



The Pakistan Credit Rating Agency Limited

Rating Report

My Petroleum (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Sep-2023	BBB+	A2	Stable	Maintain	-
27-Sep-2022	BBB+	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. Global oil production cuts has inflated the overall input costs. Challenges remain prevalent, however, the sector's overall outlook - cashflows and liquidity - is expected to remain stable.

My Petroleum (Pvt.) Ltd.'s ('My Petroleum' or 'the Company') ratings drive strength from considerable footing of the sponsors in logistics, trading, energy - downstream and upstream, and steel sectors. Moreover, the Company has evolved through retail enhancement (~78 pumps across Punjab). The Company gathers support from marketing & distribution arrangement with LUKOIL, a Russian lubricant brand, across Pakistan. The Company generates revenue mainly from PMG (~60%), followed by HSD (~40%) sales. The revenue posts growth supported by increased price; while margins remain regulated. However, relying mainly on imports (i.e. ~60% of the total procurement) along with rupee devaluation exposes the Company to exchange risk. This impacts the profitability and elevates the risk profile of the Company. At present, the market share seems stable. While, going forward, planned penetration into the retail segment across semi-urban and rural areas may adds to the market share of the Company and benefits the overall business risk. The Group further plans to consolidate My Logistics (Pvt.) Ltd., an associated company operating a fleet of oil tanker, with and into My Petroleum. The timeline and modalities of this transaction remains imperative for the overall performance of Company, going forward. My Petroleum has a healthy financial risk profile as the working capital is managed through a combination of debt and suppliers' credit. Thus, leveraging and coverages remains considerably intact, however has subdued lately, due to aggressive expansion. This keeps the borrowing cushion weak at all times. The management intends to keep the leveraging indicators aligned to the Company's overall risk profile. The Company's financial flexibility is high and drives support from sponsors in terms of equity injection coupled with non-funded bank limits.

The rating captures the Company's ability to sustain its business operations while achieving the aforementioned plans. The rating particularly recognizes ongoing developments including: i) equity injection by the Sponsor and ii) expansion of retail network. In addition to the timely implementation of these initiatives, the ratings are dependent on Company's ability to achieve desired market penetration. Sustainable profits and other key financial metrics, in terms of working capital and coverages remain crucial to the rating.

Disclosure

Name of Rated Entity	My 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 Oil Marketing Companies(Nov-22)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



POL Distribution - OMCs & Dealers

Profile

Legal Structure My Petroleum (Pvt.) Limited ("My Petroleum" or "the Company") was incorporated in Jan-16 is a private limited company as per the repealed Companies Ordinance 1984 (now called the Companies Act, 2017).

Background Mr. Tariq Wazir Ali, founder of the Company, entered in the business arena through POL product trading. Later, he formally formed a trading company, named My Trading (Pvt.) Ltd., for the said purpose. Over time, he setup a logistic company, My Logistics (Pvt.) Ltd., with the sole purpose of POL product transportation. In Jan-16 and the Group began to be termed as My Group ('the Group'), My Petroleum was setup in the upstream supply chain. The Company began commercial operations in Sep-19 after acquiring license to operate as an OMC in Dec-16. Lately, the Group has entered into steel sector and plans to setup bars and billets manufacturing setup. The Group plans to expand all its businesses mainly through equity.

Operations The Company is primarily engaged in the storage, distribution and marketing of petroleum products and lubricants. For this, the Company imports and procures refined oil from local refineries as well. Currently, the Company has setup dealer based retail outlets across Punjab, only. My Petroleum has a total storage capacity of ~5,230MT with storage facilities located at Habibabad and MirpurKhas. However, is in the process of expanding the storage facilities along with retail outlets.

Ownership

Ownership Structure My Petroleum is a family-owned business, with a major stakes held by Mr. Tariq Wazir Ali (~94%) and his wife (~6%).

Stability The Company is a family-owned venture and the ownership seems to be remain stable, going forward.

Business Acumen My Petroleum is a part of My Group that holds considerable footing in logistics, energy and steel sectors. The sponsors are well versed in the said field with an experience of ~ two decades.

Financial Strength The sponsor of My Petroleum has presence in logistics, energy and steel sectors. The Group companies have a total asset base of ~PKR 11bln as of FY23. Revenue is reported at ~PKR 38bln with a net profit of ~PKR 519mln during FY23.

Governance

Board Structure My Petroleum has five-member Board (BoD), dominated by the sponsoring family. The BoD comprises two Executive and three Non-Executive Directors. Whereas, induction of an Independent Director can improve governance framework of the Company.

Members' Profile Mr. Tariq Wazir Ali, the BoD's Chairman, holds two decades of professional experience. He guides the BoD through useful insights into the oil market and in developing effective policies.

Board Effectiveness The BoD is assisted by two Board committees, namely: Audit Committee (BAC) and Human Resource & Remuneration Committee (HR&RC). These Committees met on quarterly basis. The minutes of the meeting are adequately documented.

Financial Transparency The External Auditors of the Company, M/s Tariq Abdul Ghani Maqbool & Company, are QCR rated and are in category 'B' of SBP Panel. The firm has expressed an unqualified opinion on the financial statements for the year ended FY22. The Company has finalized draft management accounts as of FY23, which are to undergo audit process.

Management

Organizational Structure The Company operates through fifteen departments, headed by independent Heads. These Departmental Heads report to the Chief Operating Officer (COO), Executive Director (ED) and the CFO. All technical, sales and administration department heads directly report to the COO, who in turn reports to the CEO. The CEO makes all the pertinent decisions and is the man at the last mile.

Management Team The senior management team carries adequate and relevant professional experience. Mr. Muzaffar, the COO, holds overall experience of ~23 years in the relevant industry and has been associated with the Company for 5 years.

Effectiveness The Company has formulated two management level committees, namely: Risk Management Committee and Technical Committee. These committees meet on quarterly basis and have adequately documented minutes. Further, all Head of Departments meets on a daily basis to discuss daily affairs of Company.

MIS The Company has implemented and is using all key modules of ERP system. Top management receives a daily performance report of operations which results in optimal monitoring.

Control Environment The Company does not have a separate department for internal audit function. Establishment of separate and independent internal audit department will improve transparency.

Business Risk

Industry Dynamics 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 the total demand. Global oil production cuts has inflated the overall costs. Challenges remain prevalent, however, the sector's overall outlook - cashflows and liquidity - is expected to remain stable.

Relative Position My Petroleum holds a market share of ~0.61% in terms of MS/HSD/HOBC sales as of CY22.

Revenues The topline grew by ~16% and reported at PKR 23,054mln (FY22: PKR 19,844mln). This increase is attributed to expansion of Company's retail outlets which stood at 78 (FY22: 65) along with massive surge in oil prices as an impact of heightening inflation. The Company mainly generates revenue by selling PMG (FY23: ~60%) followed by HSD (FY23: ~40%). However, volumetric impact varied across PoL variants. For PMG, volumes posted a decline of ~28% witnessing the volumetric sales amounting to 43,457MTs (FY22: 61,010MTs), while for HSD, volumes declined by ~31% with volumetric sales reported at 31,332MTs (FY22: 45,523MTs).

Margins During FY23, gross profit of the Company exhibited the reduction of ~17% and reported at PKR 609mln (FY22: PKR 740mln). Gross profit margin of the Company reduced to ~2.6% during FY23 (FY22: ~3.7%) due to higher cost of sales. Operating profit margin of the Company reduced to ~1.7% (FY22: ~2.9%). Net profit margin stood at ~0.5% (FY22: ~1.6%). Also, the reduction in net profitability is due to a substantial portion of the revenue is being consumed by the cost of sales. This has notable impact on overall business risk of the Company.

Sustainability The Company is planning to increase storage capacity at Sahiwal and Faisalabad. Additionally, the Company is expanding its operations to Sindh, after commencement of operations at storage facility in Mirpur Khas. Currently, My Petroleum is operating all over the Punjab, but after starting operations of Mirpur Khas storage location, the Company will be able to expand its operations in other provinces of Pakistan.

Financial Risk

Working Capital Working capital requirements are met by combination of borrowing and suppliers' credit. The Company's net working capital cycle remains stable and stood at (-3) days as at FY23 (FY22: (-9) days), along with increased inventory held days (FY23: 30 days, FY22: 22 days). Whereas, receivable days of the Company remained stable at 11 days as at FY23 (FY22: 10 days). Trade payable days are elongated (FY23: 43 days; FY22: 41 days). The Company holds limited borrowing cushion against trade assets.

Coverages Free Cash Flows from Operations (FCFO) experienced a significant decline due to reduced profitability (FY23: PKR 307mln, FY22: PKR 418mln). The finance cost saw a significant increase as a result of increased borrowing levels and reported at PKR 180mln (FY22: PKR 3mln).

Capitalization In a strategic pivot, the company has revised its approach to debt enhancement and has devised balanced capital structure by following 50:50 debt to equity ratio. The leverage ratio increased as of (FY23: ~50%; FY22: ~7%). Total borrowings of the Company significantly augmented as of (FY23: PKR ~1,697mln; FY22: PKR ~98mln), the Company has stable equity base which has followed the increasing trajectory over the time period (FY23: PKR ~1,704mln; FY22: ~1,400mln). The increase in shareholders' equity is due to the increase in share capital of the Company that reported to PKR 776mln as of FY23 (FY22: PKR 576mln).



The Pakistan Credit Rating Agency Limited

PKR mln

My Petroleum (Pvt.) Limited Oil Marketing Companies	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	1,637	1,444	1,317	1,248
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,335	4,080	1,380	750
<i>a Inventories</i>	1,964	1,782	593	108
<i>b Trade Receivables</i>	683	667	409	272
5 Total Assets	5,973	5,525	2,697	1,999
6 Current Liabilities	2,431	3,840	1,164	723
<i>a Trade Payables</i>	2,066	3,413	1,001	644
7 Borrowings	1,697	98	327	135
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	141	187	128	45
10 Net Assets	1,704	1,400	1,078	1,096
11 Shareholders' Equity	1,704	1,400	1,078	1,096
B INCOME STATEMENT				
1 Sales	23,054	19,844	3,680	1,043
<i>a Cost of Good Sold</i>	(22,445)	(19,104)	(3,469)	(981)
2 Gross Profit	609	740	211	62
<i>a Operating Expenses</i>	(209)	(172)	(97)	(32)
3 Operating Profit	400	568	115	30
<i>a Non Operating Income or (Expense)</i>	-	(7)	(8)	-
4 Profit or (Loss) before Interest and Tax	400	560	107	30
<i>a Total Finance Cost</i>	(180)	(3)	(6)	(0)
<i>b Taxation</i>	(115)	(236)	(35)	(9)
6 Net Income Or (Loss)	105	322	66	21
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	307	418	79	31
<i>b Net Cash from Operating Activities before Working Capital Change.</i>	127	416	73	31
<i>c Changes in Working Capital</i>	9	(320)	4	60
1 Net Cash provided by Operating Activities	135	96	77	91
2 Net Cash (Used in) or Available From Investing Activities	(172)	(134)	(70)	(87)
3 Net Cash (Used in) or Available From Financing Activities	22	(5)	(13)	70
4 Net Cash generated or (Used) during the period	(15)	(43)	(6)	74
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	16.2%	439.2%	252.9%	27939.4%
<i>b Gross Profit Margin</i>	2.6%	3.7%	5.7%	5.9%
<i>c Net Profit Margin</i>	0.5%	1.6%	1.8%	2.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sc</i>	1.4%	0.5%	2.3%	8.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Ass</i>	6.8%	26.0%	6.1%	2.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	40	32	68	86
<i>b Net Working Capital (Average Days)</i>	-3	-9	-13	-139
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.8	1.1	1.2	1.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.4	224.7	20.0	1007.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	12.8	2.2	4.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance C</i>	0.5	0.2	1.7	4.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	49.9%	6.5%	23.3%	11.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	231.5	0.0
<i>c Entity Average Borrowing Rate</i>	20.1%	1.7%	2.5%	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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

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

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(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)

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(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)

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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)

(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)

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