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
01-Jun-2023	A+	A1	Stable	Maintain	-
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), a 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. The primary sponsor of the Company has further solidified their stake in the company by acquiring shares from Vitol Dubai Limited. The Company has a storage capacity of ~ 205,200 MTs and intends to enhance it further. This complements GO's plans to keep the pace of growth with the augmented storage capacity. GO further aims to inaugurate more company-owned and operated sites (COCOs). This is evident in the fact that they added 9 COCO sites during CY22. In order to ensure a consistent and reliable supply of high-quality fuels and to address the increased working capital requirements, the sponsors are planning to collaborate with a strategic partner. Despite a 11.6% decrease in the volumes, the Company experienced a substantial growth of 55.2% YoY in its topline during CY22, primarily attributable to rupee dollar parity. There was a decline in profitability, which was primarily due to high foreign exchange losses coupled with finance cost, offsetting the gains from increased topline and gross profit margin. 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 with 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 is dependent on 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. Given the nature of the business and muted growth in economy, any adverse change in consumption patterns, resulting in a decrease in sales volume, would be a key rating sensitivity.

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-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Oil Marketing Companies(Nov-22)
Rating Analysts	Muhammad Noor Ul Haq | noorulhaq@pacra.com | +92-42-35869504

Profile

Legal Structure Gas & Oil Pakistan Limited ("GO" or "the Company") incorporated in 2012, as a Private Limited. The Company is operating as a Public Unlisted Company since Sep'17.

Background Gas & Oil Pakistan has been granted license to establish an OMC since 2012. The Company got a license to operate in 2014 after the completion of its first storage facility and started its operations Punjab region, later expanding its retail network to Sindh in 2016, KPK in 2017, and Balochistan in 2019.

Operations The core business of GO involves the procurement, storage, distribution, marketing, and import of petroleum products & lubricants. The Company has a broad presence with over ~1,078 retail outlets and an extensive storage infrastructure of ~205,200 MT, located throughout the country.

Ownership

Ownership Structure Mr. Khalid Riaz's ownership in the Company increased to 68.0% after purchasing 10% stake from Vitol Dubai Limited during CY22. While 21.3% of the shareholding is held by Mr. Shahzad Mubeen and Mr. Bilal Ansari (10.7%).

Stability The GO family has been the primary sponsor of the company since its inception, and their support has remained consistent over time.

Business Acumen The Company's sponsors have extensive industry experience with a major concentration in oil & lubricant trading and distribution & transportation to OMCs all across Pakistan. The prime 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 GO Pakistan. The other five members, including one female director, are serving as independent directors. The board formulated two committees, i) Audit, & ii) HR and Remuneration Committee, to ensure effective monitoring of operations.

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 46 years of multifaceted experience in the corporate sector, both domestic and international. All the remaining directors also holds senior position in other companies and have sound professional experience in the oil, transportation, and financial industry.

Board Effectiveness The collective expertise and experience of the board members serve as a valuable resource for the Company. Their insights and knowledge of the oil and marketing industry, as well as finance, provide guidance to the management team in developing effective operational and financial policies. This can help the Company to stay ahead of the competition and achieve sustainable growth in the long run.

Financial Transparency The External Auditors of the Company, M/s. KPMG Taseer Hadi & Co. Charted Accountants have expressed an unqualified opinion on the financial statements for the period ended Dec'21.

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. 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.

Management Team Mr. Khalid Riaz is the CEO of the Company. He is associated with the Company for more than a decade and has an overall experience of thirty years. Mr. Zeeshan Tayyeb FCA, has been the Chief Operating Officer since 2019. He has diversified experience of more than twenty years. Recently, the Company has made a notable addition to its top management team with the appointment of Mr. Abdul Nasir as Chief Financial Officer (CFO), having diversified experience of more than twenty-five years. Average experience years of top management clocks in at ~27yrs, reflecting a good management profile

Effectiveness Management committee meetings are held on a quarterly basis and minutes of the meetings are recorded and documented.

MIS Top management receives a daily performance report of operations which results in optimal monitoring. The Company 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 I.T. 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 relies significantly on imports to meet its energy demand. During FY21, the country consumed ~19.8mln MT of POL products (FY20:~17.1mln MT) up ~15.8% YOY. Owing to declining local oil reserves amid low new discoveries, dependence on imported POL products is increasing with each passing year. Currently, there are ~35 OMCs. operating in the country, 4 of them are listed. The Sector is highly regulated with the prices of two major products, i.e., MOGAS and Diesel being determined by the Oil & Gas Regulatory Authority (OGRA) on a fortnightly basis. OMCs generated aggregate revenue of PKR~2,528bln in FY21 (FY20: PKR~2,225bln) with an annual GDP contribution of ~5.3% (FY20: 5.4%). The sector's revenue during FY21, registered a YOY growth of ~13.6% on account of increased consumption and rising POL products' prices.

Relative Position Gas & Oil Pakistan has ~7.83% market share and is positioned at 5th among OMCs as of Dec'22 on the basis of (MS/HSD/HOBC).

Revenues During CY22, Company reported net revenue of PKR 324,788mln observed growth of 55.3% compared to PKR 209,102mln in CY21. The increase in topline primarily attributes to rupee-dollar parity. With respect to the product concentration of the Company, MOGAS constitutes 61.4% of the sales as of Dec'22, while HSD constitutes 36.7% and the remaining 1.9% is contributed by HOBC and lubricants.

Margins Gross profit margin has improved to 9.4% in CY22 form 7.3% in CY21. Same trend is reflected in operating profit margin and stood at ~ 8.1% in CY22 (CY21: 5.8), reflecting Company was able to manage its selling and admin expenses efficiently and effectively. However, net profit margin of the Company reduced to 0.6% in CY22 (CY21: 1.5%) owing to an increase in foreign exchange loss coupled with high finance cost. During CY22, Company reported its exchange loss of PKR~ 17,982mln (CY21: PKR~ 4,338). Finance cost of the Company stood at PKR~ 5,151mln in CY22, witnessing an increase of 118.8% as compared to the same period last year (CY21: PKR~ 2,354). Increase in finance cost owing to change in policy rate coupled with an increase in total borrowings of the Company.

Sustainability GO 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, The Company 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 improved to ~18 days in CY22 (CY21: 23days). Inventory days of the Company stood at ~30days in CY22 (CY21: 37days), decrease in inventory days owing to decrease in inventory level; due to instable economic, political situations, change government policies coupled with limitation on LC's reduces level of imports. However, trade receivables days showed improvement, stood at ~20days in CY22(CY21: 26days). Moreover, during CY22, trade payable days of the Company stood at ~32days (CY21: 40days), decrease in trade payable days owing to a decrease in trade payables (CY22: PKR~29,407mln, CY21: PKR~ 27,169mln).

Coverages During CY22, Company reported FCFO at PKR ~8,160mln witnessing decrease of ~4.8% as compared to the previous corresponding year (CY21: PKR~ 8,570mln). The decrease in FCFO is due to high exchange loss and high finance costs (although exchange loss will be adjusted in fuel prices). Interest coverage ratio (EBITDA/Finance Cost) dropped to 1.9x in CY22 (CY21: 4.2x), dip in interest coverage ratio owing to a significant increase in finance cost of the Company.

Capitalization The Company has highly leveraged capital structure. Debt to equity ratio of the Company stood at ~ 72.1% in CY22 (CY21: 69.8%). STB of the Company stood at PKR ~29,835mln witnessing increase of 38.8% compared to same period last year (CY21: PKR ~21,496mln). LTB of the Company stood at PKR ~8,779mln (CY21: PKR ~8,499mln). During CY22, equity of Gas & Oil Pakistan surged to PKR ~15,516mln, observed increase of PKR ~1,788mln owing to unappropriated profits (CY21: PKR ~13,728mln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Gas & Oil Pakistan Limited	Dec-22	Dec-21	Dec-20	Dec-19
Oil Marketing Companies	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	26,577	24,367	17,490	14,594
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	429
4 Current Assets	68,012	53,761	39,669	31,230
a Inventories	*27,496*	*25,111*	*17,497*	*13,789*
b Trade Receivables	*19,750*	*15,939*	*14,091*	*7,218*
5 Total Assets	94,590	78,128	57,159	46,253
6 Current Liabilities	37,320	30,822	21,491	20,216
a Trade Payables	*29,407*	*27,169*	*19,223*	*16,962*
7 Borrowings	40,101	31,452	24,442	17,573
8 Related Party Exposure	-	350	-	-
9 Non-Current Liabilities	1,653	1,776	719	598
10 Net Assets	15,516	13,728	10,507	7,866
11 Shareholders' Equity	15,516	13,728	10,507	7,866
B INCOME STATEMENT				
1 Sales	324,788	209,102	144,222	142,651
a Cost of Good Sold	*(294,118)*	*(193,863)*	*(134,968)*	*(136,118)*
2 Gross Profit	30,670	15,239	9,254	6,533
a Operating Expenses	(4,521)	(3,055)	(2,194)	(2,034)
3 Operating Profit	26,149	12,184	7,060	4,499
a Non Operating Income or (Expense)	*(18,203)*	*(4,712)*	*(1,087)*	*(1,113)*
4 Profit or (Loss) before Interest and Tax	7,946	7,471	5,972	3,386
a Total Finance Cost	*(5,151)*	*(2,354)*	*(2,221)*	*(2,445)*
b Taxation	*(1,006)*	*(1,902)*	*(1,118)*	*(381)*
6 Net Income Or (Loss)	1,788	3,215	2,634	561
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*8,160*	*8,570*	*6,326*	*2,937*
b Net Cash from Operating Activities before Working Capital Changes	*3,531*	*6,545*	*4,292*	*629*
c Changes in Working Capital	*(7,280)*	*(3,611)*	*(7,871)*	*7,050*
1 Net Cash provided by Operating Activities	(3,749)	2,933	(3,579)	7,679
2 Net Cash (Used in) or Available From Investing Activities	(4,038)	(5,358)	(3,012)	(2,867)
3 Net Cash (Used in) or Available From Financing Activities	8,300	2,221	3,955	(3,685)
4 Net Cash generated or (Used) during the period	513	(204)	(2,636)	1,127
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	55.3%	45.0%	1.1%	8.1%
b Gross Profit Margin	9.4%	7.3%	6.4%	4.6%
c Net Profit Margin	0.6%	1.5%	1.8%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.3%	2.4%	-1.1%	7.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	12.2%	26.5%	28.7%	7.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	50	63	67	52
b Net Working Capital (Average Days)	18	23	21	21
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.7	1.8	1.5
3 Coverages				
a EBITDA / Finance Cost	1.9	4.2	3.2	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	2.3	1.5	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.2	1.6	1.5	12.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	72.1%	69.8%	69.9%	69.1%
b Interest or Markup Payable (Days)	50.6	37.3	57.1	62.9
c Entity Average Borrowing Rate	13.0%	9.2%	9.4%	12.0%

Credit Rating

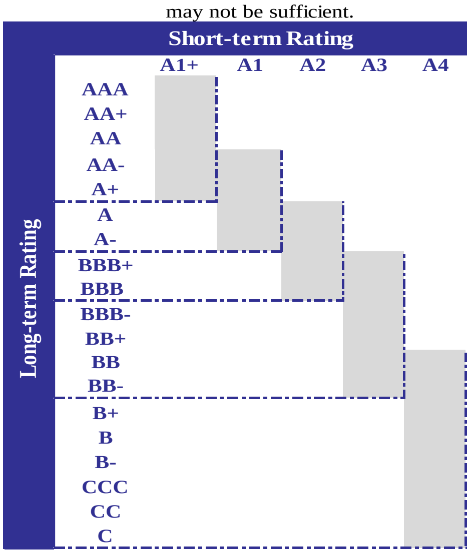
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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