The Pakistan Credit Rating Agency Limited

# Rating Report

## Jinn Petroleum (Pvt.) Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 31-Mar-2023 | BBB | A2 | Stable | Maintain | - |
| 31-Mar-2022 | BBB | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

The ratings incorporate Jinn Petroleum establishing its presence in the oil marketing (OMC) segment. The Company is consistently progressing its medium-term objectives to capture market share in already stable and competitive market, step on the strategic alliances with the largest operating local refineries to augment its distribution business. Jinn Petroleum aims to carry out its expansion strategy by further expanding its retail network to all across Pakistan. The Company has two storage capacities located at HUB and Sahiwal. In addition to hospitality arrangements with major companies at Kemari, Port Qasim, MehmoodKot, Machike and Gatti. This complements its tendency to capture the pace of growth as per planned. Jinn Petroleum plans construction of storages at Daulatpur, Tarujabba and the extension in Sahiwal Depot in phases. It has traditionally capitalized on strong managerial support from its sponsors and advisors who have significant ties with many bigger local players in oil procurement and distribution and knowledge of the local industry dynamics. The Company has primary reliance on local refineries; however, it fortifies the supply from import side wherein financial constraints are in play. The equity base of the company has taken support from internal capital generation and adequate sponsor's financial profile. During FY22, the net sales of the Company grew by 54% to PKR 11,717mln as compared to PKR 7,612mln in the corresponding year. During 6MFY23, the figure rose to PKR 17,607mln. This increase in sales is attributed to a surge in oil prices and sales volumes. During FY22, the Company reported a gross profit of PKR 879mln (FY21: PKR 400mln) displaying a growth of 2.2 times. The Company reported an operating profit of PKR 468mln (FY21: PKR 64mln) due to trickle-down effect of better sales. The Company achieved stellar results with the highest ever net profit after tax of PKR 243mln during FY22 (FY21: PKR 84mln), owing to increase in OMC margins, sales and efficient inventory management. As at end FY22, The Company has immensely improved its leveraged capital structure with debt-to-equity ratio of ~27% as compared to 62% in previous corresponding period. The Company has total debt of PKR~ 3,351mln as at end FY22 and an equity of PKR ~1,488mln. Moving forward, the Company aims to diversify its distribution channels, strengthening its business risk profile.

The rating captures the Company's ability to sustain its business operation while enduring its expansionary business plan. Rollout of the planned business strategy and sustainable profitability is essential. In the meantime, financial metrics needs to be upheld in terms of working capital ratios, coverages and capital structure.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Jinn Petroleum (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** | Behrooz Fareed \| behrooz.fareed@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Jinn Petroleum (Private) Limited ("the Company" or "Jinn Petroleum") was incorporated in early 2016 under the Companies ordinance 1984 (now the Companies Act, 2017).

**Background** The marketing business of petroleum products was founded by Mr. Aamir Raza Agha (late) & Mr. Ashar Siddique in 2016. However, after the demise of Mr. Aamir Raza Agha, former Chairman of the Company Mr. Asad Azhar Siddique (having experience of over 40 years in refinery and oil marketing business) continued to lead the business. JINN was granted permission to establish an Oil Marketing Company (OMC) by the Oil and Gas Regulatory Authority (OGRA) in 2016. It is pertinent to mention here that back in 2018, after the demise of Mr. Aamir Raza Agha, the share of jinn petroleum (Pvt) Ltd is succeeded to his descendants (wife and children).

**Operations** The Company is engaged in business of marketing petroleum products. The operations were initiated from Sahiwal. A 2,500 M.Ton oil terminal has been in operation since 2017. The Company has expanded its retail network from Lahore to Multan covering Central Punjab. Over 80 retail stations have been established while 200 more are in the pipeline.

## Ownership

**Ownership Structure** Jinn Petroleum is mainly owned by Lala Energy DMCC (UAE)by 90% and the remaining shareholding is dispersed among founding family members.

**Stability** Ownership of the Company has remained stable over the years. Stability of the Company's leadership provides comfort with respect to effective and efficient management of the operations.

**Business Acumen** The Sponsors and the existing management team have strong business skills and industry-specific working knowledge, due to extensive experience in the oil marketing and oil refining sectors. Mr. Asad Azhar Siddique has an experience of 40years in oil marketing industry.

**Financial Strength** The financial strength of the sponsors is considered adequate. The sponsors of the Company are committed to support it.

## Governance

**Board Structure** The control of the Company vests in a three-member Board of Directors (BoD) including the CEO. All the directors are representative of the sponsors.

**Members' Profile** Chairperson of the board, Ms. Saima Agha exercises oversight over the functioning of the board which helps the board to make timely and efficient decisions. The members serving on the board are also in management having association with the Company since its incorporation.

**Board Effectiveness** Private limited companies are required to appoint two directors. The Company ensured the effectiveness of the board by appointing three directors including non-executive chairman. Moreover, the Company has maintained proper reporting of minutes of board meetings.

**Financial Transparency** External Auditors of the Company, M/S Nisar ul Haq & Co Chartered Accountants, expressed an unqualified opinion on the financial statements for the year ended June'22.

## Management

**Organizational Structure** A hierarchical organizational structure exists in the Company. Operations are segregated into four broad departments, i) Engineering, Operations & HSE ii) Marketing & Supply Chain, iii) Finance, IT Corporate & Legal Affairs iv) HR, Admin & Security, headed by their EDs.

**Management Team** Mr. Ashar Siddiqui is holding the position of CEO in the Company. He holds a degree in Chemical Engineering from the University of Waterloo, Canada. Mr. Siddiqui has worked for various businesses, from oil & gas to engineering consultancies and pharmaceutical industry. Mr. Ashar is one of the founding members of Jinn Petroleum, as well. Along with Mr. Irfan Qureshi, former MD PSO, the advisor to Jinn Petroleum, having an extensive experience of over 40 years in sales, marketing, logistics, customer services, policy formulation, public and government relations in oil and other sectors, the CEO is assisted by a team of qualified professionals.

**Effectiveness** The Company has segregated the duties of management ensuring the effectiveness of the management. The presence of management committees also supports the effectiveness, considered adequate. Management of the Company meets frequently to discuss business affairs.

**MIS** The Company and the group are using SAP Business - One ERP solution which is being operated by different functions/departments of the group. Almost all business activities are being performed through SAP Business One, on a real-time basis.

**Control Environment** The Company maintains an adequate MIS which helps management to keep track of all operations and liaisons with higher management. This control system provides transparency in cash management on a timely basis. The management, on daily basis, reviews the sales, Receivable, fund position, stock & procurement. Furthermore, on monthly basis, reviews the reports pertaining to employee-wise and location-wise fuel consumption, travel arrangements-to-employees, finance cost break-up, legal and professional charges and salaries of employees.

## Business Risk

**Industry Dynamics** Pakistan relies significantly on imports to meet its energy demand. During FY21, the country consumed ~19.8mln MT of POL products (FY20:~17.1mln MT) up ~15.8% YOY. Owing to declining local oil reserves amid low new discoveries, dependence on imported POL products is increasing with each passing year. Currently, there are ~35 OMCs. operating in the country, 4 of them are listed. The Sector is highly regulated with the prices of two major products, i.e., MOGAS and Diesel being determined by the Oil & Gas Regulatory Authority (OGRA) on a fortnightly basis. OMCs generated aggregate revenue of PKR~2,528bln in FY21 (FY20: PKR~2,225bln) with an annual GDP contribution of ~5.3% (FY20: 5.4%). The sector's revenue during FY21registered a YOY growth of ~13.6% on account of increased consumption and rising POL products' prices.

**Relative Position** Jinn Petroleum has about 1% market share (in terms of MS & HSD) as of Jun'22. The emergence of new players in the OMC sector is causing pressure on the white oil segment market share. The big-five OMCs (PSO, Total PARCO, Shell, GO & Attock Petroleum) still retain a large chunk of the market.

**Revenues** During FY22, Jinn Petroleum the net sales of the Company grew by 54% to PKR 11,717mln as compared to PKR 7,612mln in the corresponding year. During 6MFY23, the figure rose to PKR 17,607mln registering a growth of 200%. This increase in sales is attributed to surge in oil prices and sales volume.

**Margins** During FY22, the Company reported a gross profit of PKR 879mln (FY21: PKR 400mln) displaying a growth of 2.2times. The Company reported an operating profit of PKR 468mln (FY21: PKR 64mln) due to trickle down effect of better sales. The Company achieved stellar results with the highest ever net profit after tax of PKR 243mln during FY22 (FY21: PKR 84mln), owing to increase in OMC margin, Sales and efficient inventory management.

**Sustainability** The Company made progress during FY22, boosting innovation to drive growth. Further, the Company is following an aggressive expansion strategy and plans to include 22 new retail outlets into its branch network.

## Financial Risk

**Working Capital** Working capital requirements are met by combination of internal generation, bank borrowing and stretching trade payables. Jinn Petroleum's working capital days were reported for the period ended June'22 of -9 days (FY21: -5 days). Trade payable days of the Company increased to 43days (FY21: 26days). The Company has arrangements with JS Bank Limited to cover working capital needs whenever needed. The terms for the purchase of petroleum and working capital needs settles at KIBOR+300.

**Coverages** During FY22, Free Cash Flows from Operations (FCFO) stood at PKR 505mln (FY21: PKR 216mln), whereas, Net Net Cash provided by Operating Activities has shown a net outflow of PKR 776mln (FY21: inflow of PKR 223mln), owing to higher investments in inventories. The Debt Payback Ratio has deteriorate during the period and stood at 1x (Jun21; 2.6x).

**Capitalization** As at end FY22, The Company has immensely improved its leveraged capital structure with debt-to-equity ratio of ~27% as compared to 62% in previous corresponding period. The Company has total debt of PKR~ 3,351mln as at end FY22 and an equity of PKR ~1,488mln.

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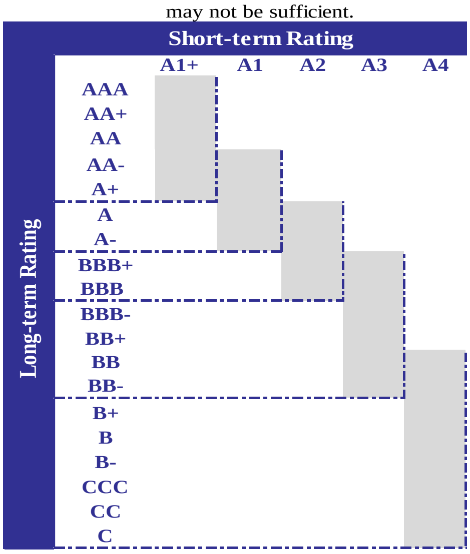
*Financial Summary*
*PKR mln*

| JINN Petroleum (Pvt) Limited | Dec-22 | Jun-22 | Jun-21 | Jun-20 |
|---|---|---|---|---|
| OMC | 6M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 1,289 | 1,315 | 537 | 550 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | 4 | 1 | - |
| 4 Current Assets | 3,629 | 3,520 | 2,073 | 3,822 |
| *a Inventories* | *1,633* | *1,999* | *617* | *258* |
| *b Trade Receivables* | *396* | *105* | *46* | *173* |
| **5 Total Assets** | 4,918 | 4,839 | 2,611 | 4,372 |
| 6 Current Liabilities | 2,142 | 2,745 | 1,870 | 4,126 |
| *a Trade Payables* | *1,646* | *2,094* | *1,279* | *64* |
| 7 Borrowings | 373 | 166 | 35 | 31 |
| 8 Related Party Exposure | 397 | 397 | 397 | - |
| 9 Non-Current Liabilities | 64 | 43 | 42 | 32 |
| **10 Net Assets** | 1,942 | 1,488 | 266 | 182 |
| **11 Shareholders' Equity** | 1,935 | 1,488 | 266 | 182 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 17,540 | 11,717 | 7,612 | 17,351 |
| *a Cost of Good Sold* | *(16,711)* | *(10,837)* | *(7,212)* | *(17,286)* |
| **2 Gross Profit** | 829 | 879 | 400 | 66 |
| *a Operating Expenses* | (210) | (411) | (335) | (350) |
| **3 Operating Profit** | 619 | 468 | 64 | (284) |
| *a Non Operating Income or (Expense)* | *(9)* | *(6)* | *110* | *53* |
| **4 Profit or (Loss) before Interest and Tax** | 610 | 462 | 175 | (231) |
| *a Total Finance Cost* | *(71)* | *(169)* | *(73)* | *(4)* |
| *b Taxation* | *(92)* | *(50)* | *(17)* | *(24)* |
| **6 Net Income Or (Loss)** | 447 | 243 | 84 | (259) |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *580* | *505* | *216* | *(194)* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *509* | *336* | *143* | *(198)* |
| *c Changes in Working Capital* | *(520)* | *(1,112)* | *80* | *(154)* |
| **1 Net Cash provided by Operating Activities** | (11) | (776) | 223 | (352) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (11) | (145) | (143) | (112) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 244 | 522 | 14 | 442 |
| **4 Net Cash generated or (Used) during the period** | 221 | (399) | 95 | (22) |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 199.4% | 53.9% | -56.1% | 420.2% |
| *b Gross Profit Margin* | 4.7% | 7.5% | 5.2% | 0.4% |
| *c Net Profit Margin* | 2.6% | 2.1% | 1.1% | -1.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 0.3% | -5.2% | 3.9% | -2.0% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 52.3% | 27.7% | 37.5% | -84.2% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 22 | 43 | 26 | 6 |
| *b Net Working Capital (Average Days)* | 2 | -9 | -6 | 3 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.7 | 1.3 | 1.1 | 0.9 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 9.4 | 8.7 | 4.4 | N/A |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 7.9 | 6.2 | 3.6 | -0.6 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.4 | 1.0 | 2.6 | -1.7 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 28.5% | 27.5% | 61.9% | 14.7% |
| *b Interest or Markup Payable (Days)* | 109.2 | 149.8 | 0.0 | N/A |
| *c Entity Average Borrowing Rate* | 20.9% | 12.5% | 22.8% | 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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

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(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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**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)
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(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)
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(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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