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
31-May-2024	A+	A1	Developing	Maintain	Yes
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	-

Rating Rationale and Key Rating Drivers

Pakistan heavily depends on imports for its energy requirements due to limited domestic POL production. A substantial increase in POL import costs was witnessed due to global challenges. This along with rupee depreciation further impacted the local overall cost structure. During FY23, the demand for POL products declined by ~15% due to macroeconomic pressures. Transportation and Power sectors remain the main consumers, accounting for ~89% of the total demand. Despite having fixed margins, OMCs bears the impact of high working capital costs, which have risen sharply due to the aforementioned factors. There is a need to remain vigilant over short to medium term.
Gas & Oil Pakistan Limited's ("GO" or "the Company") ratings reflect the huge network of retail outlets (~1,190 stations, including ~40 company owned and operated (COCO) sites) in private sector. Additionally, the Company houses one of the largest storage capacities ~205,000 MTs - and enjoys income from hospitality services. Sponsor's extensive industry related knowhow played well for the Company. GO is engaged in the POL procurement from local and international market, along with storage, distribution and marketing of petroleum products and lubricants. During CY23, the Company's revenue declining by ~26% due to a significant drop in volumetric sales. The Company had difficulty in inventory procurement; due to working capital related challenges. The financial institutions have become highly precautionary, while lending to government provides huge competitive returns. On the financial risk side, the position was impacted due to muted coverages and a highly leveraged capital structure so as to support the inflated working capital requirements. This pressure needs to be alleviated.
Cognizant of this, the Company has made a strategic move to bring in Aramco as a strategic partner in the local OMC arena. This may shape new dynamics for the OMC industry, in general, and for the Company, in particular. Aramco is expected to acquire ~40% stake in the Company against a consideration of PKR 20bln. From this, PKR 10bln will fall on the Company's balance sheet through a right issue. Moreover, Aramco will have prescence on the BoD and key management. The Sponsors believe that this initiative would settle the supply chain constraints and financial challenges the Company is currently facing. However, timely materialization of said inititiative is imperative. Any delay would impact the overall financial health of the Company, translating in the ratings.

The ratings are dependent on the Company's ability to improve its overall business operations. The Company must preserve its financial metrics. However, successful and timely completion of the transaction with Aramco remains pivotal to ratings.

Disclosure

Name of Rated Entity	Gas & Oil Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | POL Distribution - OMCs & Dealers(Nov-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Gas & Oil Pakistan Limited ("GO" or "the Company") was incorporated in 2012 under the repealed Company's Act'17, as a Public Unlisted Company.

Background The Company began its operations by providing logistics services to other Oil Marketing Companies. It steadily built a strong logistics network that has evolved into an essential service provider for major OMCs. The Company acquired an OMC license in 2014 and commenced operations in Punjab, with subsequent expansions in Sindh, KPK and Balochistan. Recently, the Company has strategically partnered with Aramco. However, modalities of this field are yet to unfold completely.

Operations GO is engaged in the POL procurement from local and international markets, along with storage, distribution, and marketing of petroleum products and lubricants. The Company has broad presence with over ~1,190 retail outlets and an extensive storage infrastructure of ~205,000 MT, located throughout the country.

Ownership

Ownership Structure The Company's shareholding remains within the sponsoring family; where Mr. Khalid Riaz holds majority ownership of ~68%. While the rest of the shareholding vested with Mr. Shahzad Mubeen (~21.3%) and Mr. Bilal Ansari (~10.7%), respectively.

Stability Ownership restructuring is anticipated in near future as Aramco is expected to acquire ~40% stake in the Company.

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. Mr. Khalid possesses extensive oil distribution and trading experience.

Financial Strength The sponsors have strong financial footing. Moreover, as Aramco joins in, financial footing would evolve further.

Governance

Board Structure The Board comprises 9 Directors, with 4 representatives of GO, including the CEO as the Executive Director. The remaining 5 members, inclusive of one female Director, hold positions as Independent Directors. Governance restructuring is anticipated in near future. The Board structure will be revised to include four directors nominated by Aramco. Overall, the Board's composition will remain the same.

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 47 years of multifaceted experience in the corporate sector, both domestic and international. All the Directors hold senior positions in other companies and have sound professional experience in the oil, transportation, and financial industries.

Board Effectiveness The Board has established two committees, namely the Audit and HR and Remuneration Committee, to monitor operations effectively. Committee meetings are held on a quarterly basis and minutes of the meetings are recorded and documented adequately.

Financial Transparency The External Auditors of the Company, M/s. PKF FRANTS has expressed an unqualified opinion on the financial statements for the period ended Dec'22. The firm is QCR-rated and listed on SBP panel. However, the audit for the period Dec'23 is still in process.

Management

Organizational Structure The Company operations are divided into three primary functional areas: i) Operations, ii) Finance, and iii) Sales, each department is managed by a Department Head who reports directly to the CEO. He then reports to the Board & makes pertinent decisions.

Management Team Mr. Khalid Riaz the CEO of the Company has been associated with GO for more than a decade and has an overall experience of 30 years. Average experience years of top management is ~27years, reflecting a good management profile. After the transaction with Aramco is finalized, the Chief Financial Officer and Head of the Supply Chain will be appointed by Aramco.

Effectiveness GO has constituted two management committees. These committees include i) Procurement and ii) Credit. Committee meetings are held on a quarterly basis and minutes of the meetings are recorded and documented adequately.

MIS Top management receives a daily performance report of operations which results in optimal monitoring. 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.

Control Environment The Company operates an in-house internal audit department to oversee risk management, control, and governance processes. This ultimately enhances business practices by establishing standard operating procedures (SOPs).

Business Risk

Industry Dynamics Pakistan heavily depends on imports for its energy requirements due to limited domestic POL production. A substantial increase in POL import costs was witnessed due to global oil production cuts. This along with rupee depreciation further impacted the overall sector's dynamics. However, the local demand remains stable. While, during FY23, the demand for POL products - furnace oil (FO), high-speed diesel (HSD), motor spirit (MS), and high octane blended component (HOBC) which make up ~95% of the total sales, declined by ~15% due to macroeconomic pressures. Transportation and Power sectors remain the main consumers, accounting for ~89% of the total demand. Despite having fixed margins, opertaing on suppliers credit, OMCs bears the impact of exchange loss; thus, challenges remain prevalent.

Relative Position The Company captures ~5% market share based on the sale of MS/HOBC and is positioned at 5th among OMCs as of Dec'23.

Revenues The Company generates revenue from marketing petroleum products (MOGAS; ~52%) and (HSD; ~48%). During CY23, the Company reported revenue of ~PKR 241bln, a decrease of ~26% from ~PKR 325bln during CY22. Overall volumetric sales experienced a substantial decline of ~51%. This decline in revenue was primarily due to challenges in procuring petroleum products. In the near future, an increase in revenue is expected as the transaction with Aramco will alleviate procurement challenges and improve overall operational efficiencies.

Margins During CY23, gross profits declined to ~PKR 25bln (CY22: ~PKR 31bln) due to a significant decrease in revenue. However, the gross profit margin increased to ~10.5% (CY22: ~9.5%) owing to lower procurement costs. Operating profits also decreased to ~PKR 20bln (CY22: ~PKR 26bln), but the operating profit margin improved to ~8.4% (CY22: 8.1%) due to trickle down effect. The net profit margin fell to ~0.3% (CY22: ~0.6%) as a result of lower revenue and high finance costs. Looking ahead, margins are expected to improve as Aramco's involvement in operations will ease the Company's operatinal challenges.

Sustainability GO is bringing in Aramco as an international sponsor, which is expected to ease supply chain constraints and improve overall financial health of the Company.

Financial Risk

Working Capital As of CY23, Net Working Capital days increased to ~30 days (CY22: ~17 days), owing to higher inventory days coupled with receivable days. Inventory days stood at ~33 days in CY23 (CY22: ~30 days). Similarly, trade receivable days also increased to ~34 days in CY23 (CY22: ~19 days). The Company relaxes its credit term which leads to an increase in receivable days. Payable days also extended to ~37 days in CY23 (CY22: ~32 days). The Company does not maintain a borrowing cushion. Going forward, the inclusion of Aramco is anticipated to improve the working capital management.

Coverages As of CY23, the Company reported FCFO at PKR 13bln, reflecting a notable increase of 62% (CY22: PKR ~8bln). This surge in FCFO was primarily driven by an exchange gain reported at ~PKR 629mln. However, the Interest Coverage Ratio declined to ~1.2x in CY23 (CY22: ~1.7x). This decrease in the interest coverage ratio was attributed to higher finance costs. Going forward, improvements in coverage are anticipated as Aramco's involvement will lower leverage exposure, resulting in reduced finance costs.

Capitalization The Company maintains s highly leveraged capital structure, reporting debt to equity ratio of ~74% in CY23 (CY22: 70%). STB of the Company stood at PKR ~43bln (incl. current maturity) witnessing an increase of ~34% (CY22: PKR ~32bln). As of CY23, the equity of GO surged to PKR ~17.5bln (CY22: PKR 16.8bln). The increase in equity owes to accumulated profits. Going forward, the Company's leverage structure is expected to improve due an equity injection of ~PKR 10bln by Aramco.

The Pakistan Credit Rating Agency Limited

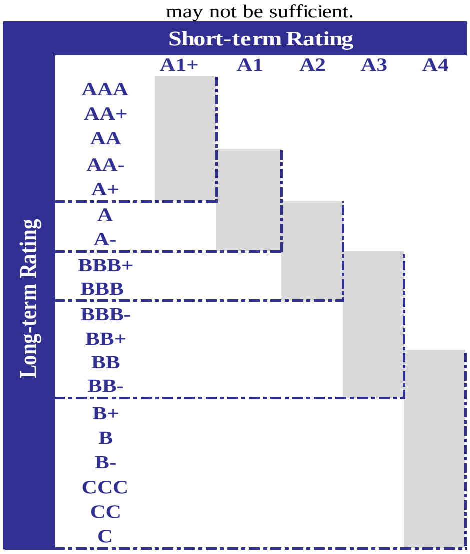
'inancial Summary
PKR mln

Gas & Oil Pakistan Limited	Dec-23	Dec-22	Dec-21	Dec-20
Oil Marketing Companies	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	27,469	27,957	24,367	17,490
2 Investments	-	-	-	-
3 Related Party Exposure	1,664	1,646	491	-
4 Current Assets	66,394	66,018	53,270	39,669
a Inventories	*16,208*	*27,518*	*25,111*	*17,497*
b Trade Receivables	*26,432*	*18,096*	*15,448*	*14,091*
5 Total Assets	95,527	95,621	78,128	57,159
6 Current Liabilities	27,621	38,270	30,822	21,491
a Trade Payables	*19,054*	*29,344*	*27,169*	*19,223*
7 Borrowings	49,537	39,735	31,452	24,442
8 Related Party Exposure	-	-	350	-
9 Non-Current Liabilities	829	782	1,776	719
10 Net Assets	17,541	16,834	13,728	10,507
11 Shareholders' Equity	17,541	16,834	13,728	10,507
B INCOME STATEMENT				
1 Sales	240,918	324,745	209,102	144,222
a Cost of Good Sold	*(215,631)*	*(294,019)*	*(193,863)*	*(134,968)*
2 Gross Profit	25,288	30,726	15,239	9,254
a Operating Expenses	(5,171)	(4,456)	(3,055)	(2,194)
3 Operating Profit	20,117	26,270	12,184	7,060
a Non Operating Income or (Expense)	*(7,256)*	*(18,174)*	*(4,712)*	*(1,087)*
4 Profit or (Loss) before Interest and Tax	12,861	8,096	7,471	5,972
a Total Finance Cost	*(11,274)*	*(5,030)*	*(2,354)*	*(2,221)*
b Taxation	*(841)*	*(1,067)*	*(1,902)*	*(1,118)*
6 Net Income Or (Loss)	746	1,999	3,215	2,634
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*13,078*	*8,182*	*8,570*	*6,326*
b Net Cash from Operating Activities before Working Capital Changes	*13,078*	*8,182*	*8,570*	*6,326*
c Changes in Working Capital	*(14,621)*	*(6,136)*	*(3,611)*	*(7,871)*
1 Net Cash provided by Operating Activities	(1,543)	2,047	4,959	(1,546)
2 Net Cash (Used in) or Available From Investing Activities	(1,347)	(1,820)	(5,358)	(3,012)
3 Net Cash (Used in) or Available From Financing Activities	1,427	1,425	195	1,922
4 Net Cash generated or (Used) during the period	(1,463)	1,652	(204)	(2,636)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-25.8%	55.3%	45.0%	1.1%
b Gross Profit Margin	10.5%	9.5%	7.3%	6.4%
c Net Profit Margin	0.3%	0.6%	1.5%	1.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.6%	0.6%	2.4%	-1.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	4.3%	13.1%	26.5%	28.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	48	63	67
b Net Working Capital (Average Days)	30	17	22	21
c Current Ratio (Current Assets / Current Liabilities)	2.4	1.7	1.7	1.8
3 Coverages				
a EBITDA / Finance Cost	1.4	2.2	4.2	3.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.8	2.3	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.5	3.5	1.6	1.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	73.8%	70.2%	69.8%	69.9%
b Interest or Markup Payable (Days)	86.4	52.5	37.3	57.1
c Entity Average Borrowing Rate	24.5%	12.6%	11.9%	9.5%

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 | 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)
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