



The Pakistan Credit Rating Agency Limited

Rating Report

Gas & Oil Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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's (Gas & Oil) growing presence in the oil marketing (OMC) segment. The company has attained ~4.8% market share during CY18 in a competitive market over five years of operations. The company aims to carry on its expansion strategy to further penetrate the retail segment by targeting semi-urban and rural areas. There was sizeable growth in the topline but the net profits were limited due to exchange loss. The ratings drive strength from a well-structured organization and experienced management team. Gas & Oil capitalizes on strong managerial support from its sponsors who have significant knowledge in oil procurement and distribution. The company is in the midst of large-scale capex programme to increase its storage capacity to support expansion initiatives. Gas & Oil aims to finance the capex via debt and sale of an equity stake to a strategic investor. During the review, in order to finance company's working capital requirements company's short term borrowings have increased significantly, impacting company's overall leveraging, while emanating the need for better working capital management. The company maintains strong coverage ratios. The company equity base has been strengthened with induction of VITOL in the shareholding. This also added to synergistic benefits with augmented supply chain.

The positive outlook captures the company's augmented ability to expand its business in light of the fresh elevated strategy. Rollout of the planned business strategy with sustainable results is considered positive. In the meantime, financial matrix needs to be upheld.

Disclosure

Name of Rated Entity	Gas & Oil Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Oil Marketing Companies(Oct-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Legal Structure Gas & Oil Pakistan (Pvt.) Limited (Gas & Oil) incorporated in 2012. The company was granted license to establish in 2012 and license to operate in 2014 after completion of its first storage. The Company has changed its financial reporting date from June 30 to Dec 31 and is accordingly preparing its financial statements from July 01, 2017 to December 31, 2018.

Background The company was granted permission to establish an OMC by Government of Pakistan (GOP) on June 12, 2012. Gas & Oil started its operation in 2014 in Punjab region later expanding sales and marketing network to Sindh in 2016. Company is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. The Company has successfully penetrated and conquered a good market share in a competitive and growing oil market in Pakistan.

Operations Primarily, Gas & Oil is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. With a network of 396 retail outlets, Gas & Oil has ~4.8% market share as at end-Dec 2018. Company has storage infrastructure of over 117,490MT spread across the country. Recently, Company has built a state-of-the-art terminal at Mahmood kot in the vicinity of PARCO Mid-Country Refinery which is the largest oil storage facility of any OMC in that region.

Ownership

Ownership Structure The majority shareholding of the company is owned by three individuals. Mr. Khalid Riaz (CEO and Chairman) has 58% stake in the company followed by Mr. Shahzad Mubeen (21%), Mr. Bilal Ansari (11%) and Vitol Dubai Limited (foreign investor) earns it a remaining 10% stake in the Company.

Stability Considering the inclusion of foreign investor, Vitol Dubai Limited, energy and commodity Company, along with hands on experience of retail and Oil transportation. Through sponsors stability remains adequate.

Business Acumen Company's sponsors have an extensive industry experience with major concentration in oil & lubricants' trading, distribution & transportation to OMCs all across Pakistan. Majority shareholder Mr. Khalid Riaz has almost 40 years of oil distribution and trading experience, operates various dealerships of PSO, Shell and Chevron. Sponsors have acumen and the ability to understand & control business risks arising from the unforeseen conditions.

Financial Strength Sponsors have a good financial strength on account of well diversified profitable businesses & based on significant industry experience.

Governance

Board Structure Gas & Oil has a nine member Board, comprising four representatives from GO, four members are independent directors and one representative from Vitol Dubai Limited.

Members' Profile The BoD have a diversified experience and knowledge of marketing and distribution of oil. The Chairman of the board, Mr. Khalid Riaz, has more than 30 years of oil transportation experience. All the remaining directors also hold senior position in other companies and have sound professional experience in oil, transportation and financial industry.

Board Effectiveness The experiences of board will 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 Awais Haider has been engaged as Gas & Oil's external auditors during FY17. The auditor is QCR rated with SBP rating category A. Auditor has provided an unqualified opinion as on 31st Dec, 2018.

Management

Organizational Structure 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 Supply Chain, IT, HR, Security and Depot Operations are headed by experienced General Manager Operations. Accounts department is headed directly by CFO himself and heads of treasury & tax compliance fall under the indirect supervision of CFO. The Chief Operation Officer (COO) is responsible for nationwide sales of petroleum products and lubricants. The entire operational set-up of the company falls under the purview of CEO.

Management Team Mr. Khalid Riaz is the Managing Director of company. He has an overall experience of ~40 years of which ~5 years is with GO. Mr. Zeeshan Tayyeb joined GO in CY19 as Chief Operating Officer & Chief Financial Officer. He is a Fellow Chartered Accountant by profession and has worked in leadership roles in Pakistan and the United Kingdom. Average experience years of top management clocks in at ~21yrs, 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. Backup server is maintained in Sahiwal and the company has recently obtained cloud storage for online Back-up.

Business Risk

Industry Dynamics Pakistan consumed a total of ~25.2mln metric tons (MT) of petroleum products (POL) in FY18. Country's 54% of POL products demand is met through imports while 46% is through indigenous production. More than fifteen OMCs are operating in the domestic sector to transport and supply fuel to the country with total of 9,820 retail fuel stations.

Relative Position As of Dec-18, GO's overall market share stood at 4.8%. The emergence of other players in the OMC sector is causing pressure on white oil segment market share. The big-four OMCs (PSO, Shell, Total PARCO and Hascol) retain a large chunk of the market at 72% with PSO dominating at ~37% during CY18.

Revenues During the review period topline of the company stood at PKR 116.4bln (FY17: PKR 34.4bln), an increase of ~239%. This increase has been seen owing to an increase in the volumes of MS sales contributing 49% respectively to the total top line.

Margins Gross margins during the period stood at 5.7% compared to 5.2% during FY17. The increase in gross margin is on account of improved topline during the respective period. However, Pre-tax profit margin has decreased to 2.1% (FY17: 3.6%) on account of trickledown effect of increased production expense.

Sustainability As per regional outlets distribution: Company's 188 retail outlets are located in Punjab, 188 outlets located in Sindh & 20 outlets located in KPK. By the year 2020, Company plans to have more than 1,000 operational retail outlets across Pakistan. To accommodate expansion, GO plans to construct new depots with total storage capacity of 67,840MT, at various strategic locations all across Pakistan.

Financial Risk

Working Capital Company's net working capital days stood at 12days during eighteen months ending Dec-18 (FY17: -4days). Increase in working capital days is observed on account of increased trade debtors' days. (eighteen months ending Dec-18: 11days; FY17: 8days) resulting in increased company's dependence on short term borrowings for bridge financing. Company uses Letter of Credit (LC) as payment method for its imports & gets approximately 45 to 60 days to meet its payment obligations on HSD and FO imports. Gas & Oil's receivables stood at PKR 10,406mln (FY17: PKR 810mln). In addition to this, company's average inventory period has decreased to 13days (FY17: 42 days).

Coverages During the review period, FCFO of the company stood at PKR 4,929mln (FY17: PKR 1,322mln). Improvement has been seen owing to increased topline and profitability on YoY basis. This, in turn, reflecting adequate coverages as well [FCFO/Gross Interest+CMLTD: eighteen months ending Dec-18: 4.4x, FY17: 3.5x].

Capitalization The Company currently has a leveraged capital structure comprises 75% debt as at end Dec-18 (FY17: 37%). During the period, short-term debt comprises 81% (FY17: 62%) & long -term debt comprises 19% (FY17: 38%) of total debt.



Oil Marketing Company
Financials (Summary) in PKR mln
The Pakistan Credit Rating Agency Limited

PKR mln

Gas and Oil Pakistan Limited

Unlisted Public Limited

BALANCE SHEET

	Dec-18 18M	Jun-18 6M	Jun-17 12M	Jun-16 12M
a Non-Current Assets	9,511	7,795	3,652	1,898
b Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Fixed Income	-	-	-	-
c Current Assets	25,890	15,359	8,033	5,579
Inventory	9,065	7,945	4,747	3,216
Trade Receivables	10,407	3,838	810	370
Others	6,418	3,576	2,476	1,994
d Total Assets	35,401	23,154	11,686	7,478
e Debt/Borrowings	20,126	9,775	1,678	1,087
Short-Term	16,326	6,018	795	523
Long-Term (Incl. Current Maturity of Long-Term Debt)	3,800	3,757	882	564
Other Short-Term Liabilities	8,250	9,183	6,972	4,501
Other Long-Term Liabilities	358	274	134	94
f Shareholder's Equity	6,667	3,923	2,903	1,796
g Total Liabilities & Equity	35,401	23,154	11,686	7,478

INCOME STATEMENT

a Turnover	116,473	35,246	34,390	15,387
b Gross Profit	6,689	2,000	1,781	860
c Net Other Income	(1,924)	-	34	20
d Financial Charges	(805)	(270)	(123)	(70)
e Net Income	1,480	484	1,037	301

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	4,929	1,377	1,322	636
b Total Cashflows (TCF)	4,929	1,377	1,322	636
c Net Cash changes in Working Capital	(18,660)	(3,897)	974	119
d Net Cash from Operating Activities	(14,688)	(2,703)	2,195	701
e Net Cash from Investing Activities	(6,331)	(3,171)	(1,941)	(846)
f Net Cash from Financing Activities	20,985	5,591	640	872
g Net Cash generated during the period	(35)	(282)	894	727

RATIO ANALYSIS

a Performance

Turnover Growth (vs SPLY)	239%	45%	123%	829%
Gross Margin	5.7%	5.7%	5.2%	5.6%
Net Margin	1.3%	1.4%	3.0%	2.0%
ROE	56%	14%	44%	22%

b Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	4.4	2.6	2.9	3.9
Interest Coverage (X) (FCFO/Gross Interest)	5.8	5.1	10.8	9.1
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	2.6	8.8	1.5	1.9

c Capital Structure (Total Debt/Total Debt+Equity)

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	12	13	-6	-9
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d Capital Structure (Total Debt/Total Debt+Equity)

	75%	71%	37%	38%
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Gas and Oil Pakistan Limited

May-19

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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- (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)

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- (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)

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