



The Pakistan Credit Rating Agency Limited

Rating Report

Zaver Petroleum Corporation (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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). Zaver Petroleum Corporation (Pvt) Limited is engaged in the 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 four exploratory blocks i.e., Sakhi Sarwar, Marwat and Harnai South operated by Orient Petroleum Inc. and Bannu West operated by Mari Petroleum Company Limited. ZPCL also 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 FY21 observed growth of 21.1% on a YoY basis, with crude oil being the key growth contributor at PKR 1.2bln converging towards gross revenue of PKR 1.5bln. Stability in margins of ZPCL have been observed as the Company progressed towards expansionary operations, along-with exchange rate variations in favor of the Company. In addition, the recent discoveries of Mehar-4 and Sofiya-3 in Mehar concession is 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. Low leveraging is observed on the balance sheet, however, capital investments can instigate a change in the Company's leveraging structure. The equity base stands at PKR 5.8bln as of Jun-21. Improvement in the working capital structure remains imperative.

The ratings remain dependent on the relative positioning of the company in oil and gas industry, while sustaining the topline profitability and low leveraged capital structure. Volatility in operating margins remain key area of consideration. Financial discipline is considered core 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Refineries(Nov-20),Sector Study Oil Marketing Companies(Nov-21)
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Profile

Legal Structure Zaver Petroleum is a private limited company, incorporated in 1991. Orient Petroleum Inc. (OPI), Orient Petroleum Pty Ltd. (OPPL) and Zaver Petroleum Corporation (Pvt.) Ltd (ZPCL) are jointly referred to as 'The Group'.

Background Zaver Petroleum Corporation (Pvt) Limited (Zaver "ZPCL") incorporated in Pakistan on 25 August 1991. The registered office of the Company is situated in Islamabad. It is engaged in the exploration, development and production of oil and natural gas reserves in Pakistan.

Operations The Company operates one exploration block i.e. Sari South whereas the company 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 operated by UEP Alpha limited.

Ownership

Ownership Structure Primary shareholding in the Company is held by Hashoo Holding (Pvt) Limited at 34.3% in Zaver Petroleum, with further shareholding held by Gulf Properties (Pvt) Ltd (19.2%), Bagh-e-Landhi Properties (Pvt) Ltd (14.3%). The ultimate ownership of the Company lies with Mr. Sadruddin Hashwani.

Stability The Hashoo Group graces a diverse portfolio of business spread of various industries. With Mr. Sadruddin Hashwani at the helm of the Group, the Group has observed expansion through the years.

Business Acumen The Hashoo Group is a well renowned business group, known for their operations in hospitality business, with prominence held by Pearl Continentals Hotels. Further the Group holds operations in oil and gas exploration and production, information technology, investment, minerals, ceramics pharmaceuticals, travel and tourism, real estate and commodity trading business.

Financial Strength In addition to its own internal resources, ZPCL has strong financial backing of its sponsors.

Governance

Board Structure Zaver Petroleum board is structured with three members, with one non-executive director and two executive directors, further being supported by technical advisory committee, composed of well-established names in the industry.

Members' Profile The position of chairman of the board is held by Mr. Sadruddin Hashwani, owner of the Hashoo Group of businesses. Mr. Hashwani graces over 41 years of experience in his portfolio and is one of Pakistan's top business tycoons. He is supported by Mr. Kamran Ahmed, CEO of Zaver Petroleum.

Board Effectiveness No formal board of director meetings are held throughout the year, however the board participates through weekly engagements with the management.

Financial Transparency The auditors of the Company, Grant Thornton Anjum Rahman have provided an unqualified opinion on the financial statements of June 2020.

Management

Organizational Structure ZPCL has a detailed hierarchical organizational structure through operational support agreement with OPI.

Management Team Mr. Kamran Ahmed, the CEO of Zaver Petroleum, possesses 30+ years of experience in investment banking as well as the oil & gas upstream and downstream 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 16 years. The CEO is supported by Mr. Tauqeer A Nayyar who has 36 years of direct upstream oil & gas experience across activities in Finance, Accounting, Joint Venture Management, Treasury, Corporate and Commercial Contracting.

Effectiveness The management of the Company is aligned with Orient Petroleum and is jointly managed.

MIS All key modules 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, joint venture, allocation, payroll and approval management system.

Control Environment Zaver Petroleum has a dedicated team of professionals for in-house development, customization and maintenance of Oracle applications for Oil & Gas specific requirements. The company especially focuses on health and safety protocols through ensuring that all equipment is in excellent running order, work procedures ensure safe operations and people are properly trained and agree to work in the prescribed manner.

Business Risk

Industry Dynamics Pakistan has reported an average of ~3wells per 1,000 sq. km of exploratory acreage. More recently, during Oct-21, the Govt. awarded two exploration blocks to state-owned local oil and gas exploration and production companies, that are going to operate through joint ventures with other local oil and gas partners. As per the latest data available for FY 21, total oil and gas production in Pakistan stood at 27.6 MMBBLs and 1,279 BSCF respectively. Cashflows of the Oil industry are dependent upon the production capacities and international oil price dynamics.

Relative Position At present, there are 24 operators 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 of PPL, Mari Petroleum, Attock Petroleum and UEPL etc. Mid-tier companies include MOL, POL and Orient Petroleum Inc.

Revenues An improvement in the topline of ZPCL was observed as the topline of the Company increased from PKR 1222.7mln in FY20 to PKR 1481.3mln in FY21, depicting an increase of 21.1% on a YoY basis. The increase was majorly attributed to the boost in crude oil sales, depicting a 26.7% increase from its peer period. The revenue mix remained tilted towards crude oil, as it contributed 79% to the mix, followed by Gas at 18%, with LPG contributing only 3% to the mix.

Margins During FY21, gross margin of the company has seen a slight decline to 26.2% (FY20: 29.3%; FY19: 35.1%) caused due to increase in depreciation and amortization costs. During FY21, the operating margin improved from 9.1% in FY20 to 13.5% in FY21, attributed to overturn of exchange losses of PKR 78mln from FY20 to gains of PKR 26mln in FY21.

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 trade receivables for the period have increased on a YoY basis (FY21: PKR 379mln; FY20: PKR 342mln), however, receivable days have decreased from its peer period, from 96 receivable days to 89 receivable days, depicting improvement in receivables collection. The short term total leverage of the Company stood at 62.0%, allowing the Company to take on further borrowing facilities for operational utilization.

Coverages Adequate coverages were observed for the Company for FY21. The FCFO/Finance cost coverage stood at 13.3 times, placing confidence in the Company's ability to meet its short-term debt obligations. Further, a current ratio of 1.1 times have been observed during FY21, providing a cushion to meet its short-term liabilities from its short-term assets.

Capitalization A low leveraged structure has been maintained by ZPCL as the total borrowing comprised only 16.4% (FY20: 10.3%) of the total capital structure. During FY21, long term debt of PKR 1,150 mln constitutes total debt of the Company, with no short term borrowing currently in place.



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Zaver Petroleum Oil Exploration and Production	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET			
1 Non-Current Assets	2,611	2,636	2,242
2 Investments	1,414	1,415	1,417
3 Related Party Exposure	3,298	2,699	2,427
4 Current Assets	1,086	765	591
a Inventories	2	5	2
b Trade Receivables	379	342	302
5 Total Assets	8,408	7,515	6,678
6 Current Liabilities	946	801	579
a Trade Payables	738	681	519
7 Borrowings	1,150	650	-
8 Related Party Exposure	-	-	200
9 Non-Current Liabilities	456	408	353
10 Net Assets	5,856	5,657	5,546
11 Shareholders' Equity	5,856	5,657	5,546
B INCOME STATEMENT			
1 Sales	1,481	1,223	1,157
a Cost of Good Sold	(1,093)	(865)	(751)
2 Gross Profit	388	358	407
a Operating Expenses	(96)	(79)	(75)
3 Operating Profit	292	279	331
a Non Operating Income or (Expense)	29	(65)	(11)
4 Profit or (Loss) before Interest and Tax	321	214	320
a Total Finance Cost	(79)	(55)	(12)
b Taxation	(43)	(49)	(90)
6 Net Income Or (Loss)	200	111	218
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	748	453	284
b Net Cash from Operating Activities before Working Capital Changes	814	493	291
c Changes in Working Capital	(575)	(146)	692
1 Net Cash provided by Operating Activities	240	346	983
2 Net Cash (Used in) or Available From Investing Activities	(458)	(660)	(1,080)
3 Net Cash (Used in) or Available From Financing Activities	500	450	200
4 Net Cash generated or (Used) during the period	282	136	104
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	21.2%	5.7%	62.7%
b Gross Profit Margin	26.2%	29.3%	35.1%
c Net Profit Margin	13.5%	9.1%	18.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	11.7%	25.1%	84.4%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	3.6%	2.1%	4.3%
2 Working Capital Management			
a Gross Working Capital (Average Days)	90	97	77
b Net Working Capital (Average Days)	-85	-82	-12
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.0	1.0
3 Coverages			
a EBITDA / Finance Cost	13.3	15.7	234.5
b FCFO / Finance Cost+CMLTB+Excess STB	11.7	12.2	96.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.6	0.7
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	16.4%	10.3%	3.5%
b Interest or Markup Payable (Days)	20.7	394.0	365.0
c Entity Average Borrowing Rate	7.8%	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.

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+	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	
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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

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- 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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- (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.
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- (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)
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- (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)
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- (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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