential drugs, PKR stabilization, and reduction in policy rate have provided the industry with some breathing space during the recent quarters.

Relative Position The company has established exclusive alliances with world-leading principals in the fields of In Vitro Diagnostics, Transfusion Medicine, disposables, and other related segments, including Biomerieux, Abbott Medical, Steris, and Cordis, among others. These partnerships provide the company with a competitive edge and have positioned Global Marketing among the top quartile of the industry.

Revenues In FY24, the top line of the firm clocked in at PKR 5,350mln (FY23: 4,356mln) reflecting a growth of ~23% YoY driven by a mix of price adjustments and volumetric growth. The clinical division contributed ~71% to the topline followed by the contribution of ~29% during the year. Major customers of the Company include The Agha Khan Hospital, Shaukat Khanum Memorial Cancer Hospital, Chughtai Lab, Punjab Institute of Cardiology among others.

Margins During FY24, the Gross margin of the firm inclined to 31.1% (FY23: 28.6%) Moreover, the net profit of the company also improved to 9.2% (4%, FY23) owing to price adjustments and PKR stabilization. The company's bottom line remained at PKR 495mln during FY24. (PKR 495mln, FY23).

Sustainability With the PKR 220mln capital injected in FY24, the firm eyes growth in the medical division which has shown a growth of ~48% during FY24 after the induction of the Abbott portfolio. Further, detailed financial projections are prepared and reviewed periodically to assess sustainability.

Financial Risk

Working Capital GMS maintains a stretched working capital cycle owing to credit-based sales and maintenance of buffer stock. The firm's net working capital cycle remained static at 134 days during FY24 (135 days, FY23). The firm's current ratio has decreased slightly to 2.5x in FY24 (FY23: 2.5x)

Coverages Free Cash Flow from operations (FCFO) of the firm stood at PKR 800mln in FY24 (PKR 382mln, FY23). Meanwhile, the firms' finance costs increased to PKR 149mln during FY24 (PKR 104mln, FY23). A substantial increase in FCFO resulted in improved coverages as reflected by the interest coverage ratio of 8.2x in FY24 (3.8x, FY23). Moreover, the debt payback ratio also improved to 0.1 (1.5, FY23)

Capitalization The total debt of the firm as of FY24 stood at PKR 193mln (FY23: 284mln). ~53% of the debt comprises an interest-based loan issued by the sponsors while PKR 90mln is availed through financial institutions. The leverage ratio decreased to 5.9% in FY24 (FY23: 10.2%). The non-funded facility of Site & Usance L/C has been obtained JS Bank.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Global Marketing Services	Jun-24	Jun-23	Jun-22
Pharmaceutical	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	437	233	276
2 Investments	-	-	-
3 Related Party Exposure	40	-	-
4 Current Assets	4,681	3,880	3,459
a Inventories	*1,867*	*1,543*	*1,106*
b Trade Receivables	*2,055*	*1,170*	*1,335*
5 Total Assets	5,158	4,113	3,735
6 Current Liabilities	1,884	1,326	1,117
a Trade Payables	*1,410*	*1,054*	*871*
7 Borrowings	27	-	-
8 Related Party Exposure	103	284	184
9 Non-Current Liabilities	-	-	-
10 Net Assets	3,144	2,502	2,434
11 Shareholders' Equity	3,081	2,502	2,434
B INCOME STATEMENT			
1 Sales	5,350	4,356	4,540
a Cost of Good Sold	*(3,686)*	*(3,108)*	*(3,160)*
2 Gross Profit	1,664	1,248	1,380
a Operating Expenses	(651)	(512)	(557)
3 Operating Profit	1,013	736	823
a Non Operating Income or (Expense)	*(138)*	*(302)*	*(178)*
4 Profit or (Loss) before Interest and Tax	876	434	645
a Total Finance Cost	*(149)*	*(104)*	*(104)*
b Taxation	*(232)*	*(158)*	*(125)*
6 Net Income Or (Loss)	495	172	416
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*800*	*257*	*510*
b Net Cash from Operating Activities before Working Capital Changes	*800*	*257*	*510*
c Changes in Working Capital	*(1,046)*	*(272)*	*(414)*
1 Net Cash provided by Operating Activities	(247)	(14)	96
2 Net Cash (Used in) or Available From Investing Activities	(45)	(9)	(42)
3 Net Cash (Used in) or Available From Financing Activities	82	(104)	(181)
4 Net Cash generated or (Used) during the period	(210)	(128)	(127)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	22.8%	-4.1%	-12.7%
b Gross Profit Margin	31.1%	28.6%	30.4%
c Net Profit Margin	9.2%	4.0%	9.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.6%	-0.3%	2.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	17.7%	7.0%	18.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	226	216	179
b Net Working Capital (Average Days)	142	135	115
c Current Ratio (Current Assets / Current Liabilities)	2.5	2.9	3.1
3 Coverages			
a EBITDA / Finance Cost	8.2	5.7	9.3
b FCFO / Finance Cost+CMLTB+Excess STB	8.2	3.8	8.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	1.5	0.4
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	4.0%	10.2%	7.0%
b Interest or Markup Payable (Days)	187.6	138.0	47.5
c Entity Average Borrowing Rate	46.9%	39.6%	25.3%

Credit Rating

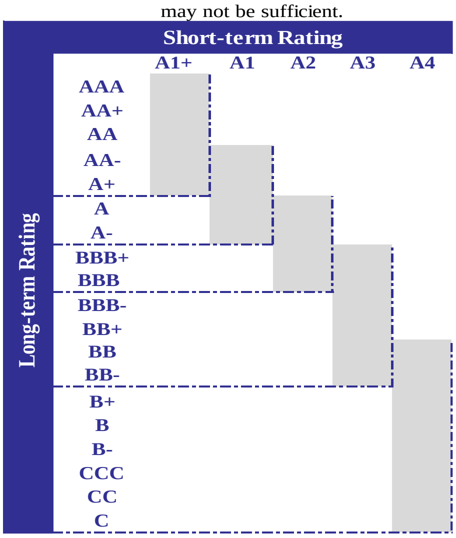
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(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)

Independence & Conflict of interest

(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information