



The Pakistan Credit Rating Agency Limited

Rating Report

Sitara Petroleum Service Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-May-2023	A-	A2	Stable	Maintain	-
11-May-2022	A-	A2	Stable	Maintain	-
19-May-2021	A-	A2	Stable	Maintain	-
19-May-2020	A-	A2	Stable	Maintain	-
15-Nov-2019	A-	A2	Stable	Maintain	-
16-May-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong business profile of Sitara Petroleum Service Limited. Sponsors of the Company are in the business for over three decades, reflecting their business acumen. The company is primarily engaged in two business segments namely i) Trading & distribution of POL products and ii) Fleet logistic services to various OMCs. Trading segment is further split into retail and bulk units. Under the retail side, the company operates a network of ~52 retail stations which is mainly spread out in the Punjab region whereas, under the bulk segment the company provides POL product directly to customers. Company's prime profits are being generated from the trading & distribution business. It carries ~86.0% share in the gross profit. The vast majority (~90%) of the fleet logistic revenue generated by the company is derived from its group company, Gas and Oil Company (GO). The Company's financial risk profile is characterized by adequate leveraged capital structure. This along with improved cashflows help manage the financial risk. Adequate coverages lend support to financial profile. Management, being cognizant of the current industry situation, is embarking on functionalizing an Oil Marketing company to augment and diversify its revenue stream.

The ratings are dependent on the management's ability to sustain its business volumes while holding the margins. Sustaining the business and financial profile along with improvement in the governance framework would be vital for the ratings. Meanwhile, financial transparency is considered paramount.

Disclosure

Name of Rated Entity	Sitara Petroleum Service Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Oil Marketing Companies(Nov-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure Sitara Petroleum Service Limited ("SPSL" or "Company") is a Public Unlisted concern incorporated in July 2012.

Background Historically, there were two firms i) Lalpur Carriage: engaged in supplying logistics facility to Oil Marketing Companies (OMCs) & (ii) Sitara Petroleum engaged in selling and exporting POL goods through wholesale and direct sales. The management subsequently decided to give these organizations a proper structure under the umbrella of one organization i.e Sitara Petroleum (Pvt.) Limited.

Operations SPSL is mainly engaged in the business of trading and distribution of Diesel, Petrol, and Lubricants. The Company is also providing fleet logistic services to OMCs in the country namely GO, PSO and Total PARCO. The Company is currently operating ~52 fuel stations. The Company has petroleum storage capacity of 4.5 million liters and has carriage fleet of around ~400 oil tankers. The registered office of the Company is situated at 14-T Gulberg-II, Lahore.

Ownership

Ownership Structure The Company is 98% owned by Mr. Tahir Iqbal, while Mr. Muhammad Usman Javed and Mr. Muhammad Hassan Javed own 1% each.

Stability The business has been governed and managed by seasoned individuals from the Oil sector of Pakistan. Sponsors are inducting next generation gradually into business, the succession planning however is not formally documented but implied.

Business Acumen The sponsor holds extensive experience and expertise in oil sector. Their strong business skills have helped the Company to achieve sustainable success over a period of years. Sponsors have Industry-specific working knowledge and strategic thinking capability.

Financial Strength Sponsors do not have any other business so financial strength is dependent on successful functioning of the SPSL.

Governance

Board Structure The Company has a seven-member board (including CEO). Board comprises two executives, two independent and 3 non-executive directors. Mr. Muhammad Ali has replaced Mr. Muhammad Akram as director of the company. Mr. Ali is the eldest son of Mr. Tahir Iqbal (CEO).

Members' Profile Mr. Muhammad Azmat is a seasoned businessman running leather tanneries for above 2 decades and has significant experience in imports, exports, strategy and business management. Other Board members are also well qualified and have been associated with the Company for a reasonable period of time.

Board Effectiveness Roles of Chairman and CEO are performed by separate persons. Mr. Tahir Iqbal has been appointed as the CEO of SPSL and Mr. Azmat as Chairman. The board has two committees in place: (i) Audit Committee (ii) Human Resource & Remuneration Committee. The Board meets quarterly and meeting minutes are properly documented.

Financial Transparency The Company has appointed M/s RSM Avais Hyder Liaquat Nauman Chartered Accountants. as its external auditor, listed in the "A" category on the State Bank of Pakistan's panel of auditors. They have expressed unqualified opinion on financial statements FY22.

Management

Organizational Structure A simplified organizational structure exists at the Company. The business profile segregated into four different departments, which are headed by their respective heads resulting in effective control and management.: (i) Operations, (ii) Finance, (iii) Sales, and (iv) Transport. All the heads report to CEO.

Management Team Mr. Tahir Iqbal is the CEO of SPSL, a veteran of the Retail & Oil Transportation sector with rich experience of more than 3 decade. Mr. Shaheer Junaid is the CFO of the company, an EY alumni & Associate Chartered Accountant by profession and has over 6.5 years of professional experience in his portfolio. Most of the senior management is associated with the company since long and have sufficient experience to take strategic decisions.

Effectiveness SPSL has constituted two committees comprising members of the management team namely (i) Procurement and (ii) Retail Development Committee. The purpose of the Procurement Committee is to streamline the procurement process, establish effective controls and to ensure efficiency in procurement activities while Retail Development Committee ensures 'Retail Side' of the business is pursuing growth and precise strategies are being devised in the right direction.

MIS The Company uses ERP system based on Oracle RDBMS since January 2012. It runs various modules and generates reports as required. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

Control Environment The Company has an effective internal audit department which helps to improve risk management, control, and governance processes and brings improvement to business practices by forming SOPs.

Business Risk

Industry Dynamics Currently, there are ~35 registered OMCs. There are five listed OMCs operating in Pakistan. OMCs generated an aggregate revenue of PKR~5,278bln in FY22 (FY21: PKR~3,076bln), with an annual GDP contribution of ~7.9% (FY21: 5.5%). The sector's revenues during FY22 registered a YoY growth of ~71.6% on account of higher prices of petroleum products.

Relative Position During FY22, the Company had a significant market share in PMG and HSD in the Punjab area in the distribution and sale of POL goods. PAPCO, one of the industry's leading players, specializes entirely in high-speed diesel transportation. However, in the near future, the business plans to carry MOGAS alongside HSD over an existing network. As a result, relative positioning and market share of carriage businesses will change.

Revenues During FY22, the Company witnessed a growth of ~27.3% in total revenue against the corresponding period as Company reported PKR~41,503mln (FY21 PKR~32,584mln) majorly reflecting the increase in POL prices. In term of concentration ~86.0% of the revenue was generated from the sale of oil and diesel whereas remaining was generated from the carriage services. During 6MFY23, revenue of the Company stood at PKR~21,739mln).

Margins Owing to high operational expenses and mismanagement of deployment of resources during FY22 overall margins of the Company took a hit. During FY22 operating profit margin took a hit as they stood at 3.3% against 4.5% for the previous period. During 6MFY23 operating profit margin improved to 3.8%. Gross profit margin also experienced a decreased as it stood at 3.6% against 4.8% for the previous period. Gross profit margins improved to 3.8% during 6MFY23 This impact was trickled down and negatively affected the net profit margin dropping from 2.8% in FY21 to 1.8% in FY22. Net profit margin remained stable during 6MFY23.

Sustainability Going forward, the Company intends to increase its retail outlet presence all over the cities of Pakistan, as well as in remote areas by installing more pumps. Additionally, the Company also aims to grow in the segment of Carriage Income by growing its number of fleets.

Financial Risk

Working Capital SPSL's working capital requirement emanates from its need to finance its trade debts and stock in trade. For this, the Company resorts to short-term borrowings. During FY22, the short-term financing of the Company reduced by 61.2% (FY22: 1,457mln, FY21: PKR 3,760mln). Short-term financing stood at PKR ~1,042mln at 6MFY23. During FY22, trade debts of the Company dropped to ~2,999mln (FY21: PKR 4,423mln) and trade payables increased to PKR~2,000mln (FY21: PKR~1,737mln). At 6MFY23 Company trade debts stood at PKR 3,250mln and trade payables stood at PKR 2,102mln. The Company is working towards resolving working capital problems which is evident from improved gross & net working capital days respectively (FY22: 33 & 35 days; FY21: 16 & 25 days). For 6MFY23 gross & net working capital days stood at 26 days and 9 days. At 6MFY23 Company reported a current ratio of 1.9x.

Coverages Company experienced a low net income factoring in the high operating costs. The trickle-down impact of this was experienced in the weakening of FCFO during the period. A decline of 1.2% was witnessed in FCFO YoY as Company reported an FCFO of PKR ~1,319mln in FY22. For 6MFY23 Company reported an FCFO of PKR 803mln. Due to lower credit facilities availed during the period a massive decline of 26.9% was experienced in finance costs regardless of high interest rates. Company reported a finance cost of PKR ~151mln during 6MFY23 (FY22: PKR 276mln, FY21: PKR 378mln). A positive change in the coverage ratios was also experienced owing to low finance costs. FCFO/Finance Cost coverage improved to 4.8x during FY22 (FY21: 4.0x).

Capitalization Company capital structure is considered optimal with debt-to-equity ratio of 44%. At end-June'22 total debt stood at PKR ~2,393mln. 60% of the total debt is concentrated by short term borrowings. Total equity stood at PKR ~3,042mln as at end-June'22.



Sitara Petroleum Service Limited OMC	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	3,587	3,490	3,127	2,964
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	1,305	1,838
4 Current Assets	5,063	4,850	6,288	3,046
a Inventories	1,075	1,024	855	371
b Trade Receivables	3,250	2,999	4,423	1,881
5 Total Assets	8,650	8,340	10,719	7,848
6 Current Liabilities	2,734	2,751	2,042	343
a Trade Payables	2,102	2,000	1,737	35
7 Borrowings	2,291	2,393	4,846	4,685
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	159	154	124	12
10 Net Assets	3,466	3,042	3,707	2,808
11 Shareholders' Equity	3,466	3,042	3,707	2,808
B INCOME STATEMENT				
1 Sales	21,739	41,503	32,584	36,951
a Cost of Good Sold	(20,913)	(40,017)	(31,027)	(35,451)
2 Gross Profit	827	1,487	1,557	1,499
a Operating Expenses	(70)	(115)	(96)	(86)
3 Operating Profit	756	1,371	1,462	1,413
a Non Operating Income or (Expense)	(0)	1	174	-
4 Profit or (Loss) before Interest and Tax	756	1,372	1,635	1,413
a Total Finance Cost	(169)	(291)	(356)	(632)
b Taxation	(163)	(342)	(381)	(278)
6 Net Income Or (Loss)	424	740	898	504
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	803	1,319	1,336	1,305
b Net Cash from Operating Activities before Working Capital Changes	653	1,044	958	695
c Changes in Working Capital	(162)	3,398	(888)	465
1 Net Cash provided by Operating Activities	491	4,441	70	1,160
2 Net Cash (Used in) or Available From Investing Activities	(638)	(335)	9	(381)
3 Net Cash (Used in) or Available From Financing Activities	204	(4,100)	(28)	(1,110)
4 Net Cash generated or (Used) during the period	56	6	50	(331)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	4.8%	27.4%	-11.8%	32.6%
b Gross Profit Margin	3.8%	3.6%	4.8%	4.1%
c Net Profit Margin	2.0%	1.8%	2.8%	1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.0%	11.4%	1.4%	4.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	26.1%	21.9%	27.6%	19.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	26	33	35	19
b Net Working Capital (Average Days)	9	16	25	18
c Current Ratio (Current Assets / Current Liabilities)	1.9	1.8	3.1	8.9
3 Coverages				
a EBITDA / Finance Cost	5.8	5.8	4.9	2.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.1	1.9	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	0.9	1.1	2.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.8%	44.0%	56.7%	62.5%
b Interest or Markup Payable (Days)	21.3	21.2	0.0	13.1
c Entity Average Borrowing Rate	13.8%	8.5%	8.1%	11.8%

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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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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