The Pakistan Credit Rating Agency Limited

Rating Report

Jinn Petroleum (Pvt.) Limited

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

Rating Rationale and Key Rating Drivers

The ratings incorporate Jinn Petroleum Limited, herein, referred to as Jinn, 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. The growth binge is yet to be seen owing to defined laid down business plan. Jinn aims to carry out its expansion strategy by further expanding its retail network to all across Pakistan. The company has two storage capacities located in HUB & Sahiwal. In addition, 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's construction of storages in Daulatpur, Tarujabba and the extension in Sahiwal Depot are expected to be completed by the end of FY-23. Jinn 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. Currently, the sponsors' loan of PKR 397mln is on the books and is expected to be converted into the equity in addition to the present equity of the Company. The management intends to keep the leverage indicators aligned to its expansion plan. The company aims to further improve their revenue stream as it moves on its expansion drive, utilizing a mixture of internally generated equity and debt. Moving forward, JINN aims to diversify its distribution channels, strengthening its business risk profile.

The rating captures the company’s adequate 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-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-21)
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Profile

Legal Structure Jinn Petroleum (Private) Limited ("the Company or Jinn") 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, present 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 the business of marketing petroleum products. The Company is also intending to launch its own lubricant brand. The Company's oil storage facilities are operational at Sahiwal and at Hub. The company has further planned to build and acquire storage in other areas to facilitate its distribution activities and supplement its storage facilities all over Pakistan.

Ownership

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

Stability The sponsors' stability remained adequate.

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.

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

Governance

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

Members' Profile The members serving on the board are also in management having association with the Company since its incorporation. All members have diversified industry experience.

Board Effectiveness The chairperson of the board is also the CEO of the Company. Further, the presence of board committees translates into adequate effectiveness of the Board.

Financial Transparency Nisar ul Haq & Co., Chartered Accountants, the external auditors of the Company issued a qualified opinion on the Company's financial statements for the period ending 30th June 2021, they are neither QCR rated nor on the panel of SBP. The qualified opinion is on receivables from shareholders. However, sponsors loan to the Company is higher than the receivables from shareholders.

Management

Organizational Structure A simplified 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 The senior management team carries adequate and relevant professional experience. Mr. Asad Azhar Siddiqui is the Executive Chairman of JINN Petroleum. He has 44 years of diversified senior management experience in Finance, Corporate Affairs, Supply Chain, Sales and Marketing in Oil sector. Mr. Irfan Qureshi is the advisor of JINN Petroleum and has extensive experience of over 40 years in sales, marketing, logistics, customer services, policy formulation, public and government relations in oil and other sectors. He also served as Managing Director in Pakistan State Oil.

Effectiveness Ms. Saima Agha is the CEO of the Company. She exercises oversight of the Company's operations from the board level. Mr. Asad Azhar Siddiqui is holding the position of Executive Chairman in the Company. He looks after the entire operations of the Company on day-to-day basis. He has deep insight and significant experience of the oil industry. 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.

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's OMC market comprises 33 players. Consumption of Petroleum Products has reduced by ~3% over the last five years. A major drop was witnessed after FY19 due to reduced economic activities in the same year, substitution of Furnace Oil by imported LNG in the power sector, and the emergence of Covid-19in 2HFY20 adversely impacting the consumption. Total Petroleum Products consumption in FY20 was ~19mln tons (~20mln FY19). The demand for motor gasoline recorded growth of 29% approximately in just 4 years. It is further expected to record growth of 44% by FY2025. On the other hand, high-speed diesel sales are expected to record a growth of 31% by FY2025.

Relative Position Jinn has about 1% market share as of Jun'2021. The emergence of other players in the OMC sector is causing pressure on white oil segment market share. The big-five OMCs (PSO, Shell, Total PARCO, Hascol & Attock Petroleum) still retain a large chunk of the market at ~80% with PSO dominating at ~44%. Only 20% market share is taken by smaller OMCs.

Revenues During 6MFY22, JINN Petroleum recorded revenue of PKR 4,301mln (FY21: PKR 7,612mln; FY20: PKR 17,351mln). The Company has the following products in the line: FO, HSD, KERO, LDO, and MS. The product's contribution towards the recorded revenue is; HSD 34%, MS 58% and miscellaneous 8.4%. Going forward, the Company is aiming to launch its own lubricant brand, furthermore, the planned expansion plan to expand capacity on a regional basis would augment the growth rate of revenues.

Margins During 6MFY22, the Company reported a gross profit margin of 5.3% (FY21: 5.25%; FY20: 0.37%). The Company recorded higher gross margin growth in FY21 compared with FY20, despite in FY20 the Company recorded ever highest revenue of PKR 17,351mln; owing to the oil prices dynamics during the period.

Sustainability The profitability of the Company has been stable over the period and the Company is trying to expand its market share by increasing its retail outlets. The Company has demonstrated its plan by including 47 new retail outlets into its branch network, nationwide during last year.

Financial Risk

Working Capital Stretched liquidity marked operating losses and reliance on external funding to meet working capital and capital expenditures. JINN Petroleum's net working capital days were reported for the period ended Dec-21 of 2 days (FY21: -5 days).

Coverages The cash flows of the Company was positive in the period under review. The operating cash flows of the Company stood, as of Dec-21, to stand at PKR 25mln as the reported cash flows for the last FY21 were recorded at PKR 61mln. The Debt Payback Ratio increased slightly during the period and stood at 0.3x (Jun21; 0.2x).

Capitalization The Company has an adequate level of debt in its capital structure. The reported figure of debt for the period ended Dec-21 was PKR 345mln that constituting almost 36% of the total capital (FY21: PKR 258mln, 30%). Going forward, leveraging is going to be on the higher side owing to the planned storage expansion and retail outlet networks. The loan from sponsors amounting PKR 397mln is being treated as Quasi Equity.

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Financial Summary
PKR mln

JINN Petroleum (Pvt) Limited	Dec-21	Jun-21	Jun-20	Jun-19	Jun-18
OMC	6M	12M	12M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	532	537	550	383	180
2 Investments	-	100	-	-	-
3 Related Party Exposure	2	1	-	-	-
4 Current Assets	1,929	1,973	3,822	856	486
a Inventories	*697*	*617*	*258*	*4*	*0*
b Trade Receivables	*105*	*46*	*173*	*97*	*5*
5 Total Assets	2,464	2,611	4,372	1,238	666
6 Current Liabilities	1,456	1,708	4,126	788	191
a Trade Payables	*155*	*1,229*	*64*	*193*	*6*
7 Borrowings	345	258	31	0	0
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	42	42	32	18	-
10 Net Assets	622	603	182	432	475
11 Shareholders' Equity	622	603	182	432	475
B INCOME STATEMENT					
1 Sales	4,301	7,612	17,351	3,335	34
a Cost of Good Sold	*(4,073)*	*(7,212)*	*(17,286)*	*(3,317)*	*-*
2 Gross Profit	228	400	66	18	34
a Operating Expenses	(181)	(335)	(350)	(184)	(35)
3 Operating Profit	47	64	(284)	(166)	(1)
a Non Operating Income or (Expense)	*17*	*110*	*62*	*98*	*10*
4 Profit or (Loss) before Interest and Tax	64	175	(222)	(69)	10
a Total Finance Cost	*(21)*	*(73)*	*(4)*	*-*	*-*
b Taxation	*(7)*	*(17)*	*(24)*	*26*	*(4)*
6 Net Income Or (Loss)	35	84	(250)	(42)	6
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*62*	*216*	*(185)*	*(46)*	*15*
b Net Cash from Operating Activities before Working Capital Changes	*41*	*143*	*(189)*	*(47)*	*15*
c Changes in Working Capital	*(16)*	*(82)*	*(154)*	*488*	*218*
1 Net Cash provided by Operating Activities	25	61	(343)	441	233
2 Net Cash (Used in) or Available From Investing Activities	71	(143)	-	(196)	(60)
3 Net Cash (Used in) or Available From Financing Activities	70	177	-	20	(167)
4 Net Cash generated or (Used) during the period	166	95	(343)	265	6
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	13.0%	-56.1%	420.2%	9696.1%	834.5%
b Gross Profit Margin	5.3%	5.2%	0.4%	0.5%	100.0%
c Net Profit Margin	0.8%	1.1%	-1.4%	-1.3%	17.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.1%	1.8%	-2.0%	13.2%	685.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sha*	11.5%	21.4%	-81.3%	-9.3%	1.2%
2 Working Capital Management					
a Gross Working Capital (Average Days)	31	26	6	6	55
b Net Working Capital (Average Days)	2	-5	3	-5	-5
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.2	0.9	1.1	2.5
3 Coverages					
a EBITDA / Finance Cost	4.6	3.1	-70.9	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.7	-0.6	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.2	-1.8	0.0	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.7%	29.9%	14.7%	0.0%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	N/A	N/A
c Entity Average Borrowing Rate	14.1%	50.6%	15.3%	0.0%	0.0%

Credit Rating

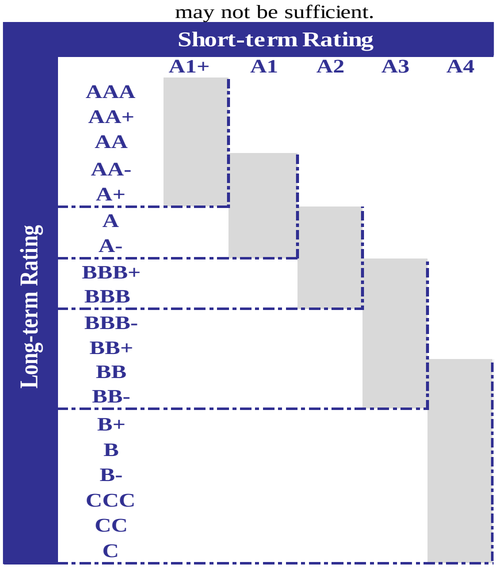
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information