The Pakistan Credit Rating Agency Limited

Rating Report

EGAS (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Feb-2023	BBB	A2	Stable	Maintain	-
10-Feb-2022	BBB	A2	Stable	Maintain	-
10-Feb-2021	BBB	A2	Stable	Maintain	-
18-Feb-2020	BBB	A2	Stable	Maintain	-
31-Aug-2019	BBB	A2	Stable	Maintain	-
03-May-2019	BBB	A2	Stable	Upgrade	-
05-Nov-2018	BBB-	A3	Stable	Maintain	-
04-Apr-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

E-Gas (Pvt.) Ltd operates a unique business model of supplying CNG through a virtual pipeline. Overall, the industry is dependent on the two major state-owned gas distribution companies; E-Gas through its virtual pipeline is capturing a small niche in that market. There is room available in this segment as the gas being distributed is a small fraction of what is being flared into the atmosphere. The demand from the customers is need-driven, which is perpetually increasing, as the energy starved industry doesn't have access to uninterrupted supply or any other viable alternatives. Success is pivotal on sound supply chain management and fulfilling the ever-increasing demand through a well-managed fleet of logistical infrastructure. E-Gas has performed really well in last three years. However, during the current year revenues plunged on back of depleting gas reserves and decline in prices in 4QFY22. The Company is currently procuring gas from three fields (FY21: Six fields). In addition, to recoil the volumes company has secured three new contracts for gas fields. Though, expansion will increase leveraging but is expected to remain within comfortable range. E-Gas operates the fleet of 27 vehicles and further expansion is underway. Furthermore, to reduce the concentration risk, E-Gas significantly enhanced its customer base. Moreover, strengthened equity base (FY22: 3.2bln, FY21: PKR 3bln) over the last few years provide comfort to financial risk matrix. The cost structure is being managed; distribution costs, going forward, should be the main focus of the management. The sponsors have a good understanding of the business along with happenings in the industry.

The ratings are dependent on sustaining a steady revenue stream and financial risk profile. The ratings would positively benefit from the corporate governance principles, internal control systems and financial strength of E-Gas. Nevertheless, any prolonged dip in subdued business volume and low gas prices can have a detrimental effect.

Disclosure

Name of Rated Entity	EGAS (Pvt.) 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 | Distribution | Gas(Jun-22)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Legal Structure E-Gas (Pvt) Limited was established in 2006.

Background In 2006, E-Gas had two core business divisions, Alternate Energy Solution and Virtual Gas pipeline. For Alternate Energy Solutions they partnered with Fornovo Gas, a technologically advanced equipment manufacturer to provide CNG equipment and services in Pakistan (discontinued in 2011). Presently, E-Gas' main business revolves around the Virtual Gas Pipeline - Operating as distributors.

Operations Operating Virtual Gas pipeline, E-Gas has been supplying CNG to different companies in Pakistan through their huge fleet of High-Pressure Specialized Modules (HPSM). CNG is transported through trucks from a pipeline near a gas field (reservoir) straight to customer location including remote filling stations for CNG fueled vehicles. At production facility, located near the gas field, the gas is compressed, cooled and dehydrated.

Ownership

Ownership Structure The three shareholders; who are brothers, each owns 33% stake in the company. Their father, Mr. Muhammad Raza, is a sleeping partner holding 0.002% of the shares.

Stability E-Gas needs to have succession planning to ensure sustainability of the entity's prospects. However the ownership is considered to be stable as no variation is expected.

Business Acumen The brothers are keen businessmen with diverse experience from various industries. To name a few, oil & gas, accounting, medicine, auto dealership etc. The sponsors are highly educated and have exposure of dealing with national and international companies on assorted forums.

Financial Strength The sponsoring family has two other successful running businesses, 4 fuel stations - one of them in F-7 Islamabad, and a Honda cars dealership in Rawalpindi. In case of need, these would provide financial cushion to continue operations efficiently.

Governance

Board Structure The Board comprises of the three brothers as their father isn't involved in the day to day business of the company. Governance structure has room for improvement as all three members have executive roles and there is no independent director at present.

Members' Profile Three members have executive roles and there is no independent director at present. Members' Profile The eldest brother, Mr. Yasir Raza is the CEO, an MBA from London Metropolitan University, carries years of experience in the technology and oil & gas sectors - looks after the technical side of the business. Dr. Taimur Raza, the middle brother, holds an MBBS and an MRCP degree from the UK. He has previously worked as a medical professional and is now part of the EGas team spearheading the finance department. Mr. Hassan Raza youngest amongst the three directors holds a MBA degree from Indiana University. He looks after the business development and sales function of E-Gas. All the board members are qualified and experienced individuals.

Board Effectiveness The presence of an independent director is integral to ensure effective, transparent and independent oversight. The company would do better if it has its own internal audit function which could report directly to a board audit committee. In addition to this, no board committees are in place.

Financial Transparency M/s. Horwath Hussain Chaudhury & Co. Chartered Accountants, are the external auditor of the company. They're SBP's category 'A' auditors and also have a QCR rating. The auditors have expressed an unqualified audit opinion on the financial statements of E-Gas for the year ended June 30, 2021. Audit for period ending FY22 is underway.

Management

Organizational Structure E-Gas has a lean organizational structure with an experienced management team and a balanced mix of professionals.

Management Team Mr. Yasir Raza, CEO, besides the general oversight looks after the technical side of the business. Mr. Taimur Raza heads the Finance department while Mr. Hassan Raza look after the business development and sales function of E-Gas. The top Management includes four key professionals. Mr. Maj (Retd.) Najmul Hassan, General Manager, holds an MBA and joined EGas in FY16. Mr. Muqqarrab Qadeer replaced Mr. Agha Slaman as CFO. Mr. Ali Nissar (Project Manager).

Effectiveness All members of management team are qualified and carry adequate experience. E-Gas does not have formal management committee.

MIS The company's MIS generates balance sheet, profit and loss, and cash flow statements on a weekly basis for the board including sales reports which are reviewed by the top management daily.

Control Environment E-Gas is currently using Intuit QuickBooks Online accounting software. The web-based features include remote access capability, remote payroll assistance etc.

Business Risk

Industry Dynamics As per reported data, total gas consumption in Pakistan is 5 billion cubic feet per day out of which 3.8 bcfd fulfilled through Natural Gas and remaining 1.2 bcfd through Liquified Natural Gas. the gap between consumption and supply which is projected as to 6.6 BCFD without the imported gas by 2029/30, is presently managed through load shedding and load management by gas utility companies. Meanwhile, work on various projects; importing indigenous gas, addition of RLNG through regasification terminals and respective enhancement of pipeline capacities to meet the supply deficiency.

Relative Position In virtual gas pipeline E-Gas has successfully occupied ~90% of market share as it is the only company which has the license to operate all over the country while its competitors Hitech Pipes & Engineering and Petrosin Engineering Pvt. Ltd are small players following the steps of E-Gas.

Revenues EGas has performed very well in last three years and successfully earned revenues amounting to PKR ~1.6bln each year. However, during FY22, revenues plunged on back of depletion of gas from two fields (operational for 12 years) and the development on new field was halted due to flood. Additionally, decline in petroleum prices in 4QFY22 also impacted the topline. Consequently, company posted a revenue of PKR 917mln as compared to PKR 1,660mln in the last corresponding period. Furthermore, development on two more PPL fields (Yassar X-1, Bashar X-1) is in process and gas off-take will be started in the following year.

Margins During FY22, EGas has managed its operational cost and was successful in keeping the margins sustainable. However, GP margin decreased by 7% and stands at 40% as compared to 47% in the corresponding period. Contrarily, NP margin was slightly increased to 26% as compared to 25% in last year. The decrease in GP margin is attributed to high fuel cost. Consequently, company closed the bottom line at PKR 242mln as compared to PKR 420mln in the corresponding period.

Sustainability EGas is effectively managing the fleet of 27 trucks (FY21: 28). These trucks are automatic and have the capacity to carry upto11,000 Kg of CNG. EGas recently acquired two new fields and both contracts are with Pakistan petroleum Limited (Yassar X-1, Bashar X-1) and now there are 3 operational gas fields (FY21: 6) and development on two fields is underway.

Financial Risk

Working Capital For working capital needs, E-Gas relies on both internal cash flows as well as short term borrowing. In FY22, net working capital days were stretched on back of increase in receivable days, ultimately increasing the reliance of the company on Short-term borrowings. The quantum of short term borrowings increased to PKR 180mln (FY21: PKR 144mln). Net working capital days stands at 128 days at end-Jun 22 (FY21: 43 Days, FY20: 45 days). However, company is only spending ~2% on debt servicing.

Coverages In FY22, FCFO further witnessed a decline of ~52% YOY. (FY22: 281mln, FY21: PKR 594mln, FY20: PKR 783mln). The major reason behind this decline is the waning of topline on back of deplition of gas fields. Finance cost remained low due to the decrease in the long term debt and entity average borrowing rate reduced to 6.9% in FY22 from 9.8% in FY21.

Capitalization EGas is continuously shredding its borrowing book, due to which, capital structure decreased to 6.1% in FY21 (FY20: 9.4%; FY19: 12%). However, company availed the facility of PKR 109mln for the development of new field and due to the increase in short term borrowings, leveraging stands at 8.4% at end -Jun 22. Going forward, with planned acquisition of new fleets on lease, the company's leveraging is expected to increase in near future.

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Financial Summary
PKR mln

EGas (Pvt.) Limited	Jun-22	Jun-21	Jun-20	Jun-19
Distribution -Gas	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,940	2,950	2,742	2,171
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	822	524	443	491
a Inventories	*8*	*5*	*5*	*15*
b Trade Receivables	*464*	*227*	*205*	*253*
5 Total Assets	3,762	3,474	3,184	2,662
6 Current Liabilities	144	205	260	295
a Trade Payables	*29*	*30*	*22*	*43*
7 Borrowings	299	191	274	280
8 Related Party Exposure	7	7	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,313	3,070	2,650	2,086
11 Shareholders' Equity	3,313	3,070	2,651	2,086
B INCOME STATEMENT				
1 Sales	917	1,660	1,668	1,633
a Cost of Good Sold	*(550)*	*(878)*	*(678)*	*(637)*
2 Gross Profit	368	783	990	996
a Operating Expenses	(123)	(166)	(159)	(130)
3 Operating Profit	244	617	832	866
a Non Operating Income or (Expense)	*116*	-	-	*1*
4 Profit or (Loss) before Interest and Tax	360	617	832	866
a Total Finance Cost	*(19)*	*(26)*	*(36)*	*(32)*
b Taxation	*(99)*	*(171)*	*(231)*	*(242)*
6 Net Income Or (Loss)	242	420	565	593
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*281*	*594*	*783*	*851*
b Net Cash from Operating Activities before Working Capital Changes	*262*	*566*	*746*	*830*
c Changes in Working Capital	*(286)*	*(73)*	*24*	*60*
1 Net Cash provided by Operating Activities	(25)	493	770	890
2 Net Cash (Used in) or Available From Investing Activities	(83)	(416)	(762)	(771)
3 Net Cash (Used in) or Available From Financing Activities	107	(76)	(6)	(122)
4 Net Cash generated or (Used) during the period	(0)	1	2	(3)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-44.8%	-0.5%	2.2%	68.7%
b Gross Profit Margin	40.1%	47.1%	59.4%	61.0%
c Net Profit Margin	26.4%	25.3%	33.9%	36.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.5%	31.4%	48.3%	55.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	7.6%	14.7%	23.9%	33.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	140	49	52	61
b Net Working Capital (Average Days)	128	43	45	52
c Current Ratio (Current Assets / Current Liabilities)	5.7	2.6	1.7	1.7
3 Coverages				
a EBITDA / Finance Cost	23.6	35.1	29.2	34.9
b FCFO / Finance Cost+CMLTB+Excess STB	3.2	9.7	7.8	6.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	0.1	0.2	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	8.4%	6.1%	9.4%	11.9%
b Interest or Markup Payable (Days)	38.1	38.9	0.0	0.0
c Entity Average Borrowing Rate	6.9%	9.8%	14.3%	7.2%

Credit Rating

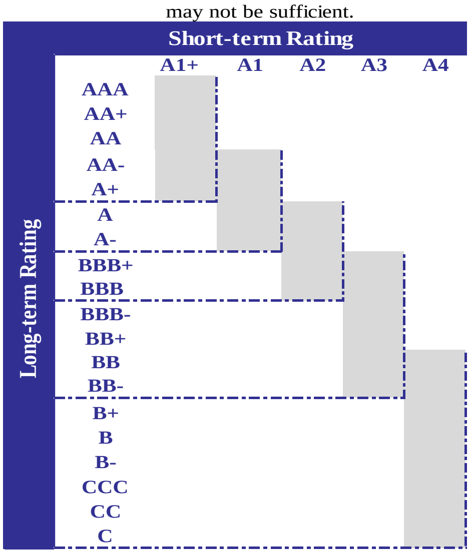
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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)
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