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
16-Jun-2023	BBB+	A2	Stable	Maintain	-
17-Jun-2022	BBB+	A2	Stable	Maintain	-
17-Jun-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings incorporate Aslam Energy (Pvt.) Ltd.’s extensive experience of sponsors and the Company’s lengthy operating track record. The ratings further factor in the strong business and financial linkages with the group company. The Company is primarily engaged in two business segments namely i) Trading and distribution of POL products. This segment is further split into retail and bulk units. Under the retail side, the Company operates a network of 56 retail stations as at Dec'22 which is mainly spread out in the Punjab region whereas, under the bulk segment the company provides POL products directly to customers ii) Furnishing fleet logistic services (Carriage income) to OMCs, mainly to sister concern; Flow Petroleum. During FY22, the revenue of the Company increased to PKR 20,758mln (FY21: PKR~7,465mln), exhibiting a sales growth of ~178%. Revenue from sales of POL products represents largest portion of total sales (~98%), whereas remaining (~2%) from fleet income. However, Financial risk profile of Aslam Energy is characterized by adequate leveraged capital structure. In addition, the Company has experienced an improvement in its cashflows, which has further contributed to its ability to effectively manage financial risk.

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-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 Aslam Energy Private Limited (AEPL) was incorporated as a private limited company under the Companies Act, 2017.

Background Aslam Energy Private Limited (AEPL) was incorporated in July 2018. 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).

Operations The Company is mainly engaged in the business of distribution of diesel, petrol, and furnace oil. It also provides logistic services (Carriage service) to various OMCs. It has a fleet of almost 33 vehicles owned directly with sister concerns out of which Company owns 9 vehicles as at Mar'23 and has administration of ~56 filling stations as at end-Dec'22. The Company's registered office is located in Lahore.

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.

Stability The Company has a strong, stable operating structure. There has been no change in the ownership structure and it is expected to remain stable in future

Business Acumen Aslam Energy 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 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 serve at board of Flow Petroleum. 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 adequate experience relevant to the oil sector. 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 Board meetings are conducted on a frequent basis to address potential opportunities and also to devise strategic plans for the Company. The meetings are occasionally attended by the CEO, COO, CFO, GM Retail & Communication, and GM Sales & Marketing of FPPL. Meeting minutes are maintained adequately.

Financial Transparency The Company's External Auditors, M/s PKF FRANTS issued an unqualified opinion on the financial statements for the year ended FY22.

Management

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

Management Team Management departments are headed by competent professionals having diverse experience in their respective fields.

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

MIS The Company had implemented an ERP (Enterprise Resource Planning) system. Prior to this, the Company had employed a less efficient software for recordkeeping purposes. Now, the introduction of an ERP system will serve to enhance the operational efficiency of the Company, as all the functional departments will now be interlinked with each other.

Control Environment The Company maintains an adequate MIS which helps management to keep track of all operations and liaisons with higher management.

Business Risk

Industry Dynamics The oil sector of Pakistan is divided into upstream, midstream and downstream segments. The upstream segment encompasses Exploration and Production of oil and midstream includes transporting oil from production sites to refineries via pipelines, trains, tankers, and trucks and production of refined products. While downstream comprises marketing & distribution of refined petroleum products. In Pakistan, almost ~70% of total oil products move by roads followed by pipelines ~28% and ~2% by railways. Total consumption of petroleum products during FY22 was recorded at ~23.1mln MT (FY21: ~20.1mln MT) with YoY growth of ~15%. However, a downtrend seen in consumption during 6MFY23, led by sluggish industrial activity, weak auto sales and lofty product prices, is likely to spill over to early 2023. As per the available public data, there are more than 9,607 retail outlets currently operating in Pakistan under 35 licensed OMCs.

Relative Position Emerging names like Flow Petroleum (Pvt.) Limited has contributed to increased competition in the industry. Only 20% market share of other OMCs in which the part of FPPL has less than 1%. AEPL provide services to FPPL as well as in other OMCs. The company operates a network of ~29 retail stations during FY22 which is mainly spread out in the Punjab region, out of which 4 are associated with GO Petroleum and remaining with Flow Petroleum. During 1HFY23, the total count for retail stations increased to ~56, out which 4 are associated with GO Petroleum, 29 with Quality 1 and remaining with Flow Petroleum.

Revenues During FY22, AEPL recorded a revenue of PKR 20,759mln, (FY21: PKR 7,466mln; FY20: PKR 4,149mln; FY19: 1,060mln), representing phenomenal growth of 178% in sales. During 1HFY23, Company has recorded a revenue of PKR 28,380mln. This increase is accredited to inflationary pressure coupled with increased volumetric sales. A significant portion of the revenues is generated through the outlets of FPPL followed by GO filling stations. The Company's revenue is largely dominated by trading of petroleum products, while the income generated through transportation services provides cushion.

Margins Gross profit margin remained fairly stable during FY22, clocking in at 5.6% (FY21: 3.3%, FY20: 3.2%; FY19: 3.9%). The increase can be attributed to the momentous increase in sales. Gross profit margin for 1HFY23 was recorded at 3.0%. However, the rise in revenues was coupled with an increase in cost of sales, therefore restricting a significant spike in the gross profit margin. The net profit margin exhibited an increase from 1.5% in FY21 to 3.8% in FY22 (FY20: 1.8%; FY19: 2.3%), primarily because of an increase in volumetric sales.

Sustainability Going forward, the Company intends to expand its distribution network. Additionally, it also aims to grow in the segment of carriage income by growing its number of fleet. 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 FY22, the Net Working Capital days decreased to (2) days (FY21: 9 days; FY20: 8 days. FY19: 16 days). The decline is due to stretching trade payables amounting to PKR 1,124mln during FY22 (FY21: PKR 232mln; FY20: PKR 205mln; FY19: PKR 345mln). Trade payables increased significantly because Company is yet to pay the amount to its related parties against the stock received in advance. During 1HFY23, the Net Working Capital days stood at (2) days. In addition to this, the Company's current ratio slightly fell to 1.8x in FY22 (FY21: 1.9x; FY20: 1.4x; FY19: 1.1x).

Coverages The Company's EBITDA went through a significant increase, as the quantum increased from PKR 211mln in FY21 to PKR 1,047mln in FY22 (FY20: PKR 109mln; FY19: PKR 31mln). Similarly, FCFO also augmented to PKR 893mln in FY22 (FY21: PKR 174mln; FY20: PKR 88mln; FY19: PKR 28mln). The increase in the cashflows is primarily caused by an improvement in revenues earned by the Company.

Capitalization The total borrowings of the Company rose from PKR 165mln in FY21 to PKR 310mln in FY22 (FY20: PKR 62mln). The total borrowings of the Company as at end-Dec'22 were recorded at PKR 133mln. The equity also increased to PKR 1,053mln as at FY22 (FY21: PKR 261mln), due to the retention of profit.

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Financial Summary
PKR mln

Aslam Energy (Pvt.) Ltd Oil Marketing Company	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	522	396	295	100
2 Investments	-	-	-	-
3 Related Party Exposure	260	260	260	-
4 Current Assets	2,852	2,304	507	403
a Inventories	*236*	*260*	*184*	*31*
b Trade Receivables	*299*	*225*	*192*	*323*
5 Total Assets	3,634	2,961	1,063	503
6 Current Liabilities	1,219	1,301	272	287
a Trade Payables	*875*	*903*	*152*	*229*
7 Borrowings	133	310	165	62
8 Related Party Exposure	376	287	360	-
9 Non-Current Liabilities	9	9	5	3
10 Net Assets	1,897	1,054	261	151
11 Shareholders' Equity	1,897	1,054	261	151
B INCOME STATEMENT				
1 Sales	28,380	20,759	7,466	4,149
a Cost of Good Sold	*(27,525)*	*(19,588)*	*(7,219)*	*(4,015)*
2 Gross Profit	855	1,171	247	134
a Operating Expenses	(65)	(78)	(42)	(31)
3 Operating Profit	790	1,093	205	102
a Non Operating Income or (Expense)	*61*	*(99)*	*(52)*	*0*
4 Profit or (Loss) before Interest and Tax	851	993	153	103
a Total Finance Cost	*(8)*	*(26)*	*(10)*	*(4)*
b Taxation	-	*(175)*	*(32)*	*(22)*
6 Net Income Or (Loss)	844	793	111	77
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*694*	*893*	*174*	*88*
b Net Cash from Operating Activities before Working Capital Changes	*687*	*869*	*167*	*89*
c Changes in Working Capital	*(53)*	*(289)*	*228*	*(78)*
1 Net Cash provided by Operating Activities	634	580	395	11
2 Net Cash (Used in) or Available From Investing Activities	(50)	(104)	(480)	(31)
3 Net Cash (Used in) or Available From Financing Activities	(189)	123	103	48
4 Net Cash generated or (Used) during the period	395	598	18	28
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	173.4%	178.1%	79.9%	291.6%
b Gross Profit Margin	3.0%	5.6%	3.3%	3.2%
c Net Profit Margin	3.0%	3.8%	1.5%	1.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.3%	2.9%	5.4%	0.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	114.3%	120.5%	53.8%	68.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	3	8	18	33
b Net Working Capital (Average Days)	-2	-2	9	8
c Current Ratio (Current Assets / Current Liabilities)	2.3	1.8	1.9	1.4
3 Coverages				
a EBITDA / Finance Cost	121.6	45.8	21.9	27.0
b FCFO / Finance Cost+CMLTB+Excess STB	44.7	16.2	5.1	14.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.4	2.6	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	21.2%	36.2%	66.8%	29.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	2.4%	4.1%	3.3%	6.5%

Credit Rating

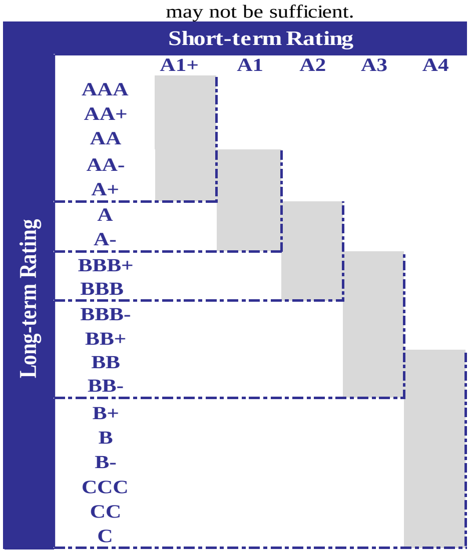
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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)
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