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
14-Jun-2024	BBB+	A2	Stable	Maintain	-
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

Aslam Energy (Pvt.) Limited's (‘Aslam Energy’ or ‘the Company’) ratings reflect its affiliation with Flow Petroleum (Pvt.) Limited along with a strong business profile. The ratings factor in the sponsor's extensive experience. The Company is primarily engaged in two business segments namely i) Trading & Distribution of POL products and ii) Fleet Logistic services to various OMCs. The Trading segment is further split into retail and bulk sale units. Under the retail side, the Company sells on cash/fuel cards through a network of ~47 retail stations, primarily spread out in the Punjab region; whereas, under the bulk sale side, the Company provides POL products directly to corporate customers on credit. The Company owns a fleet of 34 lorries, where overall fleet revenue is generated from its group companies, i.e. Flow Petroleum & Quality 1. The Company experienced a consistent uptrend in revenues. During FY23, the revenue grew significantly by ~120%. The Company's prime revenue (~98%) is generated from the trading and distribution business; while ~2% is generated from carriage services. However, the Company's margins experienced a decline due to high procurement costs combined with the inflationary impact on operational expenses. Aslam Energy has strategically acquired ~65% stake in TransAsia Refinery Limited (TRL), while the remaining shares are held by Sponsors and affiliates (i.e., Flow Petroleum (Pvt.) Limited). Once the refinery becomes fully operational, this strategic investment is expected to enhance Aslam Energy’s operational capabilities. However, transpiring the modalities of the transaction as per the pre-defined timeline remains imperative.
In terms of its financial risk profile, the Company maintains adequate coverage and a stable working capital cycle, supported by a low-leverage capital structure. The recent injection of ~PKR 950mln in the equity base supports the overall equity standing of the Company.

The rating takes comfort from stable management, prudent decision-making and consistent revenue generation. Moreover, the ratings remain dependent on the Company'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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | POL Distribution - OMCs & Dealers(Nov-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Aslam Energy (Pvt.) Limited ('Aslam Energy' or 'the Company') incorporated in 2018 under the Company's Act-17 as a private limited concern.

Background Rana Mohd. Aslam (Late) founded Aslam Oil Traders (the Group) in the early 1980s, focusing on logistics. Initially a small-scale operation, the business has since expanded significantly. The younger generation later assumed control of the Company, and in 2018, it was registered as Aslam Energy.

Operations The Company is mainly engaged in the business of distribution of PoL products. It also provides logistic services (carriage service) to various OMCs. It has a fleet of almost 34 vehicles owned directly with sister concerns and has administration of ~47 filling stations as at Dec-23.

Ownership

Ownership Structure Ownership of the Company lies with three brothers: Mr. M. Waris (~34%), Mr. M. Asif (~33%) and Mr. M. Arif (~33%).

Stability The ownership structure seems to be stable and is anticipated to remain unchanged in the foreseeable future.

Business Acumen Aslam Energy is led by experienced professionals in Pakistan's oil sector, reinforcing its strong business acumen. This provides the Company with valuable experience and industry specific knowledge. along with the strong business acumen of the Group that has been operating for over three decades. Moreover, the Company

Financial Strength The Company is part of the Group having stakes in Flow Petroleum, Quality 1, Aslam Sons, and Flow Base. The Group is financially sound to support the Company, if needs be.

Governance

Board Structure The Board is dominated by the Sponsors only: Mr. M. Waris, Mr. M. Arif and Mr. M. Asif. The Board lacks independence and depth.

Members' Profile The BoD members have extensive experience in oil sector. Mr. M. Waris, chairs the Board and brings an extensive experience of over 18 years. Other members of the Board also possess significant experience in the oil marketing sector.

Board Effectiveness The Board is assissted by four sub-committees: Audit, Finance, Budgeting and HR Committee. Meetings of these committees are conducted on a frequent basis.

Financial Transparency The Company's External Auditors, M/s PKF FRANTS issued an unqualified opinion on the financial statements for the year ended Jun-23. The firm is QCR rated and categorizes under B category on the SBP panel.

Management

Organizational Structure The Company operates through: i) Operations & Logistics ii) Treasury & Finance, and iii) HR and Admin iv) Sales v) Accounts & Taxation vi) Internal Audit functions. Each function is managed by a respective Head, who reports to the Cheif Operating Officer (COO). The COO reports to the CEO, who then reports to the BoD and make pertinent decisons.

Management Team Mr. M. Arif, the CEO, has extensive experience of 12 years in the Retail & Oil Transportation sector. He has been associated with the business since inception. He is supported by a team of skilled professionals.

Effectiveness The Company does not have any formal management committees in place. Management meetings are conducted as per requirement contributing to the decision-making process.

MIS The Company had implemented an ERP system, integrated with all functions of the business, which has the ability to generate management reports readily.

Control Environment The Company maintains an in-house internal audit function which enhances risk management, control, and governance processes, as well as improves business practices by establishing standard operating procedures (SOPs).

Business Risk

Industry Dynamics Pakistan relies significantly on imports to meet its energy demand. During FY23, the country consumed ~17.1mln MT of petroleum products (FY22: ~23.1mln MT), a dip of ~25.5% YoY. A decrease in total consumption was due to unstable economic conditions and government policy changes. Currently, there are ~35 registered OMCs. There are five (5) Listed OMCs operating in the country namely (i) Pakistan State Oil (PSO) (ii) Shell Pakistan (SHELL) (iii) Hascol Petroleum (HASCOL) (iv) Hi-Tech Lubricants (HTL) and (v) Attock Petroleum (APL). OMCs generated an aggregate revenue of PKR~5,303bln in FY23 (FY22: ~PKR 4,262bln).

Relative Position The Company holds a significant (MUST BE NUMERIC, NOT GENERIC) market share in PMG and HSD in the Punjab area in the distribution and sale of POL goods.

Revenues The Company's revenue is largely dominated by the trading of petroleum products (~98%), followed by carriage services revenue (~2%). During FY23, the revenue of the Company witnessed a substantial increase of ~120% and was reported at ~PKR 45.6bln (FY22: ~PKR 20.7bln). This increase is attributed to inflationary pressure coupled with increased volumetric sales. During 6MFY24, the revenue of the Company reported at ~PKR 30bln (6MFY23: ~PKR 28bln). Moving forward, it is anticipated that the revenues of the Company will further improve as an investment in TransAsia Refinery (TRL) will lead to increased market presence.

Margins Owing to high operational expenses and the mismanagement of resource deployment during FY23, the overall margins of the Company posted a decline. Gross margin decreased to ~2% during FY23 (FY22: ~5.5%). Similarly, operating margin declined to ~1.7% during FY23 (FY22:~5.3%). This affected net margin to ~1.3% during FY23 (FY22: ~3.8%). During 6MFY24, the Company continued to experience low margins primarily due to elevated procurement costs, resulting in gross margin of ~1.9%. Similarly, operating and net margins posted a dip and stood at ~1.7% and ~0.8%, respectively. Going forward, the Company's margins are expected to remain stable.

Sustainability Going forward, the Company intends to increase its retail outlet presence all over the cities of Pakistan. This expansion of operations and customer base will naturally foster organic growth. Also, the investment in TransAsia Refinery Limited (TRL) is poised to bolster the Company's performance by reducing import price parity and facilitating price adjustments. This enhancement will synergize operational efficiencies and enhance commercial viability.

Financial Risk

Working Capital During FY23, Net Working Capital days decreased to (-7) days (FY22: (-6) days) due to improved receivable days which stood at ~2 days in FY23 (FY22: 4 days) whereas, trade payable days of the Company remained stagnant, reported at 9 days in FY23 (FY22: 9 days). YEH KIA HAI ????? lolx ... During 6MFY24, net working capital days of the Company further improved to (-8) days owing to stretching trade payable days. The Company reported a limited short-term borrowing cushion.

Coverages As of FY23, the Company observed a decline in the interest coverage ratio, reported at ~25.2x (FY22: ~45.8x). This reduction is attributed to a decrease in EBITDA alongside elevated finance costs. As of FY23, the EBITDA of the Company stood at ~PKR 759mln (FY22: ~PKR 1,047mln). The Company experienced low net income, influenced by the high financing costs, resulting in a decrease in EBITDA, ultimately impacting the interest coverage ratio. As of 6MFY24, interest coverage ratio of the Company stood at ~17.9x. Whereas; the FCFO / Finance Cost of the Company stands at ~15.8x in FY23 (FY22: ~39.1x, 6MFY24: ~14.3x). Moving forward, coverages of the Company will remain stable.

Capitalization Aslam Energy demonstrates a robust capital structure, as evidenced by its leveraging ratio (debt/equity), which stood at ~10% in FY23 (FY22: ~22%). Equity of the Company stood at ~PKR 3,127mln in FY23 (FY22: ~PKR 1,054mln). This increase in equity IS attributABLE to a capital injection of ~PKR 950mln, coupled with a revaluation surplus of ~PKR 1,458mln. Total borrowings of the Company stood at ~PKR 358mln in FY23, the Company mainly utilized short-term borrowing to maintain its working capital cycle which stood at ~PKR 330mln (incl. CMLTB). Whereas, long term borrowing of the Company clocked to ~PKR 28mln in FY23 (FY22: ~PKR 33mln). The Company mainly utilized short-term borrowing to maintain its working capital cycle. As of 6MFY24, the equity of the Company stood at ~PKR 3,366mln.

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PKR mln

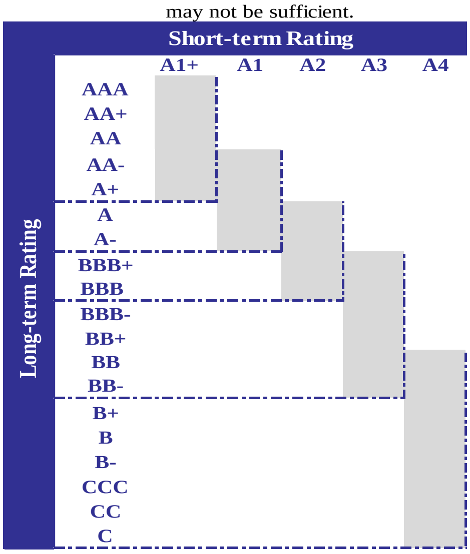
Aslam Energy (Pvt.) Ltd	Dec-23	Jun-23	Jun-22	Jun-21
Oil Marketing Company	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	3,150	3,160	396	295
2 Investments	-	-	-	-
3 Related Party Exposure	897	961	1,149	260
4 Current Assets	4,181	1,204	1,415	507
a Inventories	*1,480*	*280*	*260*	*184*
b Trade Receivables	*794*	*179*	*225*	*192*
5 Total Assets	8,229	5,325	2,961	1,063
6 Current Liabilities	3,264	1,689	1,301	272
a Trade Payables	*2,479*	*1,227*	*903*	*152*
7 Borrowings	323	358	310	165
8 Related Party Exposure	1,268	144	287	360
9 Non-Current Liabilities	8	8	9	5
10 Net Assets	3,366	3,127	1,054	261
11 Shareholders' Equity	3,366	3,127	1,054	261
B INCOME STATEMENT				
1 Sales	30,088	45,618	20,759	7,466
a Cost of Good Sold	*(29,520)*	*(44,756)*	*(19,614)*	*(7,219)*
2 Gross Profit	568	862	1,144	247
a Operating Expenses	*(44)*	*(73)*	*(52)*	*(42)*
3 Operating Profit	525	789	1,093	205
a Non Operating Income or (Expense)	*9*	*49*	*(99)*	*(52)*
4 Profit or (Loss) before Interest and Tax	533	838	993	153
a Total Finance Cost	*(29)*	*(43)*	*(26)*	*(10)*
b Taxation	*(265)*	*(180)*	*(175)*	*(32)*
6 Net Income Or (Loss)	239	615	793	111
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*417*	*474*	*893*	*174*
b Net Cash from Operating Activities before Working Capital	*387*	*436*	*869*	*167*
c Changes in Working Capital	*(682)*	*1,146*	*(289)*	*228*
1 Net Cash provided by Operating Activities	(294)	1,581	580	395
2 Net Cash (Used in) or Available From Investing Activities	22	(1,909)	(104)	(480)
3 Net Cash (Used in) or Available From Financing Activities	(35)	28	123	103
4 Net Cash generated or (Used) during the period	(308)	(299)	598	18
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	31.9%	119.8%	178.1%	79.9%
b Gross Profit Margin	1.9%	1.9%	5.5%	3.3%
c Net Profit Margin	0.8%	1.3%	3.8%	1.5%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-0.9%	3.6%	2.9%	5.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	14.7%	29.4%	120.5%	53.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	3	2	4	13
b Net Working Capital (Average Days)	-8	-7	-6	3
c Current Ratio (Current Assets / Current Liabilities)	1.3	0.7	1.1	1.9
3 Coverages				
a EBITDA / Finance Cost	17.9	25.2	45.8	21.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	0.6	3.0	5.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	2.0	2.2	0.7	2.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	32.1%	13.8%	36.2%	66.8%
b Interest or Markup Payable (Days)	7.3	20.5	22.4	0.0
c Entity Average Borrowing Rate	6.7%	5.6%	4.1%	3.3%

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information