The Pakistan Credit Rating Agency Limited

Rating Report

Aslam Energy (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jun-2022	BBB+	A2	Stable	Maintain	-
17-Jun-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Aslam Energy's ratings incorporate the moderate business risk profile, in tandem with a favorable industry outlook post recovery in international oil prices. The ratings further factor in the strong business and financial linkages with the group company. AEPL primarily engages in petroleum marketing and petroleum logistics. The key product portfolio of the Company comprises of MS, HSD and HSFO. Further, a significant portion of the Company's income can be accredited to the revenue generated by the transportation services offered. With a fleet of seven functional oil tankers (leased & Owned), the Company essentially offers transportation services to its sister concern, Flow Petroleum. After a two-year hiatus caused by Pandemic'19, a rise in the demand for petroleum products can be witnessed. Since AEPL has a diverse customer base comprising of clients from various sectors, the resumption in economic activities has translated into augmented revenues, stable margins and enhanced working capital management. The revenue generated in FY21 increased to PKR~7,466mln (FY20: PKR~4,149mln), exhibiting a sales growth of 79.9%. While the coverages, including interest coverage and total operating coverage, experienced a slight dip in FY21, they are still sustained at good levels.

The rating takes comfort from stable management, prudent decision-making and consistent revenue generation. Moreover, the ratings remain dependent on AEPL's ability to maintain a sound financial profile, enhance capacity utilization through infrastructure and supply chain development, increase market share and market penetration amidst rising competition, and censure effective management of trade debts.

Disclosure

Name of Rated Entity	Aslam Energy (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 | Oil Marketing Companies(Nov-21)
Rating Analysts	Behrooz Fareed | behrooz.fareed@pacra.com | +92-42-35869504

Profile

Legal Structure Aslam Energy Private Limited (AEPL), incorporated in July 2018, is principally engaged in the distribution and logistics of petroleum and related products, and providing transportation services. The registered office of the Company is situated in Gujranwala.

Background The Group started its operations in the early 1980s in the name of "Aslam Oil Traders" by (late) Rana Muhammad Aslam. Initially starting on a small scale, the company has expanded its operations garnering large footprints. AEPL is the sister company of Flow Petroleum (Pvt.) Ltd (FPPL) and Aslam Sons & Co.

Operations The company is mainly engaged in the business of distribution of diesel, petrol, and lubricants. It also provides logistic services (Carriage income) to various OMCs. Aslam Energy (Pvt.) Ltd is running a fleet of almost 21 vehicles owned directly or indirectly with sister concerns.

Ownership

Ownership Structure The shareholding of the Company resides with three brothers: Mr. Muhammad Waris, Mr. Muhammad Asif and Muhammad Arif with 34%, 33% and 33% stake in the Company respectively. Mr. Arif is currently the CEO of the company, and the other two brothers serve as executive directors. The group operates under the stewardship of Mr. Waris, who is also the CEO of FPPL.

Stability The ownership of the company is clearly defined. However, the Company does not have a formal succession plan impelemented.

Business Acumen The Company possesses adequate business acumen since it has been operational for over 3 decades now. The experience of the Group, coupled with the acquired relevant industry-specific knowledge reinforces the business acumen of AEPL. The business is being been governed and managed by seasoned individuals in the Oil sector of Pakistan.

Financial Strength Sponsors of the Company have shown an unequivocal commitment to extending full support to the Company . The Group, containing three companies in the ambit, has a strong financial standing in the market.

Governance

Board Structure The board comprises three members, who simultaneously also chair the Board of FPPL. All of the board members are experienced professionals with diversified backgrounds. However, the board is devoid of any independent directors and formal committees.

Members' Profile The members of BoD are equipped with an extensive experience relevant to the OMC industry. Mr. Rana Muhammad Arif has been a part of AEPL since incorporation. He possesses more than 10 years of experience in fuel marketing & supply, logistics & transportation. Moreover, he has significant exposure to field operations including project development, development planning and operational support. The other two directors, Mr. Waris and Mr. Asif are highly experienced, competent individuals who benefit the Company through their vast knowledgebase and professional expertise.

Board Effectiveness The substantial experience and expertise of the Board members serve to enhance the overall board effectiveness. Board meetings are conducted on a frequent basis to address potential opportunities and threats, and also to devise strategic plans for the Company. The experience of board provides useful insight. The meetings are occasionally attended by the CEO, COO, CFO, GM Retail & Communication, and GM Sales & Marketing of FPPL.

Financial Transparency PKF FRANTS is the External Auditor since incorporation. They provided an unqualified review on the financial statements of June 2020 and 2021. PKF FRANS is placed in category 'B' by the State Bank of Pakistan with satisfactory QCR of ICAP.

Management

Organizational Structure The Company maintains an adequate organizational structure. The operations of the company have been bifurcated into seven broad functional areas, which comprise: i) Operations and Logistics ii) Finance, and iii) HR and Admin iv) Sales v) Accounting vi) Logistics vii) Internal Audit The heads of all the departments directly report to the COO, who then reports to the CEO.

Management Team The management departments are headed by competent professionals having adequate experience in their respective fields.

Effectiveness A moderate level of effectiveness can be witnessed. The segregation of management into seven fully fuctional departments serves to enhance the operational efficiency. A high degree of division of labor can be observed in the Company.

MIS The Company has recently implemented an ERP (Enterprise Resource Planning) system. Prior to this, the Company had employed a local software for record-keeping purposes. The introsuction of an ERP system wil serve to enhance the operational effciiency of the Company, as all the functional departments will now be interlinked with each other.

Control Environment All the vechicles of the Company are insured, and. the fleet management system uses trackers to ascertain the movement of lorries. Moreover, AEPL has also established a risjk and reward system, which allows the Company to mitigate risk.

Business Risk

Industry Dynamics There are 35 registered players operating in the sector with PSO, Attock Petroleum Limited, Shell Pakistan Limited and Be Energy Pakistan being the major players. With the Pakistani economy recovering from the impacts and the aftermath of COVID-19, fuel demand has exhibited signs of improvement. OMCs will continue to attain healthy margins, and will spike to pre-pandemic levels during FY22. Further, OMCs generated an aggregate revenue of PKR 2,528bln in FY21 (FY20: PKR 2,225bln, with an annual GDP contribution of 5.3% (FY20: 5.4%). During FY21, the sector's revenue registered a growth of 13.6%, owing to inflationary pressures and increased volumetric sales. Additionally, three major products, HSD, MOGAS and RFO account for approximately 98% of the total POL consumption.

Relative Position A thorough peer comparison carried out revealed that Go Petroleum leads the list with the highest number of total assets, followed by BE, Jinn Petroleum, AEPL and OILCO.

Revenues During FY21, AEPL recorded a revenue of PKR 7.466bln (FY20: PKR 4.149bln). The sake growth plummeted from 291.6% to 79.9% during FY21. The Company's revenue is largely dominated by trading of petroleum products, while the income generated through transportation services provides cushion. . .

Margins Gross margins remained fairly constant, clocking in at 3.3% in FY21 and at 3.2% in FY20. Further, during the period FY21, Operating Profit and Net Profit Margin stood at 2.7% and 1.5% respectively. The Company has maintained its margins, with only minimal fluctuations in the figures.

Sustainability Going forward, the company intends to expand its retail network. Additionally, it also aims to grow in the segment of carriage income by growing its number of fleets. Aslam Energy capitalizes on strong entrepreneurial capital of its sponsors, having significant knowledge in oil trading segment from its sister concern, Aslam Oil Traders. This is expected to enhance the business profile in the medium term.

Financial Risk

Working Capital During FY21, the Net Working Capital days decreased to (6) days (FY20: 5 days; FY19:5 days) reflecting a reduced efficiency in working capital management. The Gross Working Capital Cycle has also decreased from 30 days in FY20 to 13 days in FY21. AEPL's receivables underwent a decline, and stood at PKR 192mln (FY20: PKR 323mln; FY19: PKR 365mln), leading to improvement in receivables days. In addition to this, the Company's current ratio fell to 0.8x in FY21 (FY20: 1.4x). This insinuates at a declining liquidity position of the Company.

Coverages The Company's EBITDA went through a significant increase, as the quantum increased from PKR 109mln in FY20 to PKR 201mln in FY21. Similarly, FCFO also augmented to PKR 165mln in FY21 (FY20: PKR 88mln). The increase in the cashflows is primarily caused by an improvement in revenues earned by the Company. However, since the Company acquired long term borrowings from financial institutions, the finance cost incurred increased during FY21.

Capitalization The total borrowings of the Company rose from PKR 62mln in FY20 to PKR 165mln in FY21. Owing to this increase, the Total Borrowings / (Total Borrowings + Shareholder's Equity) escalated to 38.7% (FY20: 29.3%). The equity also increased to PKR 261mln in FY21 (FY20: PKR 151mln), owing to a increase in unapprpriated profits of the Company.

The Pakistan Credit Rating Agency Limited

PKR mln

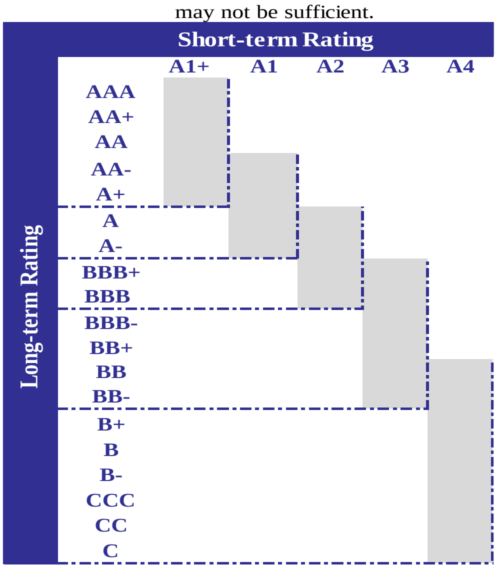
Aslam Energy (Pvt.) Ltd	Jun-21	Jun-20	Jun-19
OMC	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	556	100	28
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	507	403	404
a Inventories	*184*	*31*	*33*
b Trade Receivables	*192*	*323*	*365*
5 Total Assets	1,063	503	433
6 Current Liabilities	272	228	351
a Trade Payables	*152*	*170*	*345*
7 Borrowings	165	62	-
8 Related Party Exposure	360	59	8
9 Non-Current Liabilities	5	3	0
10 Net Assets	261	151	74
11 Shareholders' Equity	261	151	74
B INCOME STATEMENT			
1 Sales	7,466	4,149	1,060
a Cost of Good Sold	*(7,219)*	*(4,015)*	*(1,018)*
2 Gross Profit	247	134	41
a Operating Expenses	*(42)*	*(31)*	*(11)*
3 Operating Profit	205	102	30
a Non Operating Income or (Expense)	*(52)*	*0*	*0*
4 Profit or (Loss) before Interest and Tax	153	103	30
a Total Finance Cost	*(10)*	*(4)*	*(0)*
b Taxation	*(32)*	*(22)*	*(6)*
6 Net Income Or (Loss)	111	77	24
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*165*	*88*	*28*
b Net Cash from Operating Activities before Working Capital Changes	*167*	*89*	*28*
c Changes in Working Capital	*228*	*(78)*	*(47)*
1 Net Cash provided by Operating Activities	395	11	(19)
2 Net Cash (Used in) or Available From Investing Activities	(480)	(31)	(29)
3 Net Cash (Used in) or Available From Financing Activities	103	48	50
4 Net Cash generated or (Used) during the period	18	28	2
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	79.9%	291.6%	--
b Gross Profit Margin	3.3%	3.2%	3.9%
c Net Profit Margin	1.5%	1.8%	2.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.3%	0.2%	-1.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	53.8%	68.3%	32.3%
2 Working Capital Management			
a Gross Working Capital (Average Days)	13	30	126
b Net Working Capital (Average Days)	5	8	7
c Current Ratio (Current Assets / Current Liabilities)	1.9	1.8	1.2
3 Coverages			
a EBITDA / Finance Cost	20.9	27.0	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	4.8	14.5	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	0.8	0.3
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	53.6%	44.5%	9.2%
b Interest or Markup Payable (Days)	0.0	0.0	N/A
c Entity Average Borrowing Rate	4.6%	6.3%	0.0%

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

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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

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(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).

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(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)

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(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)

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(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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