



The Pakistan Credit Rating Agency Limited

Rating Report

TOTAL PARCO Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Dec-2022	AAA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Total PARCO Pakistan Limited (TPPL) has been assigned AAA rating by PACRA. The rating reflects the Company’s position as the largest international oil marketing company (OMC) in Pakistan, and also takes into account the company’s plans to grow its business in key focus areas. Being the 2nd largest and one of the most advanced OMCs in the country, TPPL holds significant strategic importance in the domestic energy sector. This also provides TPPL with a strong base to work closely with regulators for improving the overall structural landscape of the downstream oil marketing sector. The Company’s strategy is well thought out and robust, which position it to grow sustainably in the future.

TPPL enjoys a sustainable supply position with credible and supportive sponsors. As a consequence, its marketing and supply operations generate fairly stable cash flows, despite the volatility in international market prices volatility and other persistent risks. Maneuvering its strategy around concept of ‘Service Station’ rather than ‘Petrol Pump”, TPPL is aiming to build & retain its customer base by developing brand loyalty that goes beyond transactional. In order to remain aligned with contemporary world’s energy needs, the company has a clear view on the global energy transition.

The rating also remained cognizant to strategic initiatives of TPPL, which, inter alia include construction of new storage sites, expansion in production capacity of lubricants plant, sustainable development goals and initiatives towards its corporate social responsibilities. The company's sound governance framework and control environment augurs well for smooth & compliant business operations. Deployed IT infrastructure at group level is considered robust, mitigating any business interruption risk.

Disclosure

Name of Rated Entity	TOTAL PARCO Pakistan 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	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504



Oil Marketing Companies

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure TOTAL PARCO Pakistan Limited (TOTAL PARCO or TPPL) is an unlisted public limited company.

Background During 1997 TOTAL entered into a joint venture with Atlas group to form Total Atlas Lubricants Pakistan (Pvt) Ltd. (TALP) to deal in lubricants. Identifying opportunities, TOTAL conceived another J.V with PARCO to form TPPL, an OMC. In 2011, Total acquired 100% stakes in lubes business. In 2014 TPPL acquired Chevron Pakistan's retail business. Both businesses, TOPL (former TALP) & TPPL kept running parallel until 2014. The merger was effective from January 1st, 2015 when both businesses were merged under the banner of TOTAL PARCO.

Operations Core activity of TPPL is marketing & sale of petroleum products (POL). It has retail network of 826 retail stations, out of which 6 are COCO sites. TOTAL PARCO has an owned & leased storage capacity of 86,000MT and 35,000MT, respectively. Services of WOP and a contracted fleet of strong 700+ Tankers at its disposal.

Ownership

Ownership Structure The Company is 50% owned by TotalEnergies Marketing and Services – France (TMS) and 50% by Pak Arab Refinery Limited (PARCO).

Stability Ownership of TPPL has remained stable since acquisition of Chevrons'. TPPL is a strategic investment of sponsors and is anticipated to remain stable in foreseeable future. PARCO, a Govt. owned entity while TotalEnergies has operational history of over 100 years posing petite risk of instability and succession problems.

Business Acumen Unprecedented success of parent entities is a clear reflection of excellent business acumen of sponsors and their ability to form and execute business strategies. Sponsors have industry-specific working knowledge from upstream to downstream and strategic thinking capability.

Financial Strength Financial strength of Sponsors is unsurmountable. PARCO, a J.V between Govt. of Pakistan and the Emirate of Abu Dhabi (40%), through its Mubadala Investment Company, is the largest refinery in Pakistan and is AAA rated by PACRA and has an investment book of ~PKR240bln. The other ultimate sponsor, TotalEnergies (AA- rated by Fitch) possesses total assets of ~USD293bln.

Governance

Board Structure TPPL has a six-member Board. Three members represent PARCO and other three are nominees of TMS. To enhance transparency in practices of board, Chairman is nominated by PARCO while, CEO of the Company is appointed by TMS. The board has three committees in place: (i) Finance Committee (ii) Audit Committee (iii) Human Resource Committee.

Members' Profile Chairman board, MR. Ali Raza Bhutta is a career Civil Servant with an experience of over 32 years. He has an M.B.A. from Quaid-i-Azam University and an M.Phil. in Economic Development from University of Glasgow. He is also serving as Chairman of the board of PARCO. All of the board members have extensive and diversified professional experience, spanning over ~3 decades.

Board Effectiveness The Board meets quarterly and meeting minutes are properly documented. The Board held four quarterly meetings to address the strategic decisions of the Company. Meetings are attended by all members.

Financial Transparency The External Auditors of the Company, M/S EY Chartered Accountants have expressed an unqualified opinion on financial statements for year end-Dec21. TPPL has an in-house internal audit department as well, which monitors compliance with internal controls and presents reports directly to Audit Committee.

Management

Organizational Structure TPPL has an excellent organizational structure. The Company operates through 7 departments, Finance, HR & Admin, Corporate Strategy & Compliance, HSSEQ, Consumer Sales & Specialties, Operations and Retail. Each dept. is headed by Vice President (V.P). The entire operational set-up of the Company falls under purview of the CEO.

Management Team CEO of the Company, Mr. Mehmat Celepoglu enjoys expertise of over 25 years in oil marketing, supply and trading within one of the largest energy groups in the world. Previously he has served at key positions like V.P HSE Transportation & Storage at Total France and V.P. HSEQ & Sustainable Development in Total MENA. Other members of the management, as well, are seasoned professionals carrying average experience of ~2 decades.

Effectiveness To bring efficiencies in the system, management has formed various committees in each department but the jewel of the crown is ManCom, where all V.Ps evaluate strategies together. These committees meet weekly and whenever need be. Meeting minutes are maintained adequately.

MIS Whole organization is being managed through SAP except HR module. It runs various modules and generates reports as required, including general ledger, sales & purchase, inventory control, carriage & freight etc. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control. Apart from SAP, TPPL has also installed a software 'KissFlow' to manage daily tasks and to save time consumed in manual methods.

Control Environment TPPL' internal audit function adds value to the entity's operations and brings improvement to business practices by forming and ensuring compliance with internal controls.

Business Risk

Industry Dynamics Pakistan relies significantly on imports to meet its energy demand. During FY21, the country consumed ~19.8mln MT of POL products (FY20:~17.1mln MT) up ~15.8% YOY. Owing to declining local oil reserves amid low new discoveries, dependence on imported POL products is increasing with each passing year. Currently, there are ~35 OMCs. operating in the country, 4 of them are listed. The Sector is highly regulated with the prices of two major products, i.e., MOGAS and Diesel being determined by the Oil & Gas Regulatory Authority (OGRA) on a fortnightly basis. OMCs generated aggregate revenue of PKR~2,528bln in FY21 (FY20: PKR~2,225bln) with an annual GDP contribution of ~5.3% (FY20: 5.4%). The sector's revenue during FY21 registered a YOY growth of ~13.6% on account of increased consumption and rising POL products' prices.

Relative Position With significant strategic importance for oil industry, TOTAL PARCO enjoys 2nd highest market share in OMC sector after PSO, a Sovereign owned & supported entity. During CY21, TPPL enjoyed a considerable market share of ~12% in MOGAS and HSD.

Revenues TPPL's large marketing operations generate largely stable profits, although subject to risks related to regulatory developments and inventory gains/losses to some extent. During CY21, TPPL posted a significant growth of ~38% to PKR~268,031mln (CY20 PKR~193,647mln) with a volumetric increase of 10%. During 6MCY22, sales of POL products depicted a significant increase, led by a pick-up in demand coupled with high prices.

Margins The integration with PARCO and TTA Pte Ltd. provides operational synergies, leading to strong operating efficiency. Gross profit margin of TPPL is on an upward trajectory. During CY21 and 6MCY22, the Company depicted growth of ~6% and ~9% respectively, as a result cost controls and efficient operational handling. Operating margins improved to ~3% during CY21 (CY20: ~-.7%) and 7% during 2QCY22 owing to the efficient deployment of resources.

Sustainability TPPL is constantly working to improve user experience and is eyeing to open 25-30 retail stations each year to meet its growing customer demands. The Company also has an eye over EV transition and has installed on EV charger at Packages Mall Parking Lahore. However, current strategy revolves ~95% around fossil fuels business considering market dynamics.

Financial Risk

Working Capital TPPL enjoys strong financial flexibility that has enabled it to borrow from domestic institutions at competitive rates to fund its working capital requirements. TPPL's working capital requirement emanates from its need to finance its trade payables and inventory. For this, the Company resorts to short-term borrowings. During CY21, short-term financing of the Company surged by ~54% (CY21: PKR~6,831mln, CY20: PKR~4,426mln) due to onerous working capital situation which is evident from Gross & Net working capital days respectively. (CY21: 31 & 1 days; CY20: 24 & -3 days).

Coverages High POL prices and better profitability have led to higher FCFO during CY21: PKR ~7,602mln as compared to corresponding year which posted negative cash flows. (CY20: PKR -517mln). During 1HCY22, FCFO surged significantly to PKR~18,686mln due to record-high fuel prices. In CY21 interest coverage ratio stood at 13x from 0.8x in CY20). Similarly, during 1HCY22 the ratio nearly doubled to 24x.

Capitalization The Company has a moderately leveraged capital structure with debt-to-equity ratio of ~54%. The Company has total debt of PKR~ 12,349mln as at end-CY21 and an equity of PKR ~10,679mln.



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Financial Summary
PKR mln

Total Parco Pakistan Limited Oil Marketing Companies	Jun-22 6M	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET				
1 Non-Current Assets	22,384	23,057	22,359	23,116
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	62,369	39,114	14,670	16,891
<i>a Inventories</i>	53,376	29,192	7,869	7,960
<i>b Trade Receivables</i>	6,313	4,618	4,132	5,038
5 Total Assets	84,753	62,171	37,029	40,007
6 Current Liabilities	48,207	38,717	19,595	21,647
<i>a Trade Payables</i>	34,401	30,914	12,807	15,551
7 Borrowings	17,887	12,349	9,952	5,783
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	597	426	455	391
10 Net Assets	18,062	10,679	7,035	12,186
11 Shareholders' Equity	18,062	10,679	7,035	12,186
B INCOME STATEMENT				
1 Sales	220,982	268,031	193,647	238,592
<i>a Cost of Good Sold</i>	(200,825)	(252,711)	(188,866)	(229,188)
2 Gross Profit	20,157	15,321	4,782	9,405
<i>a Operating Expenses</i>	(3,756)	(7,143)	(6,108)	(6,328)
3 Operating Profit	16,401	8,178	(1,326)	3,077
<i>a Non Operating Income or (Expense)</i>	(4,483)	(1,827)	(394)	(493)
4 Profit or (Loss) before Interest and Tax	11,918	6,351	(1,720)	2,584
<i>a Total Finance Cost</i>	(830)	(892)	(750)	(703)
<i>b Taxation</i>	(3,704)	(1,780)	(2,332)	27
6 Net Income Or (Loss)	7,384	3,679	(4,802)	1,908
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	18,686	7,602	(517)	2,786
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	18,134	7,279	(829)	2,192
<i>c Changes in Working Capital</i>	(17,815)	(6,107)	(771)	(4,906)
1 Net Cash provided by Operating Activities	318	1,172	(1,602)	(2,714)
2 Net Cash (Used in) or Available From Investing Activities	(570)	(1,972)	(1,494)	(3,183)
3 Net Cash (Used in) or Available From Financing Activities	(625)	4,513	1,020	(1,924)
4 Net Cash generated or (Used) during the period	(877)	3,712	(2,076)	(7,822)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	64.9%	38.4%	-18.8%	--
<i>b Gross Profit Margin</i>	9.1%	5.7%	2.5%	3.9%
<i>c Net Profit Margin</i>	3.3%	1.4%	-2.5%	0.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	0.4%	0.6%	-0.7%	-0.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	102.8%	41.5%	-50.0%	15.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	40	31	24	20
<i>b Net Working Capital (Average Days)</i>	13	1	-3	-4
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.3	1.0	0.7	0.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	23.6	12.9	0.8	7.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	13.9	0.9	0.0	0.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.1	1.7	-12.6	4.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	49.8%	53.6%	58.6%	32.2%
<i>b Interest or Markup Payable (Days)</i>	0.0	67.8	37.8	0.0
<i>c Entity Average Borrowing Rate</i>	11.0%	6.5%	8.4%	10.3%

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+	
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-	
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.
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	
CC	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.
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

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)

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