The Pakistan Credit Rating Agency Limited

Rating Report

Attock Refinery Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2024	AA	A1+	Stable	Maintain	-
26-May-2023	AA	A1+	Stable	Maintain	Yes
27-May-2022	AA	A1+	Negative	Maintain	Yes
27-May-2021	AA	A1+	Negative	Maintain	Yes
29-May-2020	AA	A1+	Stable	Maintain	Yes
28-Nov-2019	AA	A1+	Stable	Maintain	-
30-May-2019	AA	A1+	Stable	Maintain	-
07-Dec-2018	AA	A1+	Stable	Maintain	-
31-May-2018	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect ARL's sound risk absorption capacity emanating from its sizable equity base along with expertise and proven history of operations in the energy sector. The local refinery sector faced challenges during the period due to declining consumption of POL products along with infiltration of smuggled HSD in the economy resulting in slow offtake. ARL's core business remains exposed to the vicissitudes in international crude oil and products prices, which in turn, steer the gross refining margins (GRMs) of the Company. Spreads between prices of petroleum products and crude oil remained favorable during the period resulting in better margins which was translated into exceptional performance. During the period ended March 2024, the company supplied 1.266mln MT (9MFY23: 1,369mlnMT) of various petroleum products while operating at about 75% (9MFY23: 80%) of the capacity. The Company earned profit after tax of PKR 20,794mln from refinery operations with addition of dividend income after tax of PKR 888mln from associated companies, resulting in a total profit after taxation of PKR 21,682mln. The Company’s profitability was complemented by additional income on the short-term investment portfolio. The Company has zero leverage with no debt in its capital structure, depicting strong financial stability. The government has approved the Pakistan Oil Refining policy for both Greenfield and Brownfield refineries. Going forward, the Company is all set to sign the agreement with OGRA under the policy for upgradation of the refinery.

Although the industry’s overall outlook is expected to remain challenging, characterized by unstable refining margins and slower offtake, ARL's management is committed towards successful and efficient management of operations to shield its business profile from ongoing external vulnerabilities. Furthermore, Attock Group’s remarkable strength and business acumen along with the sustenance of current performance will further compliment the ratings.

Disclosure

Name of Rated Entity	Attock Refinery 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-24)
Related Research	Sector Study | Refineries(Nov-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Legal Structure Attock Refinery Limited (ARL), incorporated as a private limited company in 1978, took over crude oil refining business from Attock Oil Company. It was subsequently converted into a public limited company in 1979. The Company is listed on the Pakistan Stock Exchange.

Background ARL is the pioneer of crude oil refining in the country with its operations dating back to 1922. Backed by a rich experience of more than 100 years of successful operations, ARL's plants have been gradually upgraded/replaced with modern hardware to remain competitive and meet new challenges and requirements.

Operations The company is principally engaged in the refining of crude oil. The company primarily produces LPG, premium motor gasoline, jet fuels, kerosene, high speed diesel, light diesel oil, furnace fuel oil, Mineral Turpentine oil, Jute batching oil, solvent oil and various grades of bitumen. Annual production capacity of the refinery is 2.5mln MT per annum (55,400 BPD).

Ownership

Ownership Structure Attock Group, through Attock Oil Company (AOC) (~61.06%) retains the majority stake and management control in ARL. Other major shareholders consist of a) Individuals (Local & Foreign) (~17.24%), b) Institutions (~21.70%) including Banks, NBFIs, Joint Stock Companies, Modarabas and Mutual Funds.

Stability The business has been governed and administered by Attock Group which has a distinguished name in the sector. Thus, the stability factor is considered strong.

Business Acumen ARL is a member of Attock Group of Companies, a fully integrated group covering all segments of oil and gas industry from exploration, production, and refining to marketing of a wide range of petroleum products. It is also engaged in power generation, manufacturing and trading of cement, solar solutions etc. The sponsors have an industry-specific working knowledge and strategic thinking capability.

Financial Strength The Pharaon Group, the principal stakeholder of the Attock Group, is engaged internationally in diversified activities, which include hotels, oil exploration, production and refining, chemicals, cement, and real estate. M/s Coral Holding Limited is the ultimate parent of AOC.

Governance

Board Structure ARL's Board of Directors comprises of seven members including five non-executive members and two independent members.

Members' Profile ARL's board is composed of qualified professionals with considerable experience in the oil and gas sector. The Chairman of the BoD, Mr. Shuaib A. Malik, is also the CEO of Attock Oil Group. Mr. Shuaib has been associated with the Attock Group of Companies for approximately four decades.

Board Effectiveness The board Conducts regular meetings in each quarter to approve financial results and discuss operational performance of the refinery. Participation of members in board meetings also remained satisfactory. The board has constituted three committees to maintain effective oversight and efficient functioning. These comprise: a) Audit Committee, b) Technical and Finance Committee and c) HR & Remuneration Committee.

Financial Transparency A. F. Ferguson & Co. Chartered Accountants, the auditor of the company, has expressed an unqualified opinion on ARL's financial statements for FY23. Considering the listed status of the entity, financial transparency is considered strong as the company has to comply with the disclosures requirements of the regulators.

Management

Organizational Structure ARL's organization is structured around the effective functioning of nine major departments. Each department is headed by an experienced professional, reporting directly to the CEO. The departments comprise: a) Technical Services, Planning and Development b) Operations, c) Commercial & Material Management, d) Finance & Corporate Affairs, e) Human Resource & Administration, f) Maintenance, g) Engineering, h) Health, Safety, Environment & Quality, & i) Business Review & Assurance.

Management Team Mr. Adil Khattak, the CEO, has been associated with the company for more than 45 years. He has extensive experience in the petroleum sector. The management team is well qualified which has demonstrated stability over time. Majority of the senior management has been associated with the company since a long time.

Effectiveness Over the years ARL's effective management has played a major role in empowering the organization through its progressive results, even in times of economic uncertainty. Additionally, management's effective decision-making has led to systematic processes. The robustness of control systems is considered positive.

MIS The Company generates MIS reports on daily, fortnightly and monthly basis. These mainly include daily cash position, daily production report, saleable stock position, treasury and accounts section MIS, monthly debtors aging, monthly management accounts, quarterly budget and expense reporting.

Control Environment ARL has deployed ERP Oracle Financials and CMMS (Maximo – developed by IBM) and HRMS system. Primavera software has been deployed to monitor developments on the expansion projects. Moreover, the company has obtained several prestigious international certifications for its quality, environment, occupational health and safety management systems.

Business Risk

Industry Dynamics The combined refining capacity of Pakistan stands at 19.8mln MTPA. Total consumption of refined products including Motor Spirit, High Speed Diesel, Kerosene, Jet Fuel, Furnace Oil during 9MFY24 stood at ~12.035mln MT (9MFY23: 12.898mln MT). The total consumption of the country was met through local refined products (62%) while remaining demand was met through imports. The overall drop of 7% in the consumption pattern was owing to lower demand due to rising prices of MS and HSD while major drop in use of FO for power generation. Furthermore, the availability of smuggled HSD in the local market has further adversely impacted the sold volumes of refineries leading to storage issues and lower capacity utilization.

Relative Position During 9MFY24, ARL supplied 1.266mln MT of various petroleum products to the country while operating at 75% of its capacity. Based on the volumes supplied, the Company occupies 17% of the market share. Furthermore, the Company is the only refinery in the country which majorly refines local crude oil giving it a competitive edge over the other refineries.

Revenues During the nine months period ended March 31st, 2024, the Company reported Net Sales of PKR 286,282mln as compared to PKR 283,682mln during the same period previous year. Although the overall demand for petroleum products declined during the period owing to surging prices and inflationary pressure, the Company ensured smooth supply.

Margins Gross Profit Margin for the nine month period ended March 2024 stood at 9.1% as compared to 12.1% during the same period previous year due to decline in spreads. Net Profit Margins remained stable at 7.3% (Mar'23: 8%) due to negligible finance cost along with higher return on bank deposits and short term investments.

Sustainability The country's economy and overall business climate are anticipated to remain challenging, characterized by escalating costs of operations, high inflation, and unstable refining margins. The Company is all set to sign the agreement with OGRA under the Pakistan Oil Refining Policy for Up-gradation of Existing Brownfield Refineries, 2023. This should enable implementation of plans for upgradation of the Refinery. However, go ahead in this respect is awaited from the Government. The upgradation to existing refineries will allow to increase the overall capacity along with improved product concentration with low production of FO.

Financial Risk

Working Capital ARL's working capital requirement emanates from its need to finance its inventory and circular debt. As on Mar'24 trade receivable days stood at 25 days (Mar'23: 33 days). The average trade creditor days decreased to 30 days (Mar'23: 43 days). With average inventory days increasing to 25 days, ARL's average net working capital days clocked at 20 days (Mar'23: 9 days). ARL meets its working capital requirements through internal cash generation with no reliance on short term borrowings.

Coverages ARL has a strong cashflow position with its 9MFY24 FCFO standing at PKR 12,335mln. With repayment of borrowings, the Company's finance cost declined resulting in improved coverages during the period. Interest Coverage (EBITDA/Finance Cost) during the period was reported at 746.1x

Capitalization ARL has a robust capital structure with no reliance on borrowings. The Company has repaid its long term financing along with working capital financing as a result of exceptional performance during the period. The leveraging ratio at Mar 24 stood at 0.2% (June 23: 0.0%).

The Pakistan Credit Rating Agency Limited

nancial Summary
PKR mln

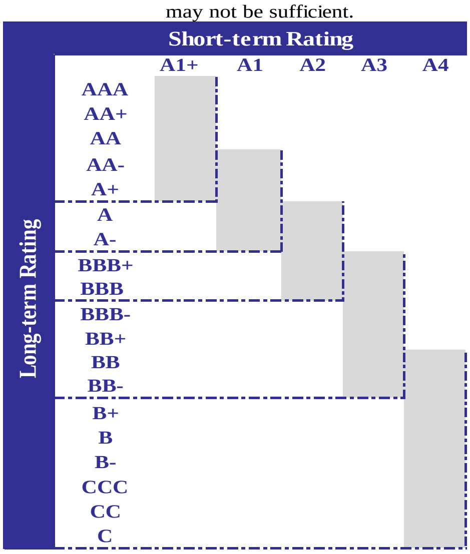
Attock Refinery Limited	Mar-24	Jun-23	Jun-22	Jun-21
Refinery	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	65,703	65,658	40,850	47,922
2 Investments	33,585	14,139	-	-
3 Related Party Exposure	13,265	13,265	13,265	13,265
4 Current Assets	86,022	83,698	78,792	42,108
a Inventories	*31,215*	*20,608*	*17,743*	*9,379*
b Trade Receivables	*13,641*	*39,514*	*30,279*	*13,305*
5 Total Assets	198,574	176,760	132,906	103,295
6 Current Liabilities	68,417	66,776	74,017	50,548
a Trade Payables	*31,582*	*31,647*	*43,629*	*29,759*
7 Borrowings	301	-	7,362	11,035
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	212	-	-
10 Net Assets	129,856	109,773	51,527	41,712
11 Shareholders' Equity	129,856	109,773	51,527	41,712
B INCOME STATEMENT				
1 Sales	286,282	369,222	261,984	127,730
a Cost of Good Sold	*(260,089)*	*(324,173)*	*(243,306)*	*(130,299)*
2 Gross Profit	26,193	45,049	18,678	(2,568)
a Operating Expenses	(3,594)	(4,809)	(2,135)	(828)
3 Operating Profit	22,599	40,240	16,543	(3,396)
a Non Operating Income or (Expense)	*11,317*	*6,053*	*(180)*	*1,892*
4 Profit or (Loss) before Interest and Tax	33,916	46,293	16,363	(1,504)
a Total Finance Cost	*(40)*	*(98)*	*(1,075)*	*(853)*
b Taxation	*(13,081)*	*(18,185)*	*(6,191)*	*92*
6 Net Income Or (Loss)	20,795	28,010	9,097	(2,265)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*12,335*	*33,903*	*19,021*	*(764)*
b Net Cash from Operating Activities before Working Capital Changes	*12,328*	*33,561*	*18,268*	*(1,547)*
c Changes in Working Capital	*15,574*	*(28,969)*	*(3,764)*	*2,323*
1 Net Cash provided by Operating Activities	27,901	4,591	14,503	776
2 Net Cash (Used in) or Available From Investing Activities	(8,233)	(6,224)	2,066	382
3 Net Cash (Used in) or Available From Financing Activities	(2,158)	(7,995)	(3,867)	2,771
4 Net Cash generated or (Used) during the period	17,510	(9,628)	12,702	3,928
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	3.4%	40.9%	105.1%	N/A
b Gross Profit Margin	9.1%	12.2%	7.1%	-2.0%
c Net Profit Margin	7.3%	7.6%	3.5%	-1.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.7%	1.3%	5.8%	1.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	23.1%	34.7%	19.5%	-5.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	50	53	49	65
b Net Working Capital (Average Days)	20	16	-2	-20
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.3	1.1	0.8
3 Coverages				
a EBITDA / Finance Cost	746.1	486.3	19.3	-0.2
b FCFO / Finance Cost+CMLTB+Excess STB	74.9	353.0	5.5	-0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.3	-12.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.2%	0.0%	12.5%	20.9%
b Interest or Markup Payable (Days)	0.0	0.0	68.7	72.2
c Entity Average Borrowing Rate	14.3%	3.5%	11.4%	7.7%

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

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

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

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | 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
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent