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-2024	A-	A2	Stable	Maintain	-
28-Aug-2023	A-	A2	Stable	Maintain	-
26-Aug-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan relies significantly on imports to meet its energy demand. During FY23, the consumption of 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 of the country - declined by ~25.5% reported at ~17.1mln MT (FY22: ~23.1mln MT). A decrease in total consumption was due to unstable economic conditions and government policy changes. The transportation and power sectors remain the main consumers, accounting for ~80% 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 retail network and its strong presence on the operational front. Currently, Puma operates through 600+ retail pumps spread across the country with a concentration in Punjab (~371 pumps) and Sindh (~98 pumps). However, volumetric supply required to utilize all the retail stations remain a challenge mainly due to smuggled product availability in the market. The rating factors in the sponsor's substantial business acumen in the OMC sector and their commitment to provide financial support, if needed. Moreover, consistent rebranding activities under the name of Puma benefit 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 (~43%), and PMG (~39%) whereas lubricants and others generate ~18%, capturing ~1.3% market share as of Dec-23. Topline posts a growing trajectory over the years. However, due to high input costs, business margins and in turn profitability remains limited. Lately, margins have started to normalize and are expected to improve profitability. Dependency on suppliers' credit factors in high exchange loss risk, which is mitigated due to only 21% imported products and a stable Rupee. Financial risk remains adequate, supported by a strong working capital cycle and adequate coverages.

The rating captures the Company’s ability to sustain business operations through planned re-branding of retail sites and conversion of subordinated loan into paid up capital. Sustaining key financial metrics, working capital ratios and 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 | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | POL Distribution - OMCs & Dealers(Nov-23)
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 the entire stake to Mr. Amir Waliuddin Chishti. At present, the Company operates 600+ retail pumps 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 ~11,020 MT with a storage depot at Daulatpur, Sindh, and a Terminal at Machike, Punjab. In addition to that Puma also has long term hospitality storage agreements at Kemari, Port Qasim, Shikarpur, Mehmood Kot, Gatti, Sihala and Tarujabba.

Ownership

Ownership Structure The Company is majorly owned by Mr. Amir Waliuddin Chishti (~99.99%). Mr. Javed Yousuf Ahmedjee, Mr. Kamal Haider Jaffery, and Mr. Muhammad Afzal owns the remaining shareholding.

Stability Stability in the Company's leadership provides comfort to the overall structure.

Business Acumen The sponsors have diversified portfolios with expertise in the energy, healthcare, education and financial sectors. Mr. Amir holds strategic stakes in Shajar Capital Pakistan (Pvt.) Ltd., InvestOne Market (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, as and when needed.

Governance

Board Structure The Company has a four-member Board (BoD); comprising Non-Executive Directors only. Enhancing the governance framework would remain beneficial.

Members' Profile Mr. Amir Waliuddin Chishti, chairs the Board with an overall experience of over 25 years. He has been associated with the Company for ~12 years. All of the BoD members are industry professionals having substantial multiple industry related experience.

Board Effectiveness Formal policies and procedures are devised by the CEO/Chairman.The Board is assissted by Audit and Risk committees. The Board meetings are held on a 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-23.

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 Mr. Fayaz Ahmad Khan holds the position of 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 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 adequate inhouse control mechanisms; however, there no formal internal audit function placed. Adequate MIS is maintained to keep track of all operations.

Business Risk

Industry Dynamics Pakistan relies significantly on imports to meet its energy demand. During FY23, the country consumed ~17.1mln MT of petroleum products (FY22: ~23.1mln MT), a dip of ~25.5% YoY. A decrease in total consumption was due to unstable economic conditions and government policy changes. Currently, there are ~35 registered OMCs. There are five (5) Listed OMCs operating in the country namely (i) Pakistan State Oil (PSO) (ii) Shell Pakistan (SHELL) (iii) Hascol Petroleum (HASCOL) (iv) Hi-Tech Lubricants (HTL) and (v) Attock Petroleum (APL). OMCs generated an aggregate revenue of PKR~5,303bln in FY23 (FY22: ~PKR 4,262bln).

Relative Position Puma has ~1.3% market share as at CY23 in terms of sales of MS/HSD/HOBC.

Revenues During CY23, the Company witnessed a decline in revenue recorded at ~PKR63,797mln (CY22: ~PKR 64,549mln), a decline of ~1.16%, due to reduction in consumption of POL products. In volumetric terms, the sales of the Company was recorded at ~203,309 MT during CY23 (CY22: ~308,323 MT), a decline of ~34%. During 6MCY24, the revenue of the Company was recorded at ~PKR 32,409mln. Revenues are expected to remain stable, going forward.

Margins During CY23, gross margin decreased to ~3.9% (CY22: ~7%) due to a surge in PoL costs. The operating margin showed a trickle down effect and deteriorated to ~1.9% (CY22: ~5.1%). On a net level, margin squeezed to ~0.02% (CY22: ~1.6%). During 6MCY24, the Company reported gross margins of ~2.9% whereas operating margin and net margin were reported at ~0.8% and 0.1%. Margins are expected to remain stretched.

Sustainability The Company is eyeing on branding its existing retail network by engaging dealers, which has progressed well. Moreover, consistency of a streamlined business strategy remains imperative to ratings.

Financial Risk

Working Capital The Company's net working capital cycle increased and stood at 3 days in CY23 (CY22: 1) due to decrease in trade payable days (CY23: ~4 days, CY22: ~3 days) and increase in trade receivable days (CY23: ~4 days, CY22: ~3 days). Inventory days stood stable at 21 days (CY22: 21 days). In 6MCY24, the Company reported net working capital days of ~ -3 days attributed to inventory days of ~23 days, trade receivable days of ~3 days and trade payable days of ~29 days. The borrowing cushion remains limited.

Coverages As of CY23, the Company's EBITDA declined to ~PKR 1,365mln (CY22: ~PKR 2,386mln) due to decrease in profit before tax. The finance cost increased to ~PKR 155mln (CY 22: ~PKR 31mln). This deteriorated the cover to ~8.8x (CY22: ~76.3x). In 6MCY24, the Company 's EBITDA was reported at ~PKR 1,731mln and finance cost was reported at ~PKR 137mln leading to a cover of ~12.6x. Coverages may remain stretched.

Capitalization As of CY23, the total borrowings of the Company was reported at ~PKR 2,358mln (CY22: ~PKR 2,700mln), a decline of ~13% hence leading a slight improvement in leverage ratio (CY23: ~77%, CY22: ~80%). However, the Company's equity base remained limited reported at ~PKR 700mln (CY22: ~PKR 685mln). The Company holds PKR ~1,530mln (CY22: PKR ~1,530mln) as subordinated loan. As of 6MCY24, the leverage ratio of the Company is adequate.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Puma Energy Pakistan (Private) Limited	Jun-24	Dec-23	Dec-22	Dec-21
Oil and Marketing	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,175	2,263	2,443	2,238
2 Investments	990	25	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	7,739	7,444	5,671	6,523
a Inventories	*3,937*	*4,132*	*3,046*	*4,316*
b Trade Receivables	*472*	*686*	*708*	*465*
5 Total Assets	10,904	9,732	8,113	8,761
6 Current Liabilities	7,675	6,388	4,505	6,513
a Trade Payables	*5,552*	*4,590*	*2,852*	*5,396*
7 Borrowings	675	828	1,169	209
8 Related Party Exposure	1,530	1,530	1,530	2,991
9 Non-Current Liabilities	306	286	223	187
10 Net Assets	718	700	685	(1,139)
11 Shareholders' Equity	718	700	685	(1,139)
B INCOME STATEMENT				
1 Sales	32,409	63,136	64,506	36,807
a Cost of Good Sold	*(31,464)*	*(60,665)*	*(59,998)*	*(34,872)*
2 Gross Profit	945	2,471	4,507	1,935
a Operating Expenses	(690)	(1,257)	(1,195)	(1,307)
3 Operating Profit	255	1,214	3,312	628
a Non Operating Income or (Expense)	*172*	*(554)*	*(1,773)*	*(355)*
4 Profit or (Loss) before Interest and Tax	427	660	1,539	273
a Total Finance Cost	*(270)*	*(305)*	*(168)*	*(246)*
b Taxation	*(139)*	*(340)*	*(349)*	*(250)*
6 Net Income Or (Loss)	18	15	1,022	(223)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,607*	*1,110*	*2,200*	*246*
b Net Cash from Operating Activities before Working Capital Changes	*1,521*	*829*	*2,052*	*(6)*
c Changes in Working Capital	-	*(39)*	*(2,567)*	*2,487*
1 Net Cash provided by Operating Activities	1,521	789	(515)	2,480
2 Net Cash (Used in) or Available From Investing Activities	(1,395)	(507)	(315)	(39)
3 Net Cash (Used in) or Available From Financing Activities	-	471	75	2
4 Net Cash generated or (Used) during the period	126	754	(755)	2,444
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	2.7%	-2.1%	75.3%	26.8%
b Gross Profit Margin	2.9%	3.9%	7.0%	5.3%
c Net Profit Margin	0.1%	0.0%	1.6%	-0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.0%	1.7%	-0.6%	7.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	5.1%	2.2%	-450.6%	-24.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	26	25	24	42
b Net Working Capital (Average Days)	-3	3	1	0
c Current Ratio (Current Assets / Current Liabilities)	1.0	1.2	1.3	1.0
3 Coverages				
a EBITDA / Finance Cost	12.6	8.8	76.3	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	5.7	2.5	14.7	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	2.0	0.8	69.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	75.4%	77.1%	79.7%	155.3%
b Interest or Markup Payable (Days)	73.0	129.4	639.9	121.9
c Entity Average Borrowing Rate	12.0%	6.7%	1.6%	6.6%

Credit Rating

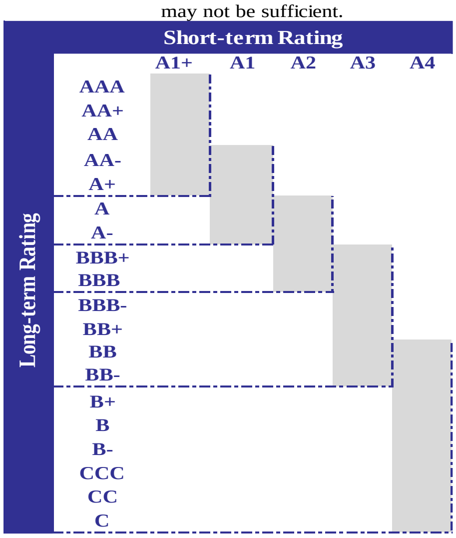
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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 | 17-(a)
(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)

Proprietary Information