The Pakistan Credit Rating Agency Limited

Rating Report

Puma Energy Pakistan (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2023	A-	A2	Stable	Maintain	-
26-Aug-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan heavily depends on imports for its energy requirements due to its limited domestic POL production. A substantial increase in POL import costs was witnessed supported by rupee depreciation (FY22: US$17bln, FY21: US$8bln); however, the 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. The transportation and power sectors remain the main consumers, accounting for ~89% of total demand. Despite challenges, the sector's overall outlook - cashflows and liquidity - remains stable.
The assigned ratings incorporate Puma Energy Pakistan (Pvt.) Limited’s ('Puma' or 'the Company') established network and its strong position on the operational front. Currently, Puma operates through 542 retail pumps spread across the country with a concentration in Punjab and KPK. The ratings factor in sponsor's substantial business acumen in the OMC sector. Moreover, consistent rebranding activities under the name of Puma benefits the Company's overall performance. This along with entering into a Trademark License Agreement (TMLA) with Puma Energy International S.A adds strength. Puma mainly generates revenue from HSD (~48%) and PMG (~54%), capturing ~1.6% market share as of Dec-22. Topline posts growing trajectory and remains considerable. Despite high input costs, business margins and in turn profitability remains intact. However, working on suppliers credit factors in high exchange loss risk. Financial risk remains adequate supported by adequate working capital cycle and leveraging. Coverages, however, are strong. Moreover, support from the sponsors through equity injection augments the Company overall financial footing.

The rating captures the Company’s ability to sustain business operations through planned re-branding of retail sites and equity injection. Moreover, the Company's ability to enhance its capacity utilization, through infrastructure and supply chain development remains imperative. Sustaining key financial metrics, working capital ratios and/or coverages are crucial for ratings.

Disclosure

Name of Rated Entity	Puma Energy Pakistan (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	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Puma Energy Pakistan (Pvt.) Limited (‘Puma’ or ‘the Company’) is a private limited company.

Background The Company was incorporated in 2001 and registered as an Oil Marketing Company (OMC) known as Admore Gas (Private) Ltd. On 23-Nov-17, the Company changed its name to Puma Energy Pakistan (Pvt.) Ltd. Puma was ~51% directly owned by Puma Energy South Asia Holdings B.V. ('Puma Energy'). In 2021, Puma Energy transferred all shares to Mr. Amir Waliuddin Chishti. The Company operates 542 retail pump across the country.

Operations The Company is engaged in the business of marketing petroleum products and lubricating oils (HSD, PMG, Lubricants & Furnace Oil). Puma has a total storage capacity of ~10,320 MT with a storage depot at Daulatpur, Sindh, and a Terminal at Machike, Punjab. In addition to that Puma also has hospitality storage agreements at Kemari, Port Qasim, Faisalabad, Mehmoodkot, and Morgah.

Ownership

Ownership Structure Mr. Amir Waliuddin Chishti holds ~99.9% shares, Mr. Rehan Ateeq and Mr. Muhammad Afzal holds minimal stake.

Stability Stability in the Company’s leadership provides comfort to the structure.

Business Acumen The sponsors have diversified portfolio with expertise in energy, medical and financial sectors. Mr. Amir holds strategic stakes in Shajar Capital Pakistan (Pvt.) Ltd. , Shajar Properties (Pvt.) Ltd. , Darul Shifa International, Liaquat Ali Khan Memorial College of Dentistry & Health Sciences, Liaquat College of Medicine & Dentistry (Pvt) Ltd.

Financial Strength The financial strength of the sponsors is considered strong to support the Company, if needs be.

Governance

Board Structure The Company has a four-member Board (BoD); comprising Non-Executive Directors only. Previously, the CEO had presence on the BoD. The BoD lacks independence,

Members’ Profile Mr. Amir Waliuddin Chishti is the Chairman of the Board. He has been associated with the Company for ~10 years and with an overall experience of over 25 years. All of the BoD members are industry professionals having multiple years of experience.

Board Effectiveness The Board lacks presence of sub-committee; however, formal policies and procedures are devised by the CEO/Chairman. The Board meetings are held on quarterly basis with considerable attendance, while maintaining adequate minutes.

Financial Transparency The External Auditors of the Company, M/s BDO Ebrahim & Company, are QCR rated and are in category 'A' of SBP Panel. The firm has expressed an unqualified opinion on the financial statements for the year ended Dec-22.

Management

Organizational Structure A horizontal organizational structure exists with operations segregating into: Retail, Legal counsel, Operations and logistics, HR & Admin, Accounts & Finance and Lubricants and Brand, Business Support, and Country admin and Security. Each department is headed by its respective Heads, who report to the CEO. The CEO reports to the BoD. The entire operational set-up of the Company falls under the purview of the CEO, making him the man at the last mile.

Management Team Previously, the Company was headed by Mr. Javed Yusuf Ahmedjee as the CEO. Mr. Fayaz Ahmad Khan has been lately appointed as the CEO. He has been associated with the Company since Sep-22. He has been associated with Pakistan’s petroleum industry - Shell, Total and led the charge for achieving Byco’s OMC goals. He is assisted by a team of professionals.

Effectiveness There are 3 management committees: i) Supply ii) Retail business review iii) and HR. Supply Committee meets on a weekly basis while Retail Business Review and HR Committees meet on a monthly basis. The minutes of the meetings are informally documented.

MIS Puma has implemented and is using all key modules and the latest version of SAP S4/ HANA for Finance and Controlling, Materials management, and Sales & Distribution module. Puma has also implemented HR system which is a cloud-based HR enterprise system called Decibel.

Control Environment The Company has no formal internal audit function in-house. However, adequate MIS is maintained to keep track of all operations.

Business Risk

Industry Dynamics 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 ~99% of the total sales, declined by ~15% due to macroeconomic pressures. The transportation and power sectors remain the main consumers, accounting for ~89% of total demand. Despite challenges, the sector's overall outlook - cashflows and liquidity - remains stable.

Relative Position Puma Energy has ~1.6% market share during CY22 in terms of MS/HSD/HOBC/FO.

Revenues The Company mainly generates revenue by selling HSD followed by PMG. During CY22, the topline of the Company grew by ~75% to PKR 65bln (CY21: PKR 37bln), supported by massive surge in oil prices due to inflation; While volumes posted a decline of ~5% for HSD (CY22: 11,523MT, CY21: 12,081MT) and growth of ~28% for PMG (CY22: 16,126MT, CY21: 12,561MT). Further, the Company generated significant portion of revenue from nozzle sales of PMG (~54%) & HSD (~48%) from province of Punjab which is significantly higher than the other provinces of Pakistan. During 1QCY23, the revenue grew/declined by ~30% (1QCY23: PKR 12bln, 1QCY22: 17bln), supported/due to increased prices.

Margins During CY22, gross margin of the Company exhibited growth of ~133% (CY22: PKR 4.5bln, CY21: PKR 1.9bln), leading to improved margins (CY22: ~7.0%, CY21: ~5.3%) supported by high prices. The operating margin exhibiting growth to ~5.1% (CY21: ~1.7%) owing to curtailed admin & marketing expenses. Also, the Company reported the highest ever net profit after tax of PKR 1,002mln after incurring losses in previous years (CY21: 223mln). During 1QCY23, gross margin of the Company posted the growth to ~3.9%. Operating margin stood at 7.0% and net profit margin reduced to 0.9%. PAT amounted to PKR 107mln.

Sustainability The Company is eyeing on branding of its existing network by engaging dealers.

Financial Risk

Working Capital Working capital requirements are met by combination of borrowing and suppliers credit. Net working cycle remains stable (CY22: 1 day; CY21: 0 day) supported by stable inventory days (CY22: 21 days; CY21: 37 days) and minimum receivable days (CY22: 3 days; CY21: 5 days). Trade payable days remain stable however are elongated (CY22: 23 days; CY21: 42 days). The Company holds limited borrowing cushion against trade assets. Similarly as of 1QCY23, net working cycle remains minimal.

Coverages Free Cash Flows from Operations (FCFO) posted substantial uptick (CY22: PKR 2.2bln ,CY21: PKR 246mln) due to increased profits. The finance cost saw a significant decrease as a result of reduced borrowing levels and reported at PKR 39mln (CY21: PKR 207mln). FCFO amounted to PKR 153mln as at 1QCY23 (1QCY22: PKR 1,095mln). During 1QCY23, cover is low despite profits.

Capitalization The Company is significantly leveraged as of (CY22: ~80%; CY21: ~155%). Despite managing their total borrowings (CY22: PKR ~2.7bln; CY21: PKR ~3.2bln), Company has limited equity base (CY22: PKR ~685mln; CY21: ~(1.1bln)). The Company holds PKR ~1.5bln (CY21: PKR ~3bln) as subordinated loans. Similarly as of 1QCY23, leveraging remains significant (~75%) due to slight improvement in equity.

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Financial Summary
PKR mln

Puma Energy Pakistan (Private) Limited Oil and Marketing	Mar-23 3M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	2,396	2,443	2,238	2,418
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,574	5,671	6,523	4,390
a Inventories	*3,949*	*3,046*	*4,316*	*3,074*
b Trade Receivables	*151*	*708*	*465*	*577*
5 Total Assets	8,970	8,113	8,761	6,807
6 Current Liabilities	5,594	4,505	6,513	4,413
a Trade Payables	*3,541*	*2,852*	*5,396*	*3,116*
7 Borrowings	819	1,169	209	2,847
8 Related Party Exposure	1,530	1,530	2,991	-
9 Non-Current Liabilities	234	223	187	231
10 Net Assets	792	685	(1,139)	(683)
11 Shareholders' Equity	793	685	(1,139)	(683)
B INCOME STATEMENT				
1 Sales	12,287	64,506	36,807	29,026
a Cost of Good Sold	*(11,076)*	*(59,998)*	*(34,872)*	*(28,659)*
2 Gross Profit	1,210	4,507	1,935	367
a Operating Expenses	(346)	(1,195)	(1,307)	(1,205)
3 Operating Profit	864	3,312	628	(838)
a Non Operating Income or (Expense)	*(569)*	*(1,773)*	*(355)*	*(130)*
4 Profit or (Loss) before Interest and Tax	295	1,539	273	(968)
a Total Finance Cost	*(57)*	*(168)*	*(246)*	*(254)*
b Taxation	*(131)*	*(349)*	*(250)*	*(149)*
6 Net Income Or (Loss)	107	1,022	(223)	(1,371)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*153*	*2,165*	*246*	*(891)*
b Net Cash from Operating Activities before Working Capital Changes	*100*	*2,017*	*(6)*	*(1,127)*
c Changes in Working Capital	*73*	*(2,532)*	*1,245*	*71*
1 Net Cash provided by Operating Activities	174	(515)	1,239	(1,056)
2 Net Cash (Used in) or Available From Investing Activities	(16)	(114)	(39)	(35)
3 Net Cash (Used in) or Available From Financing Activities	(350)	75	2	703
4 Net Cash generated or (Used) during the period	(193)	(555)	1,202	(388)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-23.8%	75.3%	26.8%	N/A
b Gross Profit Margin	9.9%	7.0%	5.3%	1.3%
c Net Profit Margin	0.9%	1.6%	-0.6%	-4.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.8%	-0.6%	4.0%	-2.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	57.9%	-450.6%	-24.5%	-200.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	29	24	42	46
b Net Working Capital (Average Days)	5	1	0	7
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.3	1.0	1.0
3 Coverages				
a EBITDA / Finance Cost	19.6	76.3	2.5	-3.4
b FCFO / Finance Cost+CMLTB+Excess STB	3.8	14.5	0.7	-0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.0	0.8	69.1	-2.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.8%	79.7%	155.3%	131.6%
b Interest or Markup Payable (Days)	581.7	639.9	121.9	181.8
c Entity Average Borrowing Rate	2.4%	1.5%	6.6%	7.5%

Credit Rating

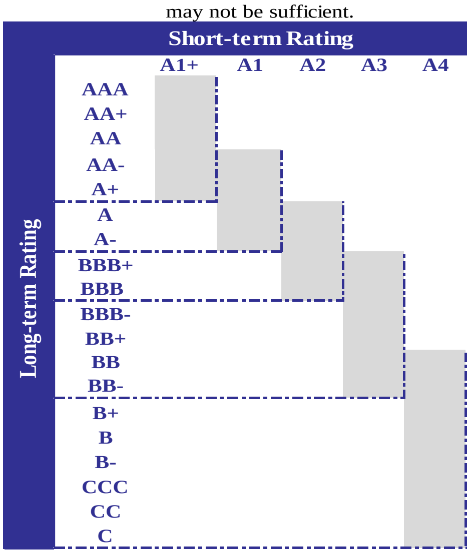
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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