The Pakistan Credit Rating Agency Limited

Rating Report

Cnergyico Pk Limited (Formerly: Byco Petroleum Pakistan Limited)

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2023	A-	A2	Stable	Maintain	Yes
25-Aug-2022	A-	A2	Stable	Maintain	Yes
25-Aug-2021	A-	A2	Stable	Maintain	Yes
25-Aug-2020	A-	A2	Stable	Initial	Yes

Rating Rationale and Key Rating Drivers

The ratings reflect the resilient business profile of Cnergyico Pk Limited (Cnergyico) emanating from its diversified operational capability and its strategic importance in the domestic context. Cnergyico possesses a notable share in meeting the economy's demand for petroleum products, with its refinery and marketing business. Deteriorating economic conditions including plummeting rupee, highest ever inflation and difficulties in establishment of LCs' due to shortage of foreign exchange have severely impacted local oil sector. However, recently approved brownfield refining policy by the government aiming at upgradation of existing oil refineries to produce environmentally friendly fuels and minimize production of loss-making products shall have improved implications on their financial conditions. The key sponsoring family - Abbassciy family, is committed to ensure continuity and extending essential support. Cnergyico's refinery business remains exposed to the vicissitudes in international crude and petroleum products' (POL) prices, which in turn, steer the gross refining margins (GRMs) of the Company. The company has been managing working capital requirements through short-term borrowings (FY23: PKR 31.56bln). However, in FY23, Cnergyico's throughput remained below par due to working capital constraints as availability of funding was squeezed by the rising USD/ PkR parity, thus resorting the company to enter into open credit arrangements with its crude oil suppliers. This led to frequent disruptions in operations and Cnergyico closed third quarter of FY23 at net loss of PKR (10,474) mln (FY22: PKR 4,788mln: FY21: PKR 3,596mln). This trend is expected to continue in the upcoming quarters till sustainable funding arrangements are made as management is currently deliberating upon multiple options to improve its WC and profitability. With no significant long-term banking exposure, Cnergyico's financial risk profile is stretched with reliance on sponsors' loan and short-term borrowings . A significant portion of sponsors loans was waived off in FY23 and negotiations are underway with the banks to restructure portion of its short-term loans which shall give the required breathing space to the company to focus on continuity of its operations. Impeccable and well-documented support available to the Company from its main sponsors has given a significant boost to the derived ratings.

Improved performance indicators including business continuity and maintaining refinery's throughput to effectively shield the company from external vulnerabilities and promising financial discipline, are imperative for the ratings. The entity has been placed on Rating Watch to oversee challenges on the business and financial risk profile of the company, amongst others, related to industry dynamics.

Disclosure	
Name of Rated Entity	Cnergyico Pk Limited (Formerly: Byco Petroleum Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Refineries(Nov-22)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Cnergyico Pk Limited (formerly "Byco Petroleum Pakistan Limited", herein referred to as "Cnergyico" or "the Company") was incorporated in the year 1995, under the repealed Companies Ordinance, 1984 and was granted a certificate of commencement of business, later in the same year. The company is listed on the Pakistan Stock Exchange.

Background Cnergyico was founded by its founder and first Chairman, Mr. Parvez Abbasi. After installation of its first oil refinery, the company began commercial production in 2004. Cnergyico's marketing segment was formally launched in 2007.

Operations The Company currently operates in two business segments namely the Oil Refinery Business and Petroleum Marketing Business. Cnergyico has two refineries in Hub - Baluchistan, with an aggregate rated capacity of 155,000 bpd, the highest in the industry. The company's marketing segment has around 450 retail outlets across the country. The registered office is situated at the Harbour Front, 9th Floor, Dolmen City, Clifton, Karachi.

Ownership

Ownership Structure The Company is a direct subsidiary of Bosicorco International Limited (BIL) (formerly Cnergyico Mu Incorporated (CMI)), Mauritius, which along with another associated undertaking, Integrate Pk (Private) Limited currently holds 73.44 % shares in the Company while the rest is spread among Financial Institutions and General Public.

Stability IGCF Oil and Gas Limited has taken complete exit from ownership of the Company.

Business Acumen The Abbasi family, Cnergyico's strategic sponsors, have strong business skills and industry-specific working knowledge, due to extensive experience in the oil industry.

Financial Strength Company's sponsors have showcased a willingness to support the entity on a continuing basis, as evident by substantial sponsor loans, portions of which are also being waived - off to support company in existing financially challenging times.

Governance

Board Structure The overall control of the company vests with a seven-members Board of Directors (BoD) including the Chairman and the CEO. Four directors are representatives of the group, whereas three are independent director. Mr. Mushtaq Malik, Lt. (R) Raja Muhammad Abbas, and Mr. Sami ul Haq Khilji joined as independent directors from June 1st, 2023, Changes in Board have been linked to changes in ownership structure.

Members' Profile Cnergyico's BoD comprises experienced professionals. Mr. Amir Abbassciy, the CEO is the executive director while Mrs. Uzma Abbassciy is the chairperson.

Board Effectiveness Board Committees are in place to exercise strategic oversight, namely the; (i) Audit Committee, (ii) Human Resource and Remuneration Committee and (iii) Risk Management Committee.

Financial Transparency M/s Yousaf Adil Chartered Accountants, are its external auditors currently. The auditor has given an unqualified opinion on the company's financial statements for the period ended Dec 31, 2022 and June 30, 2022. Audit for FY23 is currently in progress.

Management

Organizational Structure Presently, the company is divided in four main functions, namely i) Information, ii) Commercial, iii) Operations, and iv) Finance. Head of all these departments report to the CEO, who in turn reports to the BoD.

Management Team Mr. Amir Abbassciy has been the Chief Executive Officer of Cnergyico since January 2017, while also serving on the Board as an executive director. He brings with him, extensive experience spanning 3 decades in the industry. He has an MBA from the Business School of Lausanne, Switzerland .

Effectiveness The robustness of control systems is a reflection of strong management. The management's effective decision-making has led to processes becoming more systematic

MIS Cnergyico has implemented SAP as the ERP solution, to streamline planning and coordination across business lines, thereby increasing overall efficiency.

Control Environment Cnergyico is the only refinery in Pakistan producing 92 RON PMG and is therefore not subject to the RON penalty. As part of the goal of adopting DuPont's Process Safety Management system, the company has focused on safe commission activities, multiple turnarounds, EHS resource development, and sustainability, at its refineries.

Business Risk

Industry Dynamics The oil sector is facing challenging times primarily due to a continuous pressure on country's foreign exchange reserves and massive devaluation of Pakistan Rupee (PKR) against US$ which resulted in extremely difficult WC situation as companies faced difficulties in opening LC's. Situation got worse by exorbitant rise in policy rates and reluctance of government to pass on the impact of exchange loss to the end consumers. Consequently, companies operated below their breakeven quantities and incurred huge losses. Sales were also impacted by influx of smuggled product which further slashed the already compromised demand primarily due to inflation . After approval of greenfield policy, the Government has also recently approved the brownfield refining policy which aims at upgrading of existing oil refineries to produce environmentally friendly fuels and to minimize Furnace Oil production.

Relative Position During 3QFY23, PARCO reported largest chunk of the market share in terms of revenue i.e., of ~46%, followed by Attock Refinery at 18%, while National Refinery , Pakistan Refinery and Cnergyico had 15%, 12% & 10% respectively.

Revenues Company reported net revenue of PKR~151,749mln in 9MFY23 as compared to PKR~121,844mln in 9MFY22 (9MFY21: PKR~101,328mln), depicting an increase of 25% compared to corresponding period. This was due to increase in fuel prices as volumes contracted due to decrease in oil demand & consumption. Refinery's throughput was reported at 13% in 9MFY23 as compared to 16% in FY22 since it was planned as per the available funding which remained tight due to rising USD/PKR parity.

Margins During 9MFY23, the Company recorded a gross loss of PKR~(10,294)mln as opposed to gross profit of PKR~5,009mln in 9MFY22 since refinery operated below its breakeven capacity. The operating expenses remained under control, however finance costs considerably increased due to the steep upward revision in the average KIBOR rate .Resultantly, it reported a net loss of PKR~(10,474) mln as compared to net profit of PKR~563mln in the corresponding period.

Sustainability With squeezed up banks' lines, Company is now relying on open credit arrangements with its suppliers for import of crude oil, constancy in which remains crucial to maintain its minimum level throughput . The company has also recently finalized an arrangement to process the crude oil on tolling basis. After approval of brownfield refinery policy, the company has also started planning and execution of installation of DHDS and FCC plants.

Financial Risk

Working Capital Company's average gross working capital days during 9MFY23 clocked in at 85 days (FY22: 100 days) while the average net working capital days stood at -13 days (FY22: -13 days). Company had short-term borrowings of PKR 31,566mln reported on 9MFY23. Company's WC management has suffered due to depreciating Pak rupee which has squeezed up WC lines. Difficulties in establishing LC's due to depleting foreign exchange reserves and steep increase in policy rates further added to the misery and affected the crude oil procurement capacity of the company which affected its refining operations.

Coverages The Free Cash Flows from Operations (FCFO) were recorded negatively at PKR (8,5050) mln during 9MFY23 (9MFY22: PKR~6,733mln; 9MFY21: PKR~7,184), owing to gross loss reported during the period since the refinery's throughputs remained below sustainable levels. Interest cost of the company more than doubled and plunged to PKR 4,534 mln in 9MFY23 compared to PKR 2,240 in the corresponding period. Resultantly, the coverages ratio fell in the precarious position, with the ratio FCFO-to-Finance Cost, clocking in at (1.9)x in 9MFY23 (9MFY22: 3.0x).

Capitalization The debt-to-equity ratio, as at End-9MFY23, clocked in at 68.6% (FY22: 56.7%), depicting a leveraged structure. Total Borrowings, amounted to PKR~50,621mln (FY22: PKR~44,171mln) out of which substantial portion is composed of subordinated loan from the sponsors (PKR~14,338bln). Short-term loans constitute 62.4% of the total borrowings. As at 9MFY23, the equity stood at PKR~23,196mln (FY22: PKR~33,670mln).

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Financial Summary
PKR mln

Cnergyico Pk Ltd	Mar-23	Jun-22	Jun-21	Jun-20
Refineries	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	73,629	72,795	72,751	72,049
2 Investments	-	-	-	-
3 Related Party Exposure	19,082	20,702	18,942	18,934
4 Current Assets	45,419	63,936	46,305	35,033
a Inventories	*29,245*	*48,246*	*33,585*	*22,879*
b Trade Receivables	*9,277*	*7,078*	*4,556*	*4,357*
5 Total Assets	138,130	157,433	137,998	126,016
6 Current Liabilities	56,294	71,875	57,627	44,951
a Trade Payables	*47,043*	*61,391*	*44,129*	*33,419*
7 Borrowings	36,283	28,478	26,461	34,802
8 Related Party Exposure	14,338	15,694	18,449	13,653
9 Non-Current Liabilities	8,019	7,717	6,595	7,267
10 Net Assets	23,196	33,670	28,867	25,343
11 Shareholders' Equity	23,196	33,670	28,867	25,344
B INCOME STATEMENT				
1 Sales	151,749	170,015	142,150	173,899
a Cost of Good Sold	*(162,043)*	*(159,043)*	*(134,042)*	*(171,002)*
2 Gross Profit	(10,294)	10,972	8,108	2,896
a Operating Expenses	(1,273)	(1,700)	(1,581)	(1,512)
3 Operating Profit	(11,568)	9,272	6,527	1,384
a Non Operating Income or (Expense)	*5,786*	*(461)*	*(241)*	*145*
4 Profit or (Loss) before Interest and Tax	(5,782)	8,812	6,286	1,530
a Total Finance Cost	*(4,534)*	*(2,890)*	*(2,416)*	*(3,960)*
b Taxation	*(158)*	*(1,134)*	*(274)*	-
6 Net Income Or (Loss)	(10,474)	4,788	3,596	(2,431)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(8,505)*	*13,161*	*10,585*	*4,955*
b Net Cash from Operating Activities before Working Capital Changes	*(11,698)*	*10,158*	*7,602*	*(1,509)*
c Changes in Working Capital	*1,895*	*(5,504)*	*1,902*	*(102)*
1 Net Cash provided by Operating Activities	(9,803)	4,654	9,504	(1,611)
2 Net Cash (Used in) or Available From Investing Activities	(2,298)	(4,853)	(4,646)	(3,331)
3 Net Cash (Used in) or Available From Financing Activities	9,885	829	(6,527)	7,393
4 Net Cash generated or (Used) during the period	(2,216)	630	(1,669)	2,452
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	19.0%	19.6%	-18.3%	-12.1%
b Gross Profit Margin	-6.8%	6.5%	5.7%	1.7%
c Net Profit Margin	-6.9%	2.8%	2.5%	-1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.4%	4.5%	8.8%	2.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	-49.1%	15.3%	13.3%	-9.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	85	100	84	65
b Net Working Capital (Average Days)	-13	-13	-16	-14
c Current Ratio (Current Assets / Current Liabilities)	0.8	0.9	0.8	0.8
3 Coverages				
a EBITDA / Finance Cost	-1.9	4.7	4.5	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	-0.2	0.4	0.3	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-3.5	4.9	6.8	57.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	68.6%	56.7%	60.9%	65.7%
b Interest or Markup Payable (Days)	138.0	168.4	85.8	82.3
c Entity Average Borrowing Rate	12.1%	6.4%	5.3%	9.1%

Credit Rating

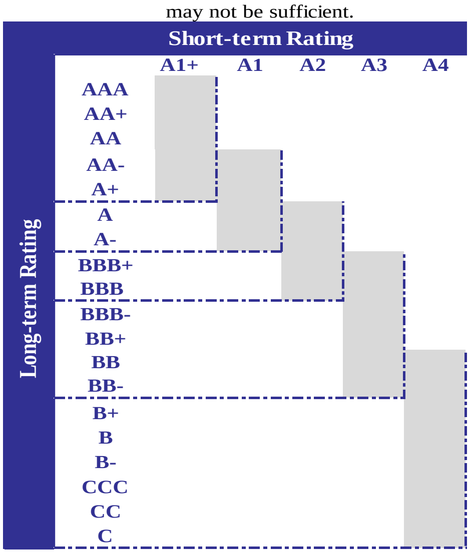
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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 | 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)

Proprietary Information