



The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Petrochem Industries (Pvt.) Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Mar-2023	BBB+	A2	Stable	Maintain	-
16-Mar-2022	BBB+	A2	Stable	Maintain	-
16-Mar-2021	BBB+	A2	Stable	Upgrade	-
28-Aug-2020	BBB	A2	Stable	Maintain	-
30-Aug-2019	BBB	A2	Stable	Maintain	-
01-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Reliance Petrochem Industries (Pvt.) Limited (hereafter referred to as ‘the Company’ or RPI) is considered a leading manufacturer & trader of petroleum oils (White Oil) in Pakistan. The Company primarily operates into three segments i.e petroleum oils, solvents and polymers. The rating takes comfort in Company’s long-term association and supplier agreement with the world’s leading diversified energy group ADNOC (Abu Dhabi National Oil Company) and Saudi Aramco. RPI core strength lies in its product differentiation as they are the sole producer of white oil in Pakistan which opens up the Company’s product utility in multiple market segments like lubrication, textile, cosmetic, perfume, plastic, paper, shoe polish, and paint industries. The current economic downturn scenario also affects the chemical sector of Pakistan through changes in people’s consumption patterns, a dip in national construction activity, etc. mainly triggered by depleting foreign reserves, PKR devaluation, a hyperinflationary environment, and restrictions on the import of raw materials. The industry is considered volatile when procuring raw materials (polymers, base oils and white spirit), as they are directly linked with the international prices of crude oil. A flash of hope that Reliance imported its first-ever raw material consignment from Saudi Arabia in Pakistani rupees, paving the way for further imports in the local currency and relieving pressure from the country’s dwindling forex reserves. The restrictions on the import of basic raw materials have mainly triggered the volumetric dip in topline pertinent to both local and export avenues sales. The Company’s margins are under stress mainly on the back of the surge in KIBOR and escalation in cost on procurement of imported raw materials. The Lag in LC’s opening has created the non-availability of basic raw materials and due to this end product timeline cycle followed a spiral trend. This endorsed the higher trade receivable, payables and advances from customers and stretched the Company’s working capital cycle. The size of the board is considered adequate and independent insight into corporate governance can bring new balance which will improve the Company’s operations, financial performance and overall business health. The top management of the Company has diversified industry exposure and focused towards the optimal utilization of resources through advancement in technology. As a part of a strategic business plan, RPI is now expanding its customer range by opening new international offices to channel smooth supply. As per the RPI management presentation, the company is focusing on regaining its lost momentum by achieving an optimal level of productivity and efficiency in its operations as the Company has long-term contracts with renowned foreign oil trading companies. The financial risk profile of the Company is considered adequate with a moderately leveraged capital structure. Free cash flow was reduced along with coverages mainly due to magnifying finance costs.

The ratings are dependent on RPI’s sustainable growth in top-line and bottom-line with upheld margins while retaining sufficient cash flows. Improvement in margins, coverages and upright working capital management is imperative. Any significant decline in profitability; impacting cash flows and coverages, will have a negative impact on the ratings.

Disclosure

Name of Rated Entity	Reliance Petrochem Industries (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 Chemical(Jul-22)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Reliance Petrochem Industries (Pvt.) Limited (hereafter referred as 'the Company') was incorporated as a private limited company in 2013.

Background The sponsoring family has been involved in the trading business for several decades. The petrochemicals business was started by Mr. Jai Kumar. Later, the sponsors also became involved in the manufacturing of polypropylene bags.

Operations The Company operates mainly within three segments, petrochemicals, chemicals/solvents and polymers. Within the petrochemical segment, the Company produces white oils which are sold to clients in the cosmetics, food preservatives, lubricants, pharmaceutical and textile sectors. A segment of solvents was added to the company operations which mostly serve the paint industry. In polymers segment, Company produces plastic bags of different types and sizes to meet the demand of export oriented companies for the packaging of wheat, rice, cement etc. During rise of coronavirus disease, the Company introduced a new product line with the name of Reliance Handtizer.

Ownership

Ownership Structure The major stake of ownership rests with Mr. Anil Parkash, director of the Company, who holds ~52% of shares. Meanwhile, remaining shares (~48%) are held by Mr. Jawahar Lal (CEO).

Stability Even though ownership of Reliance Petrochem rests with only two brothers, the ownership of the group companies is well distributed between the sponsoring family.

Business Acumen The sponsoring family has been involved in the business since inception and have extensive experience of the relevant industries. They also successfully manage various group companies operating in diversified business segments.

Financial Strength Various companies that are owned by the sponsoring family include Star Corporation, Reliance Importer and Exporter, Karachi Corporation, Blue Moon Industries (Pvt.) Limited and Latea Pak Private Limited. These companies are involved in manufacturing and trading of different products like tea, milk, oils, lubricants and bitumen.

Governance

Board Structure The board of Reliance Petrochem comprises three brothers. Mr. Jawahar Lal is the CEO and heads the board as Chairman. Mr. Anil Parkash (Director) and Mr. Jai Kumar (Managing Director) are the other two board members.

Members' Profile Mr. Jawahar Lal has overall working experience of ~26 years and is associated with Reliance Petrochem's board since its inception. Mr. Jai Kumar is a law graduate and carries an overall work experience of ~30 years. He is also associated with the board for last ten years. Mr. Anil Parkash has strong work experience of ~28 years like other board members and is associated with the board since inception

Board Effectiveness The effectiveness of the board is being compromised due to relatively small size of the board and domination of sponsoring family. Secondly, board meetings are done on "as and when needed" basis. There is no set pattern for record of minutes of meetings held or agenda based meetings

Financial Transparency M/s Mushtaq & Co., Chartered Accountants are the external auditors of the Company. The auditor is QCR rated by ICAP and listed in Category "B" of the SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the year ended June 30th, 2022.

Management

Organizational Structure The Company has a lean management structure and is divided into functional departments. Each department is headed by a department head. All department heads report directly to the Board.

Management Team Mr Jai Kumar has an overall experience of ~30 years in the chemical sector. He is actively involved in day-to-day decision-making. The management constitutes educated individuals. Mr Zain Khandwani recently joined as COO. He was a seasoned investment banker and worked in Soneri Bank Limited as SVP before joining Reliance. Mr. Waseem Raja (CFO) is a Chartered Accountant.

Effectiveness There are no formal management committees. All the Department Heads report directly to the CEO to discuss day-to-day developments and issues. The Company maintains adequate IT infrastructure and related controls. Department-wise performance reports are also compiled on a daily basis.

MIS Reliance Petrochem uses oracle based ERP system (Efro Tech). Regular reporting of sales figures, raw materials positions, payables & receivables, and income statement are shared with the top management and Board of Directors on monthly basis.

Control Environment Petrochem maintains an effective control environment with defined policies and procedures. The Company's internal audit function performs regular reviews on the financial, operational & compliance controls and reports directly to the Directors.

Business Risk

Industry Dynamics The chemical industry is an integral part of the global economic landscape as the industry creates an immense variety of products, which influence virtually every aspect of our lives. Chemical industry products can be divided into three categories: (i) Basic Chemicals, (ii) Specialty Chemicals & (iii) Consumer Chemicals. The current economic downturn scenario also affects the chemical sector of Pakistan through changes in people's consumption patterns, a dip in national construction activity, etc., mainly triggered by depleting foreign reserves, PKR devaluation, a hyperinflationary environment, and restrictions on the import of raw materials. However, Pakistan's chemical industry imported its first-ever raw material consignment from Saudi Arabia in Pakistani rupees, paving the way for further imports in the local currency and relieving pressure from the country's dwindling forex reserves.

Relative Position In the petroleum oils business segment of Pakistan, the relative position of reliance is considered adequate. In the segment of solvents, over the years, the company has captured a considerable market share.

Revenues In FY22 the Company generated a topline of PKR ~7,401mln (FY21: PKR 9,940mln). The sales dropped by 25.5% during that period on account of a volumetric decline in local sales from solvents and petrochemicals. The dip was mainly caused by the sale of raw materials to the paint industry on account of a dip in overall construction activity and restrictions on the import of basic raw materials.

Margins The Company has G.P margin of 9.3% as of FY22 (FY21: 9.3%) dip mainly trigger on the back of higher raw material costs imported. The Company has generated net profitability of PKR 188mln during FY22 (FY21: PKR 417mln) and a net margin of 2.5% (FY21: 4.2%) mainly hindered by higher finance costs.

Sustainability The Company is focused on increasing the productivity & efficiency of its operations. Business is expected to grow further as the Company has finalized contracts with foreign traders for exports & imports. Reliance Group has its international office branch in UAE to support the operations of group companies under the name of Reliance DMCC. Reliance imported its first-ever raw material consignment from Saudi Arabia in Pakistani rupees, paving the way for further imports in the local currency and relieving pressure from the country's dwindling forex reserves.

Financial Risk

Working Capital In FY22, Reliance Petrochem's inventory days increased to ~139 days (FY21: 65 days) due to stock pile-up and increased crude oil prices. As a result, gross working capital days stood at ~187 days (FY21: 97 days). The Company has short-term trade leverage of 27.8% as of FY22 reflecting the adequate level of room for borrowing. Surge in advances from customers by PKR 871mln and Trade payables by PKR 895mln caused a dip in the current ratio to 2.5x from 9.2x.

Coverages During FY22 the Company FCFO stood at PKR 462mln (FY21: PKR 662mln) owing to a reduction in EBITDA (low PBT). The dip in coverages has been observed mainly because of adequate cash flow from operations and higher finance costs. FCFO to Finance cost ratio stood at 2.8x during FY22 (FY21: 6.5x).

Capitalization The Company has a moderately leveraged capital structure as of FY22: 39.1% (FY21: 45.7%). A slight de-leveraging has been observed due to improvement in equity supplemented through unappropriated profits of PKR 1,432mln. The Company borrowings 98.9% consist of short-term borrowings of PKR 1,608mln. As of June-22, the Company has an equity base of PKR 2,535mln.



Reliance Petrochem (Pvt). Limited Petrochemicals	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	905	449	478
2 Investments	-	-	-
3 Related Party Exposure	150	-	-
4 Current Assets	5,202	3,637	2,438
<i>a Inventories</i>	3,563	2,092	1,431
<i>b Trade Receivables</i>	890	1,045	690
5 Total Assets	6,257	4,086	2,916
6 Current Liabilities	2,045	396	354
<i>a Trade Payables</i>	958	87	83
7 Borrowings	1,626	1,670	976
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	50	40	14
10 Net Assets	2,535	1,981	1,572
11 Shareholders' Equity	2,535	1,981	1,572

B INCOME STATEMENT

1 Sales	7,401	9,940	9,535
<i>a Cost of Good Sold</i>	(6,711)	(8,895)	(8,193)
2 Gross Profit	691	1,046	1,341
<i>a Operating Expenses</i>	(210)	(284)	(564)
3 Operating Profit	480	761	778
<i>a Non Operating Income or (Expense)</i>	(22)	(51)	(44)
4 Profit or (Loss) before Interest and Tax	458	710	734
<i>a Total Finance Cost</i>	(169)	(102)	(145)
<i>b Taxation</i>	(101)	(191)	(126)
6 Net Income Or (Loss)	188	417	463

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	462	662	804
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	294	559	659
<i>c Changes in Working Capital</i>	225	(1,200)	(224)
1 Net Cash provided by Operating Activities	519	(641)	435
2 Net Cash (Used in) or Available From Investing Activities	(510)	(15)	(112)
3 Net Cash (Used in) or Available From Financing Activities	325	694	(296)
4 Net Cash generated or (Used) during the period	335	38	26

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	-25.5%	4.3%	148.9%
<i>b Gross Profit Margin</i>	9.3%	10.5%	14.1%
<i>c Net Profit Margin</i>	2.5%	4.2%	4.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	9.3%	-5.4%	6.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shu</i>	8.3%	23.5%	34.7%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	187	97	75
<i>b Net Working Capital (Average Days)</i>	161	93	73
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.5	9.2	6.9
3 Coverages			
<i>a EBITDA / Finance Cost</i>	3.3	8.0	5.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	6.4	5.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.1	0.0	0.0
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	39.1%	45.7%	38.3%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	9.3%	8.0%	14.5%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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(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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