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
29-Mar-2024	BBB	A2	Stable	Maintain	-
31-Mar-2023	BBB	A2	Stable	Maintain	-
31-Mar-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan heavily depends on imports for its energy requirements due to limited domestic POL production. A substantial increase in POL import costs was witnessed due to global oil production cuts. This along with rupee depreciation further impacted the overall sector's dynamics. However, the local demand remains stable. While, during FY23, the demand for POL products - furnace oil (FO), high-speed diesel (HSD), motor spirit (MS), and high octane blended component (HOBC) - which make up ~95% of the total sales, declined by ~15% due to macroeconomic pressures. Transportation and Power sectors remain the main consumers, accounting for ~89% of the total demand. Despite having fixed margins, operating on suppliers credit, OMCs bears the impact of exchange loss; thus, challenges remain prevalent. However, the sector's overall outlook - cashflows and liquidity - is expected to remain stable.
Jinn Petroleum (Pvt.) Ltd. ('Jinn Petroleum' or 'the Company') has been evolving in the local OMC industry by making efforts to establish itself through strategic alliances. Moreover, the Sponsors hold significant footing in the oil procurement and distribution arena in the local market, along with substantial knowledge of local and international oil market dynamics. This bodes well for the Company. Jinn Petroleum aims to expand the retail network all across Pakistan. Currently, the Company has two storage facilities located at HUB and Sahiwal, along with hospitality arrangements at Kemari, Port Qasim, MehmoodKot, Shikarpur, Machike and Gatti. The planned expansion of Sahiwal's storage capacity is expected to be commissioned by Jun-24. Moreover, successful and timely commissioning of new storage terminals at Daulatpur and Sara-e-Norang remains imperative. The Business risk profile remains adequate and is characterized by limited market share. Revenue shows growth by ~58%; supported by both, volumes and pricing of the POL products. The Company primarily generates revenue from the marketing business of POL products. Business margins remain on the conservative end. The Company primarily relies on local refineries; while, fortifying on imports as per its requirements, wherein the financial constraints trickle in. On the financial risk front, coverages and working capital management remain adequate. While, the capital structure gathers support from internal capital generation. Going forward, the Company needs to sustain a sound risk profile. Moreover, support from sponsors as and when required remains imperative for the ratings.

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(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	Nabia Rauf | nabia.rauf@pacra.com | +92-42-35869504

Profile

Legal Structure Jinn Petroleum (Pvt.) Limited ('Jinn Petroleum' or 'the Company') was incorporated in 2016 under the repealed Companies Act, 2017 as a private limited concern.

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 continued to lead the business. JINN was granted permission to establish an OMC by the OGRA in 2016. It is pertinent to mention here that back in 2018, after the demise of Mr. Aamir Raza Agha, the share of the Company is succeeded to his descendants.

Operations The Company is engaged in the business of marketing of POL products. The Company operates through a network of ~98 retail outlets, having prominent presence in Punjab. The Company owns two storage capacities in Sahiwal (~3,845MT) and HUB (~2,500MT). The Company has hospitality agreements with various companies to enhance their geographical presence.

Ownership

Ownership Structure Major stake of the Company is held by Mr. Ashar Siddiqui (~43.2%), followed by Ms. Amna Aamir Ms. Haleema Aamir and Ms. Lalarukh Aamir holding an equal stake of ~15.1%. While, Ms. Saima Agha holds ~11.47% stake. The remaining stake is divided between Mr. Asad Azhar Siddiqui and Mr. Bilal Nomani.

Stability Ownership of the Company seems to remain stable.

Business Acumen The Sponsors hold substantial acumen and experience in the local oil marketing and refinery sector.

Financial Strength The Sponsors hold an adequate financial strength and are committed to support the Company, if needs be.

Governance

Board Structure The overall control of the Company lies with five-members Board of Directors (BoD); comprising two Non-Executive Directors and three Executive Directors. including the CEO. All the directors are representatives of the Sponsors.

Members' Profile Ms. Saima Agha, the Chairperson of the Board is associated with the Company since 2020. She holds an overall experience of more then eighteen years. Others members of Board are also in management having association with the Company since its incorporation.

Board Effectiveness The BoD monitors each functional department. However, room for improvement exists as the presence of Board committees will help to monitor effective running of the operations.

Financial Transparency As of FY22, the Company appointed M/S. Nisar ul Haq & Co. Chartered Accountants as its external auditors. The firm issued an unqualified audit report on financial statements as of FY22. As of FY23, the Company has appointed M/S. Ilyas Saeed & Co. as its external auditors. The firm has issued an unqualified opinion on the financial statements as of FY23. The firm is QCR rated and on SBP's panel in category "A".

Management

Organizational Structure Operations are segregated into four departments, i) Engineering, Operations & HSE ii) Marketing & Supply Chain, iii) Finance, IT iv) HR, Admin & Security. Each function Head reports to the Chief Executive Officer (CEO), who then makes pertinent decisions.

Management Team Mr. Ashar Siddiqui, the CEO, is one of the founding members of Jinn Petroleum. He has worked for various businesses from oil & gas to engineering consultancies and pharmaceutical industry. Mr. Irfan Qureshi, former MD PSO, the advisor to Jinn Petroleum, having an extensive experience of over 40 years in oil and other sectors. The CEO is assisted by a team of qualified professionals.

Effectiveness The BoD is assisted by two management committees - Management Development Committee and Cross functional Team. Management Development Committee is chaired by the Chairperson of the Company and comprises five members. Cross Functional Team is chaired by the CEO and comprises three members. Both the committees meet at regular intervals or whenever the need arise.

MIS The Company has deployed SAP Business - One ERP solution which is being operated by different functions/departments and all business activities are being performed 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 heavily depends on imports for its energy requirements due to limited domestic POL production. A substantial increase in POL import costs was witnessed due to global oil production cuts. This along with rupee depreciation further impacted the overall sector's dynamics. However, the local demand remains stable. While, during FY23, the demand for POL products - furnace oil (FO), high-speed diesel (HSD), motor spirit (MS), and high octane blended component (HOBC) - which make up ~95% of the total sales, declined by ~15% due to macroeconomic pressures. Transportation and Power sectors remain the main consumers, accounting for ~89% of the total demand. Despite having fixed margins, opertaing on suppliers credit, OMCs bears the impact of exchange loss; thus, challenges remain prevalent. However, the sector's overall outlook - cashflows and liquidity - is expected to remain stable.

Relative Position The Company holds a market share of ~1% (in terms of MS & HSD sale) during FY23.

Revenues The Company generates revenue from the marketing business of POL Products. During FY23, total revenue grew ~238% and reported at ~PKR 39bln (FY22: ~PKR 12bln). The increase is mainly attributed to increased volumes of the POL products mainly from HSD. However, increased prices also adds support. During 6MFY24, total revenue reported at ~PKR 27bln. Going forward, revenues of the Company are expected to remain afloat due to inflationary trend.

Margins During FY23, the Company reported a gross profit of ~PKR 1.4bln (FY22: ~PKR 0.8bln). Cost of goods sold surged ~252% and reported at ~PKR 38bln (FY22: ~PKR 10bln). Resultantly, gross profit margin reduced to ~3.7% (FY22: ~7.5%). Similarly, Operating profit margin reduced and stood at ~1.8% (FY22: ~4%). Net profit margin reduced significantly and stood at ~0.7% (FY22: ~1.7%), due to increased finance cost. During 6MFY24, following the similar trend; gross margin stood at ~2.7%. Operating margin reduced to ~1.3%. While, Net profit margin stood at ~0.5%. Going forward, OMCs needs to ensure overall healthy margins.

Sustainability The Company is following an aggressive expansion strategy and plans to including 30 new retail outlets into its branch network, nationwide; funded by a mix of debt and equity.

Financial Risk

Working Capital Working capital requirements are met by combination of suppliers credit and bank borrowings. Net working capital days stood at 5days (FY22: negative at 9days), owing to decreased inventory days (FY23: 24days, FY22: 41days). Trade payable days stood at 20days (FY22: 52days). Trade receivables days stood at 1days (FY22: 2days). Borrowing cushion remained negative and reported at ~-1% (FY22: ~-15%). Going forward, it is crucial to maintain a healthy working capital cycle and a considerable borrowing. As at 6MFY24, net working capital days stood at 7days. Inventory days stood at 16days. Borrowing cushion remained stretched and reported at ~6% . Going forward, it is crucial to maintain a healthy working capital cycle and a considerable borrowing.

Coverages As at FY23, EBITDA increased ~49% and reported at ~PKR 0.8bln (FY22: ~PKR 0.5bln), due to increased PAT. Due to high taxes, FCFO dipped ~37% at ~PKR 0.7bln (FY22: ~PKR 0.5bln).Finance cost reported at ~PKR 167mln (FY22: ~PKR 169mln). Resultantly, intertest coverage ratio of the Company reduced to 4.7x (FY22: 8.9x). As at 6MFY24, EBITDA reported at ~PKR 395mln. FCFO stood at ~PKR 381mln. Finance cost increased ~8% and reported at ~PKR 77mln due to high markup. Intertest coverage ratio reduced to 4.9x. Going forward, it is important to improve cashflows and make prudent measure to reduce the finance cost.

Capitalization As at FY23, debt-to-equity ratio of inflated to ~43% (FY22: ~9%), owing to increased borrowings. Total borrowings, comprising entirely short term that was obtained to manage the working capital, surged by ~648% to ~PKR 1bln (FY22: ~PKR 0.1bln). Total equity decreased ~4% to ~PKR 1.3bln (FY22: ~PKR 1.4bln), owing to reduced revaluation reserve (FY23: ~PKR 573mln, FY22: ~PKR 695mln). Unappropriated profit reported at ~PKR 273mln. However, the Company booked a loss of ~PKR 193mln during FY22. As at 6MFY24, total equity stood at ~PKR 1.4bln. Unappropriated profit reported at ~PKR 419mln.

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Financial Summary
PKR mln

Jinn Petroleum (Pvt.) Limited	Dec-23	Jun-23	Jun-22	Jun-21
POL Distribution - OMCs & Dealers	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,175	1,191	1,383	398
2 Investments	306	301	-	-
3 Related Party Exposure	233	354	628	61
4 Current Assets	2,999	3,698	2,531	2,013
a Inventories	*1,649*	*3,112*	*1,999*	*617*
b Trade Receivables	*188*	*182*	*105*	*46*
5 Total Assets	4,713	5,544	4,542	2,472
6 Current Liabilities	1,719	2,891	2,770	1,877
a Trade Payables	*862*	*2,274*	*2,098*	*1,229*
7 Borrowings	1,221	1,029	138	35
8 Related Party Exposure	3	3	-	-
9 Non-Current Liabilities	278	275	235	59
10 Net Assets	1,491	1,346	1,399	501
11 Shareholders' Equity	1,492	1,346	1,399	501
B INCOME STATEMENT				
1 Sales	27,311	39,593	11,717	7,612
a Cost of Good Sold	*(26,563)*	*(38,146)*	*(10,837)*	*(7,212)*
2 Gross Profit	749	1,447	879	400
a Operating Expenses	(400)	(727)	(401)	(335)
3 Operating Profit	349	721	478	64
a Non Operating Income or (Expense)	*69*	*9*	*(15)*	*110*
4 Profit or (Loss) before Interest and Tax	418	729	464	175
a Total Finance Cost	*(101)*	*(159)*	*(156)*	*(73)*
b Taxation	*(171)*	*(276)*	*(104)*	*(17)*
6 Net Income Or (Loss)	146	294	204	84
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*381*	*713*	*521*	*216*
b Net Cash from Operating Activities before Working Capital Ch	*398*	*545*	*351*	*143*
c Changes in Working Capital	*(350)*	*(243)*	*(1,112)*	*80*
1 Net Cash provided by Operating Activities	47	303	(761)	223
2 Net Cash (Used in) or Available From Investing Activities	(62)	(415)	(145)	(143)
3 Net Cash (Used in) or Available From Financing Activities	195	153	522	14
4 Net Cash generated or (Used) during the period	180	41	(384)	95
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	38.0%	237.9%	53.9%	-56.1%
b Gross Profit Margin	2.7%	3.7%	7.5%	5.2%
c Net Profit Margin	0.5%	0.7%	1.7%	1.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capit	0.1%	1.2%	-5.1%	3.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total*	20.6%	21.4%	21.4%	24.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	17	25	43	26
b Net Working Capital (Average Days)	7	5	-9	-5
c Current Ratio (Current Assets / Current Liabilities)	1.7	1.3	0.9	1.1
3 Coverages				
a EBITDA / Finance Cost	5.1	5.5	9.6	4.4
b FCFO / Finance Cost+CMLTB+Excess STB	4.9	4.7	1.2	3.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ	0.0	0.0	0.8	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.1%	43.4%	9.0%	6.6%
b Interest or Markup Payable (Days)	95.2	58.1	160.2	0.0
c Entity Average Borrowing Rate	15.3%	23.3%	67.2%	158.6%

Credit Rating

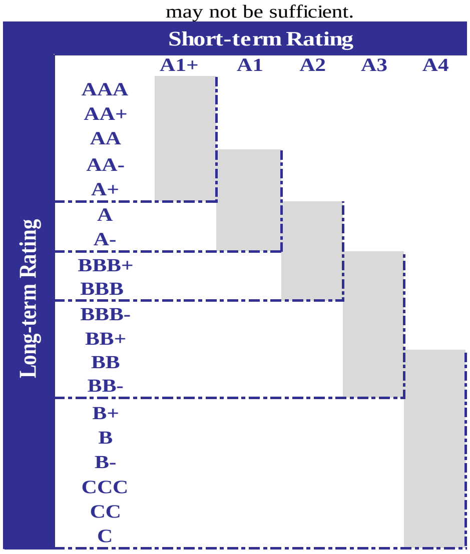
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)
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(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
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(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)
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