The Pakistan Credit Rating Agency Limited

Rating Report

Zaver Petroleum Corporation (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2022	A-	A2	Stable	Maintain	-
22-Dec-2021	A-	A2	Stable	Maintain	-
30-Dec-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Zaver Petroleum Corporation (Pvt) Limited (ZPCL or the Company) is part of a group including Orient Petroleum Inc. (OPI) and Orient Petroleum Pty Ltd. (OPPL). The Company, ZPCL, is engaged in exploration, development and production of oil and natural gas reserves in Pakistan. ZPCL operates one exploration block i.e., Sari South whereas it is a non-operational partner in six exploratory blocks i.e., Sakhi Sarwar, Marwat and Harnai South operated by Orient Petroleum Inc. and Bannu West, a major breakthrough in recent times, is operated by Mari Petroleum Company Limited. The Company has also non-operational rights in Mehar and Kohat block. With reference to development & production wells, ZPCL holds non-operated working interests in Chanda D&PL under Shakardara Concession operated by Oil & Gas Development Company limited and Mehar & Sofiya D&PLs under Mehar Concession operated by UEP Alpha limited. The topline for FY22 observed growth of ~76% on a YoY basis, on account of record high oil prices and better volumes. Improvement in topline has reflected into margins as well During FY22, gross margin of the Company has seen material improvement to maintain itself at ~65% (FY21: 23%). Following the suit, net profit margin converged at 38%. In addition, the recent discoveries of Mehar-6 and Bannu west are expected to further enhance the Company's production and operational capacity. Expansion in production volumes shall be supported through an in-house financing and debt capital mix. The Company has a strong capital structure with leverage of mere 14% The equity base stands at PKR 5.9bln as at end-Jun22. Improvement in the working capital structure remains imperative.

The ratings remain dependent on relative positioning of the Company in oil and gas industry with improved topline, profitability and enhanced production. Exchange losses remain a key area of consideration, however, strong financial structure is considered paramount to the ratings, with enduring emphasis on maintaining relevant coverages.

Disclosure	
Name of Rated Entity	Zaver Petroleum Corporation (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 | Refineries(Nov-21),Sector Study | Oil Marketing Companies(Nov-22)
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Profile

Legal Structure Zaver Petroleum Corporation (Pvt.) Limited (ZPCL or Zaver Petroleum) is a private limited company, incorporated in 1991.

Background ZPCL is a Pakistani oil and gas E&P company engaged in exploration, development and production of hydrocarbon reserves in Pakistan since 1991. The Company remains focused on building itself as a significant and independent oil and gas company through a balanced portfolio of exploratory as well as development assets. The Company is part of the group which includes Orient Petroleum Inc. (OPI) and Orient Petroleum Pty. Ltd. (OPPL).

Operations The Company operates one exploration block i.e. Sari South whereas it is a non-operated partner in Sakhi Sarwar, Marwat and Harnai South exploration licenses operated by Orient Petroleum Inc. (OPI) and Bannu West operated by Mari Petroleum Company Limited. The Company is also a non-operated partner in Chanda D&PL under Shakardara Concession operated by Oil & Gas Development Company limited and Mehar & Sofiya D&PLs under Mehar Concession.

Ownership

Ownership Structure Hashoo Holding (Pvt) Limited holds a majority stake of 23.25% in Zaver Petroleum. Other major shareholders include Mr. Hasan Ali Hashwani (19.86%) Bagh-e-Landhi Properties (Pvt) Ltd (14.28%), Hashoo (Pvt) Ltd (11.31%) and Elite Properties (Pvt) Ltd (11.26%).

Stability ZPCL holds an excellent portfolio of producing as well as exploratory blocks. During the year, it has achieved significant increase in production and a new discovery in Bannu West block where it holds 10% non-operated working interest. Bannu West is believed as one of the major oil & gas discoveries in the country for the past two decades.

Business Acumen The Group expands its business in hospitality and oil and gas E&P. The success of the Group bears witness to impeccable business acumen of the sponsors and their ability to form and execute business strategies. Mr. Hasan Ali Hashwani is leading ZPCL, having more than 20 years of business experience while Mr. Sadruddin Hashwani is the chairman of the Board of Directors which reflects strong commercial and business acumen.

Financial Strength In addition to ZPCL's internal resources, the Company has the strong financial support of its sponsors and the Group.

Governance

Board Structure ZPCL's board comprises of three members, with two non-executive directors and one executive director. They are supported by Technical Advisory Committee, consisting of well-established names in the industry.

Members' Profile Chairman board, Mr. Sadrud-din-Hashwani is the founder and chairman of Zaver Petroleum. Mr. Hashwani graces over 41 years of experience in his portfolio and is one of Pakistan's top businessman.

Board Effectiveness The board is actively involved in supervision and oversight of management in order for it to make informed decisions leading to the entity achieving its objectives. The board conducts regular meetings with the presence of each director to discuss various aspects of the Company and business.

Financial Transparency Auditors of the Company, M/S: Grant Thorton Anjum Rahman have provided an unqualified opinion on the financial statements of year ended June 2022.

Management

Organizational Structure The Company has a well-defined organizational structure. Operations of the Company have been bifurcated into Reservoir Engineering, Exploration, Surface Operations, Drilling, Petroleum Engineering, Finance, Admin, MIS, HR, Internal Audit and Procurement & Supply Chain. The board is actively involved in supervision and oversight of management in order for it to make effective decisions.

Management Team Mr. Kamran Ahmed, CEO of the Company, possesses 30+ years of experience in investment banking as well as the oil &gas industry. He has been associated with Shell Pakistan and the Islamic Investment Bank Ltd formerly and been a part of the Hashoo Group Oil & Gas division for 17 years. He is supported by group of seasoned professionals.

Effectiveness ZPCL does not have its separate management team and is managed by Orient Petroleum's management through a joint service agreement. The Company has not formed any management committee and is steered directly from designated persons.

MIS Oracle ERP has been implemented in Zaver Petroleum, which provides real-time end-to-end integrated solution for all operations including financial, purchasing, inventory, HRMS, allocation, payroll and approval management system.

Control Environment The Company has a dedicated team for in-house maintenance of software , with particular emphasis on the health and safety protocols, ensuring all equipment are in running order. SoPs are implemented to ensure safe operations and people properly trained to work in the prescribed manner.

Business Risk

Industry Dynamics In Pakistan, there are 15 domestic and 37 Multinational companies operating with 24 rigs actively deployed for drilling, ~124 active exploration licenses as of 30 June 2022. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,114 exploration wells and 1,484 development well drilled as of Jun'22. Oil and Gas production in Pakistan stood at 81,496 Barrels of oil per day and 3,403 million cubic feet per day respectively. Exploration and production of hydrocarbons require high levels of capital expenditures and is a high-risk venture.

Relative Position At present, there are 24 E&P operating in Pakistan, out of which 10 are local. The market share is dominated by state-owned Oil and Gas Development Company Limited (OGDCL). The other large-tier companies comprise PPL, MPL, POL and UEPL etc. Mid-tier companies include MOL and Orient Petroleum.

Revenues During FY22, an improvement in the topline of ZPCL was observed as the topline of the Company increased to PKR~2,610mln in FY22 from PKR~1,481mln, depicting an increase of ~76% on a YoY basis. The increase was majorly attributed to the boost in crude oil production and record high prices influenced by uncertain geopolitical situations. The revenue mix remained tilted towards crude oil, as it contributed 80% to the mix, followed by Gas at 17%, with LPG contributing only 3% to the mix.

Margins During FY22, gross margin of the Company has seen material improvement to reach ~65% (FY21: 23%) caused due to increase in oil prices in international market owed to geo-political situation. Trickle down impact was felt in operating margins which surged to 61% in FY22 as compared to 17% in FY21. Similarly, net profit margins improved to 38% (FY21: 12%).

Sustainability ZPCL is part of well-established oil and gas business unit in Pakistan, with a portfolio of high quality assets and material growth potential from infill drilling and exploration activities, managed by a highly experienced management and operating team. The portfolio comprises of 6 Exploration Licenses and 3 Development and Production Leases.

Financial Risk

Working Capital The company has amicable room to borrow in case the company needs it. As at end Jun-22, total trade receivables of the company stood at PKR 652 mln (FY21: PKR 372mln). The increase in receivable is due to increase in sales. Gross working capital days improved slightly to 72days (FY21: 88days).

Coverages FCFO of ZPCL witnessed enviable growth of ~229% to yield a rosy figure of PKR~1,932mln, during FY22, as compared to previous corresponding period (FY21:PKR~644mln). Cash conversion efficiency of the Company improved to ~74%, nearly double, from 39% during CY20. Better profitability resulted in better Interest coverage ratio which progressed and settled at 16X (CY20: 10X).

Capitalization ZPCL has improved its leverage structure to settle at 14% (FY21: 19%). During FY22, total debt of PKR~934mln constitutes of long-term debt PKR~592mln and short-term borrowing of PKR~342mln. Equity of the Company has strengthened to PKR~5,879mln (FY21: PKR~4,879mln) owed to increased retained earnings.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Zaver Petroleum Corporation (Pvt) Ltd Oil Exploration and Production	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	2,067	1,247	1,339	1,188
2 Investments	-	-	1	3
3 Related Party Exposure	6,499	4,712	4,113	3,841
4 Current Assets	1,420	1,086	765	591
a Inventories	*3*	*2*	*5*	*2*
b Trade Receivables	*652*	*379*	*331*	*302*
5 Total Assets	9,986	7,044	6,218	5,622
6 Current Liabilities	2,776	947	801	579
a Trade Payables	*2,226*	*738*	*685*	*519*
7 Borrowings	934	1,150	650	200
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	397	68	63	57
10 Net Assets	5,879	4,879	4,704	4,786
11 Shareholders' Equity	5,879	4,879	4,704	5,546
B INCOME STATEMENT				
1 Sales	2,610	1,481	1,223	1,157
a Cost of Good Sold	*(925)*	*(1,140)*	*(1,141)*	*(751)*
2 Gross Profit	1,685	342	82	407
a Operating Expenses	(97)	(96)	(79)	(75)
3 Operating Profit	1,588	245	3	331
a Non Operating Income or (Expense)	*(122)*	*29*	*(65)*	*(11)*
4 Profit or (Loss) before Interest and Tax	1,466	274	(61)	320
a Total Finance Cost	*(129)*	*(79)*	*(55)*	*(12)*
b Taxation	*(337)*	*(20)*	*34*	*(90)*
6 Net Income Or (Loss)	1,000	175	(82)	218
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,932*	*587*	*172*	*296*
b Net Cash from Operating Activities before Working Capital Changes	*1,816*	*486*	*181*	*289*
c Changes in Working Capital	*(184)*	*(575)*	*(146)*	*692*
1 Net Cash provided by Operating Activities	1,632	(89)	34	981
2 Net Cash (Used in) or Available From Investing Activities	(1,506)	(129)	(348)	(1,078)
3 Net Cash (Used in) or Available From Financing Activities	(217)	500	450	200
4 Net Cash generated or (Used) during the period	(91)	282	136	104
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	76.2%	21.2%	5.7%	62.7%
b Gross Profit Margin	64.6%	23.1%	6.7%	35.1%
c Net Profit Margin	38.3%	11.8%	-6.7%	18.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	67.0%	0.8%	2.1%	85.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	18.6%	3.7%	-1.6%	4.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	72	88	95	76
b Net Working Capital (Average Days)	-135	-88	-85	-13
c Current Ratio (Current Assets / Current Liabilities)	0.5	1.1	1.0	1.0
3 Coverages				
a EBITDA / Finance Cost	16.1	10.1	8.3	238.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	2.1	2.4	100.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	2.2	5.1	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	13.7%	19.1%	12.1%	3.5%
b Interest or Markup Payable (Days)	21.7	20.7	394.0	365.0
c Entity Average Borrowing Rate	11.5%	7.1%	8.7%	1.5%

Credit Rating

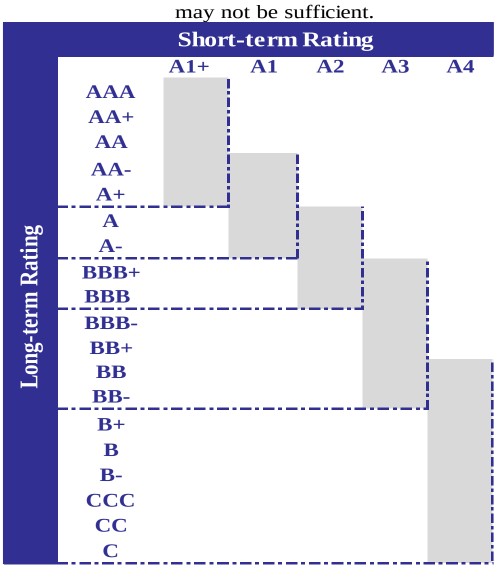
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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)

Proprietary Information