



The Pakistan Credit Rating Agency Limited

Rating Report

OILCO Petroleum (Pvt.) Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sponsors of Halmore, 225MW combined cycle power plant (A+, rated by PACRA) operating since 2011, have joined hands with owners of OILCO Petroleum (Pvt.) Limited (OILCO) to promote and grow the business of OILCO in Pakistan. OILCO incorporated in 2013, is engaged in the business of marketing of petroleum products and lubricating oils. The Company has sizeable storage capacity available at its disposal. Under the patronage of primarily Halmore sponsors and also other shareholding group, SEARS Energy DMCC has been established as a energy trading company in Dubai. SEARS Energy, would act as a supplier of petroleum products to OILCO. Sponsors are arranging a sizeable LC (\$15mln) in favor of OILCO, which is a kind of quasi equity to OILCO. The sponsors have an experience of more than two decades in the energy sector. This has given them an understanding of the dynamics of the market, and enabled them to establish relationships with suppliers and customers. Currently, it has over 55 retail outlets and aims to aggressively penetrate the retail segment in the growing industry. The Company plans to finance the capex through debt and equity (50:50). Currently, OILCO has adequate financial risk profile. The ratings take comfort from the commitment of sponsors to inject phase wise equity in order to fund growth plans.

The rating particularly recognizes on going developments including i) completion of transformation in shareholding structure, ii) planned expansion iii) equity injection and iv) adoption of a conservative financial matrix. In addition to timely implementation of these initiatives, the ratings are dependent on OILCO’s ability to achieve desired market penetration along supportive supply chain network and healthy margins.

Disclosure	
Name of Rated Entity	OILCO Petroleum (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-20)
Rating Analysts	Muhammad Mubashir Nazir mubashir.nazir@pacra.com +92-42-35869504

Profile

Legal Structure OILCO Petroleum (Private) Limited ("the Company or OILCO") was incorporated in February 27, 2013 under the Companies Ordinance 1984 (formally the Companies Act, 2017).

Background The marketing business of petroleum products was founded by Mr. Javed Majeed (late) in 1968. However after his demise, Mr. Ahsan Majeed inherited the business. Subsequently, OILCO, was granted permission to establish an Oil Marketing Company (OMC) by Oil and Gas Regulatory Authority (OGRA) in 2017. It is pertinent to mention here that during 2020, Halmore Group entered into partnership by acquiring major stake in the Company.

Operations The Company is engaged in the business of marketing petroleum products and lubricating oils (MS, HSD, HSFO & HOBC). The Company's marketing segment comprises over 55 retail outlets across Punjab province. The Company's oil storage facilities are located at 9KM, Farooqabad, Sheikhpura Road, Mouza Jhamky, Distt. Sheikhpura.

Ownership

Ownership Structure The Company is a subsidiary of SEARS Energy DMCC., which holds 97.0% shares, 2.0% is being held by Mr. Zaheer Ahmed Ghanghro while 1.0% of the stake is spread among individuals. SEARS Energy is joint venture by the Halmore Group and Mr. Ahsan Majeed with a 66.6% and 33.3% stake, respectively.

Stability Through sponsors, stability of OILCO remains adequate. Going forward, the ownership structure of Company is expected to remain same.

Business Acumen The sponsors have strong business skills and industry-specific working knowledge, due to extensive experience in the oil marketing and power industry.

Financial Strength The financial strength of the Company is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The control of the Company vests with a seven-member Board of Directors (BoD) including the CEO. Three directors are representative of SEARS Energy, whereas the remaining four directors are non-executive directors.

Members' Profile OILCO's BoD comprises qualified and experienced professionals. Mr. Ahsan Majeed is the Chairman of the Board. He brings with him, over three decades of experience within the POL marketing industry.

Board Effectiveness The experience of BoD helps in guiding the management in developing effective operational and financial policies. There is no independent director present on the Board. There is no BoD committee as the Company does not comply with Code of Corporate Governance owing to status as a private company.

Financial Transparency The External Auditors of the Company, Grant Thornton Anjum Rahman Chartered Accountants, expressed an unqualified opinion on the financial statements for the year ended Jun'20. Recently, the Company has established an Internal Audit & Quality Assurance department but the successful implementation of policies and procedures are yet to be seen. However, PACRA has not received audited financials for FY21 as audit review is in process.

Management

Organizational Structure A simplified organizational structure exists in the Company. Operations are segregated into six broad departments, i) Retail, ii) Marketing & Sales, iii) Terminal Operations, iv) HR & Admin, v) Accounts & Finance and vi) Compliance, headed by their respective managers. The entire operational set-up of the Company falls under the purview of the CEO, with each department head directly reports to the CEO.

Management Team Senior management team carries adequate and relevant professional experience. Mr. Ahsan Majeed has been the Chief Executive Officer of OILCO since inception, while also serving on the Board as Chairman. He brings with him extensive experience spanning over two decades in the industry.

Effectiveness The CEO meets with relative Head of Departments on daily basis. The discussion agenda includes strategic matters and matters relating to ongoing projects (financial & operations). However, minutes of the meetings are not documented.

MIS OILCO is using all key modules of SAB-B1 (ERP suite); SAP-BI was implemented in 2018 through M/S Abacus Consulting. The suite is providing real-time end-to-end integrated solutions for all operations including financial, sales and marketing, human capital management. A dedicated team of professionals are in place to maintain and continuously upgrade the information systems according to changing business needs.

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

Business Risk

Industry Dynamics Pakistan's OMC market comprises 33 players. Consumption of Petroleum Products has reduced by ~3% over the last five years. Major drop was witnessed after FY19 due to reduced economic activities in same year, substitution of Furnace Oil by imported LNG in the power sector, and the emergence of COVID-19 in 2HFY20 adversely impacting the consumption. Total Petroleum Products consumption in FY20 was ~19mtn tons (~20mtn FY19).

Relative Position OILCO has a minimal market share as of Jun'21 on the basis of (MOGAS/HSD/HOBC). The emergence of new players in the OMC sector is causing pressure on white oil segment market share. The big-five OMCs (PSO, Shell, Total PARCO, GO & Attock Petroleum) still retain a major portion of the market amounting to over 80%, with PSO dominating at up to 40%.

Revenues Following a volatile trend in topline till 2019, OILCO managed to have a sizeable growth of 179.0% during FY21. However, COVID-19 pandemic has adversely impacted the Company's topline during FY20, as business activities around the country have been restricted. The Company recorded a revenue of PKR 2,536mtn for FY21 in comparison of PKR 909mtn for FY20. The increase in revenue is majorly owing to the revival of economic activities and increasing demand for POL products.

Margins Over the past years, the profit margins remained volatile and moderately low, primarily due to modest scale of operations vis-a-vis sizeable administrative and corporate expenses. Moreover, finance costs during FY21 considerably increased due to increase in borrowings. However, during FY21, the company's strong operational performance and strategic thrust translated into a profit after tax of PKR 15mtn as compared to a loss of PKR 169mtn.

Sustainability The Company made progress during FY21, boosting innovation to drive growth. Further, the Company is following an aggressive expansion strategy and plans to open approximately 26 new retail outlets at the end of 2021. The Company is expanding its footprints by inaugurating retail outlets in the provinces of KPK and Sindh. To accommodate expansion, OILCO aims to construct new depots. Moreover, in order to leverage the benefits of effective product sourcing in the business value chain, OILCO entered in to a long term agreement with its parent company - SEARS Energy DMCC for the procurement of POL products. Sponsors are arranging a sizeable LC (~\$15mtn) in favor of OILCO, which is a kind of quasi equity to OILCO.

Financial Risk

Working Capital The Company's liquidity remains adequate supported by business model to meet its working capital needs and cushion in its bank credit limits to support any ad-hoc requirements. OILCO's Net Working Capital days stood at FY21: 46days (FY20: 109days ; FY19: 21days). The Company's inventory increased to PKR 289mtn in FY21 (FY20: 241mtn, FY19: PKR 101mtn) resulting in increased Company's dependence on short term borrowings for bridge financing. Additionally, the sponsors can fund support to meet any business requirements. Moderate cash and bank balances will further support the liquidity for OILCO.

Coverages The Free Cash Flows from Operations (FCFO) continued on a volatile trajectory (FY21: PKR 61mtn; FY20: PKR -119mtn, FY19: PKR 47mtn), owing to losses incurred during FY20 and FY18. Since the FCFO, during the period FY20, were lower than the Finance Cost, the Debt Payback Ratio turned negative, highlighting a troublesome picture with regards to Company's ability to honor its debt payments. Similarly, the coverages remained in a precarious position. However, during FY21, the increase in FCFO endorsed by operational profitability. This, in turn, reflected in improving coverages as well [FCFO/finance cost: FY21: 2.3x, FY20: -6.8x].

Capitalization The Company has high percentage of leverage in their capital structure. The borrowing of the Company in FY21 is PKR 254mtn (FY20: 412; FY19: PKR: 89mtn) including loan from Saba Power of PKR 50mtn. The Company plans to finance the capex through debt and equity (50:50), going forward.



The Pakistan Credit Rating Agency Limited

Summary

PKR mln

OILCO Petroleum (Pvt.) Limited Oil Marketing Companies	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	441	405	259	283
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	449	759	344	264
<i>a Inventories</i>	289	241	101	92
<i>b Trade Receivables</i>	57	379	28	121
5 Total Assets	890	1,164	603	548
6 Current Liabilities	462	594	186	234
<i>a Trade Payables</i>	142	182	26	117
7 Borrowings	254	412	89	97
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	32
10 Net Assets	174	158	328	185
11 Shareholders' Equity	174	158	328	185
B INCOME STATEMENT				
1 Sales	2,536	909	1,732	1,045
<i>a Cost of Good Sold</i>	(2,396)	(993)	(1,662)	(1,043)
2 Gross Profit	140	(84)	71	1
<i>a Operating Expenses</i>	(92)	(66)	(43)	(40)
3 Operating Profit	47	(150)	27	(39)
<i>a Non Operating Income or (Expense)</i>	4	1	(14)	2
4 Profit or (Loss) before Interest and Tax	52	(149)	13	(37)
<i>a Total Finance Cost</i>	(21)	(21)	(11)	(10)
<i>b Taxation</i>	(15)	-	-	-
6 Net Income Or (Loss)	15	(169)	2	(47)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	70	(119)	47	(3)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	55	(135)	34	(8)
<i>c Changes in Working Capital</i>	188	(26)	(142)	(68)
1 Net Cash provided by Operating Activities	243	(161)	(108)	(76)
2 Net Cash (Used in) or Available From Investing Activities	(205)	(33)	(10)	(37)
3 Net Cash (Used in) or Available From Financing Activities	(24)	169	134	(33)
4 Net Cash generated or (Used) during the period	14	(24)	15	(146)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	178.9%	-47.5%	65.8%	-37.5%
<i>b Gross Profit Margin</i>	5.5%	-9.2%	4.1%	0.1%
<i>c Net Profit Margin</i>	0.6%	-18.6%	0.1%	-4.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	10.2%	-16.0%	-5.5%	-6.8%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	9.3%	-69.7%	0.7%	-21.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	70	151	36	21
<i>b Net Working Capital (Average Days)</i>	46	109	21	-12
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.0	1.3	1.9	1.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.8	-6.7	4.8	-0.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.3	-0.5	1.7	-0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	5.5	-2.9	2.4	-7.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	59.4%	72.2%	21.4%	34.4%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	156.6	255.2
<i>c Entity Average Borrowing Rate</i>	7.6%	7.0%	10.8%	9.7%

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

- 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.
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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)
- (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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