The Pakistan Credit Rating Agency Limited

Rating Report

Gas & Oil Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Jun-2022	A+	A1	Stable	Maintain	-
04-Jun-2021	A+	A1	Stable	Maintain	-
04-Jun-2020	A+	A1	Stable	Upgrade	-
29-Nov-2019	A	A1	Positive	Maintain	-
31-May-2019	A	A1	Positive	Maintain	-
31-Dec-2018	A	A1	Positive	Maintain	-
30-Jun-2018	A	A1	Stable	Maintain	-
17-Oct-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate Gas & Oil Pakistan Limited (GO), strong presence in the oil marketing segment. The Company has augmented its market share in a competitive market, benefiting from the strategic positioning of the stations that it feeds. GO aims to carry out its expansion strategy by further penetrating the retail segment of semi-urban and rural areas, for that purpose the Company has issued Privately Placed Sukuk of PKR 2.5bln. The Company has increased its storage capacity, consolidated from 197,038 MTs to 205,200 MTs out of which 36,300 MTs storage is leased from Fauji Trans Terminal Limited (FTTL). This complements GO's plans to keep the pace of growth with the augmented storage capacity. The further expansion is on the cards. GO further aims to inaugurate more company-owned and operated sites (COCOs), with an aim to enhance the margins. GO has traditionally capitalized on strong managerial, support from its sponsors who have significant knowledge in oil procurement and distribution. The equity base of the Company has taken support from internal capital generation and higher accumulated profitability. The management intends to keep the leverage indicators aligned to its risk profile. Moving forward, GO aims to diversify its revenue streams, strengthening its business risk profile. The governance framework of the Company is flanked by a diversified and experienced board.

The rating captures the Company's ability to sustain its business operations while enduring its expansionary business plan. The rollout of the planned business strategy and sustainable profitability is essential. In the meantime, financial metrics need to be upheld in terms of working capital ratios, coverages and capital structure.

Disclosure

Name of Rated Entity	Gas & Oil Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Oil Marketing Companies(Nov-21)
Rating Analysts	Waqas Ahmad | waqas.ahmad@pacra.com | +92-42-35869504

Profile

Legal Structure Gas & Oil Pakistan Limited (GO) was incorporated in 2012, as a Private Limited. It has been operated as a public unlisted company since September 2017. The Company was granted a license to establish in 2012 and a license to operate in 2014 after the Completion of its first storage facility.

Background The Company started its operations in 2014 in the Punjab region, later expanding its sales and marketing network to Sindh in 2016, KPK in 2017, and Balochistan in 2019. Primarily, GO Pakistan is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants.

Operations With a network of approximately 950 retail outlets, Gas & Oil Pakistan has ~ 9.42% market share in terms of (Mogas/HSD/HOBC) as of Dec'21. The Company has a storage infrastructure of approximately 205,200 MT spread all across the country and the storage capacity is may increase over the coming years.

Ownership

Ownership Structure Mr. Khalid Riaz holds majority shareholding~ 58% followed by Mr. Shahzad Mubeen (21%), Mr. Bilal Ansari (11%) and Vitol Dubai Limited (foreign investor) has the remaining10% stake in the Company.

Stability Overall shareholding remains stable. The inclusion of foreign investor, Vitol Dubai Limited, projects stability along with bringing in the hands-on experience of Retail and Oil transportation. Along with Vitol they also ensure their supplies through ENOC.

Business Acumen The Company's sponsors have extensive industry experience with a major concentration in oil & lubricants' trading, distribution & transportation to OMCs all across Pakistan. The majority shareholder Mr. Khalid Riaz possesses extensive oil distribution and trading experience.

Financial Strength Sponsors have a strong financial background on account of well-diversified profitable businesses & based on significant industry experience.

Governance

Board Structure The Board has a total of nine members, four members are representatives of Gas & Oil Pakistan. The other five members, including one female director, are serving as independent directors.

Members' Profile The BoD has diversified experience and knowledge in the marketing and distribution of oil. The Chairman of the Board, Mr. Tariq Kirmani, has 45 years of multifaceted experience in the corporate sector, both domestic and international. All the remaining directors also hold a senior position in other companies and have sound professional experience in the oil, transportation, and financial industry.

Board Effectiveness The experiences of the board help in providing useful insight into the oil & marketing and finance industry, guiding the management in developing effective operational and financial policies. The board has formulated two committees, i) Audit, & ii) HR and Remuneration Committee, to ensure smooth and effective monitoring of operations.

Financial Transparency M/s KPMG Taseer Hadi & Co. Charted Accountants are the external auditors of the Company. They gave an unqualified opinion on the financial results of December 2020.

Management

Organizational Structure The Company has an adequate organizational structure. The operations of the Company have been bifurcated into three broad functional areas which comprise: i) Operations, ii) Finance, and iii) Sales. Each function is further divided into sub-units. The entire operational set-up of the Company falls under the purview of the CEO.

Management Team Mr. Khalid Riaz is the CEO of the Company. He has been with the Company for six years and has an overall experience of forty years. Mr. Zeeshan Tayyeb FCA, has been the Chief Operating Officer & Chief Financial Officer of the Company since CY19. He has diversified experience of more than twenty years. Average experience years of top management clocks in at ~27yrs, reflecting a good management profile.

Effectiveness To oversee the management of the Company, GO has constituted two committees comprising various members of the management team. The committees include i) Procurement Committee and ii) Credit Committee.

MIS Top management receives a daily performance report of operations which results in optimal monitoring. Gas & Oil takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, the quality of the I.T. infrastructure and the breadth and depth of activities remained well satisfactory.

Control Environment The Company's operating environment relies on an IT infrastructure supported by ERP (Enterprise Resource Planning) solutions. The software has been acquired from M/S Awais Haider. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

Business Risk

Industry Dynamics Pakistan's OMC market comprises 35 players. Consumption of Refined Petroleum Products has reduced by ~6% over the last four years. Major drop is witnessed in overall consumption from FY19 onwards when consumption drastically dropped due to substitution of FO by imported LNG in the power sector, and the emergence of COVID-19 in 2HFY20 adversely impacting the MOGAS consumption. Total consumption of petroleum products during FY21 was recorded at ~19.9mln MT (FY20: ~17.2mln MT) with YOY growth of ~16%.

Relative Position Gas & Oil Pakistan has ~9.42% market share as of Dec'21 on the basis of (MOGAS/HSD/HOBC). The emergence of new players in the OMC sector is causing pressure on the white oil segment market share. The big-five OMCs (PSO, Total PARCO, Shell, GO & Attock Petroleum) still retain a large chunk (83%) of the market, with PSO dominating at ~45% as of Dec'22. However, emerging names like Attock Petroleum and Gas and Oil Pakistan Limited have contributed to increased competition in the industry.

Revenues Growth of 45% was observed in revenue of the Company amounting to PKR 209,558mln during CY21 compared to PKR 144,222mln in CY20. Surge in sales of Mogas, HSD and HOBC contributed towards this growth.

Margins Net profit of the Company increased to PKR 3,649mln for CY21 compared with PKR 2,634mln for CY20, depicting an increase of 39%. Gross profit margin has slightly improved to 7.3% for CY21 form 6.4% for CY20. The net profit margin has reduced to 1.7% for CY21 (CY20: 1.8%) owing to increased operating expenses. The Company has reported foreign exchange losses of PKR 4,308mln in CY21 as compared to exchange losses of PKR 841mln in CY20.

Sustainability The Company is following an aggressive expansion strategy and plans to open approximately 200 retail outlets every year. The Company is expanding its footprints by inaugurating retail outlets in Balochistan, Islamabad, and AJK. To accommodate expansion, Gas & Oil Pakistan plans to construct a new depot at Vehari which will have an oil storage capacity of 22,000-24,000 MT. The Company plans to follow an aggressive strategy by opening new retail outlets.

Financial Risk

Working Capital Gas and Oil Pakistan's Net Working Capital days remained stagnant at 21days in CY21 (CY20: 21 days), as increase in inventory days is nullify by increase in trade days payables. The Company's inventory stood at PKR 24,460mln in CY20 (CY20: PKR 17,497mln).

Coverages During CY21, the Company's cash flows from operating activities increased due to major elevation in current liabilities. In the course of CY21, the FCFO of the Company has reached to PKR 8,642mln (CY20: PKR 6,326mln). CY21 reflects improved coverages as well [FCFO/finance cost: CY21: 3.8x, CY20: 2.9x].

Capitalization The Company has high leverage of 67% in the capital structure for CY21 (CY20: 70%). Total equity of the Company stood at PKR 14,506mln for CY21 compared to PKR 10,507mln for CY20. The Long-term borrowing of the Company in CY21 stood at PKR 7,253mln (CY20: PKR: 4,185mln) and short-term borrowings reported in CY21 are PKR 20,554mln (CY20: PKR 18,678mln).

The Pakistan Credit Rating Agency Limited

PKR mln

Gas & Oil Pakistan Limited Oil Marketing Companies	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET			
1 Non-Current Assets	22,202	17,490	14,594
2 Investments	-	-	-
3 Related Party Exposure	-	-	429
4 Current Assets	52,168	39,669	31,230
a Inventories	*24,460*	*17,497*	*13,789*
b Trade Receivables	*14,767*	*14,091*	*7,218*
5 Total Assets	74,371	57,159	46,253
6 Current Liabilities	28,776	21,491	20,216
a Trade Payables	*26,980*	*19,223*	*16,962*
7 Borrowings	29,486	24,442	17,573
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	1,602	719	598
10 Net Assets	14,506	10,507	7,866
11 Shareholders' Equity	14,506	10,507	7,866
B INCOME STATEMENT			
1 Sales	209,558	144,222	142,651
a Cost of Good Sold	*(194,351)*	*(134,968)*	*(136,118)*
2 Gross Profit	15,208	9,254	6,533
a Operating Expenses	(3,018)	(2,194)	(2,034)
3 Operating Profit	12,189	7,060	4,499
a Non Operating Income or (Expense)	*(4,686)*	*(1,087)*	*(1,113)*
4 Profit or (Loss) before Interest and Tax	7,503	5,972	3,386
a Total Finance Cost	*(2,364)*	*(2,221)*	*(2,445)*
b Taxation	*(1,490)*	*(1,118)*	*(381)*
6 Net Income Or (Loss)	3,649	2,634	561
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*8,642*	*6,326*	*2,937*
b Net Cash from Operating Activities before Working Capital Changes	*6,593*	*4,292*	*629*
c Changes in Working Capital	*(5,521)*	*(7,871)*	*7,050*
1 Net Cash provided by Operating Activities	1,072	(3,579)	7,679
2 Net Cash (Used in) or Available From Investing Activities	(4,384)	(3,012)	(2,867)
3 Net Cash (Used in) or Available From Financing Activities	1,796	3,955	(1,648)
4 Net Cash generated or (Used) during the period	(1,516)	(2,636)	3,164
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	45.3%	1.1%	8.1%
b Gross Profit Margin	7.3%	6.4%	4.6%
c Net Profit Margin	1.7%	1.8%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.5%	-1.1%	7.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	28.4%	27.7%	8.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	62	67	52
b Net Working Capital (Average Days)	21	21	21
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.8	1.5
3 Coverages			
a EBITDA / Finance Cost	4.1	3.2	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.2	1.5	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.4	1.5	12.3
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	67.0%	69.9%	69.1%
b Interest or Markup Payable (Days)	37.2	57.1	62.9
c Entity Average Borrowing Rate	9.5%	9.4%	12.0%

Credit Rating

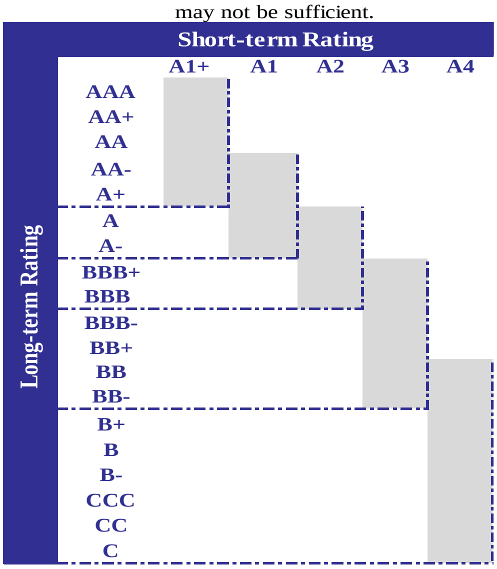
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.

(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