The Pakistan Credit Rating Agency Limited

Rating Report

National Refinery Limited

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Rating History

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

Rating Rationale and Key Rating Drivers

The ratings reflect National Refinery Limited's (NRL) stressed profitability owing to decline in product margins followed by challenges emanating from global drop in crude oil prices and reduced sales due to lower demand/smuggled products, causing the Company to incur inventory losses. NRL's core business remains exposed to the vicissitudes in international crude and petroleum products' (POL) prices, which in turn, steer the gross refining margins (GRMs) of the Company. Furthermore, the consumption of refined products has declined in the local market resulting in lower offtake which has hampered the throughput of the refinery. Although there was a slight recovery in product margins during the third quarter but as a result of escalating operating cost particularly driven by high utility tariffs resulted in cumulative gross loss of PKR 3,168mln during the nine month period ended March 2024. Moreover, the Company's reliance on Short term Borrowings has increased over the period to manage its working capital cycle. As a result, higher finance cost further impacted the Company's performance resulting in Net loss of PKR 7,523mln during the period. With declining furnace oil consumption by the power sector and lower offtake of HSD due to infiltration of smuggled products in the economy, the operational utilization of the refinery remained low. Lube segment also reported lower profitability of PKR 292mln during 9MFY24 (9MFY23: 3,553mln) as a result of turnaround during the second quarter leading to lower sale volumes. Going forward, the demand for Lube is expected to pick up and the management is of view that this will have a positive impact on the result of the lube segment. The government has finalized the Refinery Policy for upgradation of existing refineries (as amended in Feb'24). The upgrade agreements will be finalized and signed by the refineries in the coming months which would provide fiscal incentives. Going forward, the upgradation plans will further increase the Company's leveraging currently standing at 60.7%.

The assigned ratings reflect the strategic importance of NRL to the economy which is also evident from the presence of Attock group having proven history of operating in the sector. Furthermore, the rating takes comforts from the fact that the refinery policy will provide support for the upgrade of the fuel refinery which would in turn contribute towards sustainability of the operations.

Disclosure	
Name of Rated Entity	National 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 National Refinery Limited (NRL), is listed on the Pakistan Stock Exchange, since the year 1964. The Government of Pakistan took over the management of NRL as per the Economic Reforms Order, 1972 under the Ministry of Production, which exercised control through its shareholding in State Petroleum Refining and Petrochemical Corporation (PERAC).

Background After the Government of Pakistan decided to include NRL in its privatization program, the sale of 51% equity and transfer of management control to a strategic investor was proposed accordingly. After competitive bidding, NRL was acquired by the Attock Group (AG) in July 2005.

Operations NRL is engaged in the manufacturing, production, and sale of a large range of petroleum products. The refinery complex of the Company comprises three refineries, consisting of two lube refineries and one fuel refinery having total crude oil refining capacity of 70,000 barrels per day.

Ownership

Ownership Structure Attock Group retains the majority stake (51%), through Attock refinery limited (25%), Pakistan Oilfields Limited (POL) (25%) and Attock Petroleum Limited (APL) (1%). Other major shareholders include; Islamic Development Bank (~15%), Institutions collectively including Banks, Insurance Companies, NBFIs, Joint Stock Companies, Investment Companies, Modarabas, Mutual Funds and Trusts etc. holds (~16%). The general public holds ~18% of the shareholding.

Stability The Group is governed and administered by Attock Group (AG), a distinguished name in the oil sector of Pakistan.

Business Acumen The Pharaon Group is the principal stakeholder of AG and is engaged internationally in diversified activities, which include hotels, oil exploration, production and refining, chemicals, cement, and real estate.

Financial Strength NRL is a member of a conglomerate which is 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.

Governance

Board Structure The Company has a eight member board of directors including five Non-Executive Directors, two Independent Directors and one Executive Director. There are five representatives of the AG. The Independent directors include one nominee representing Islamic Development Bank.

Members' Profile Mr. Shuaib A. Malik, was appointed as the Chairman of the board after serving several years as deputy chairman & chief executive officer. He has been associated with Attock Group for more than four decades and is a veteran of the oil business. The remaining board members have significant relevant experience and expertise in the oil industry.

Board Effectiveness The board conducts regular meetings every quarter to discuss the operational and financial performance of the refinery. Furthermore, the board has constituted two committees to maintain effective oversight and efficient functioning. These comprise; a) Audit Committee and b) HR & Remuneration Committee.

Financial Transparency NRL's auditors, A. F. Ferguson & Co Chartered Accountants, a member firm of the PwC network, expressed an unqualified opinion on the company's financial statements for FY23. The State Bank of Pakistan categorizes the firm, in the A category of auditing firms.

Management

Organizational Structure The company primarily operates through four divisions namely: a) Operations, b) HR & Admin c) Commercial and Procurement, and d) Finance & Corporate Affairs. The special project division is temporally established to work on major projects. All divisional heads report to the CEO.

Management Team The CEO, Mr. Jamil A. Khan, has been associated with the company since 2005. He has been serving as the chief executive officer from Nov'18. Mr. Nouman Ahmed Usmani is the CFO of the company, who has been associated with NRL, for ~14 years. He is well qualified and brings an overall experience of ~22 years with him. The senior management is accompanied by a team of qualified and experienced individuals.

Effectiveness The company has an Executive Committee in place, comprising the CEO along with the General Manager Finance & Corporate Affairs. The committee meets on a need basis and ensures smooth refinery operations as well as formulating new strategies to deal with developments in the refinery sector.

MIS MIS presented to the board is strong and shared on a quarterly basis. NRL has employed ERP ECC-6, developed by SAP. The company generates MIS reports on a daily, fortnightly and monthly basis. These mainly include daily cash position, daily production report, saleable stock position, treasury and accounts section MIS, debtors aging, monthly management accounts, quarterly budget and expense reporting. Some reports are generated in excel format, as well.

Control Environment NRL has developed an in-house system – Crude Oil Management System for recording functions pertaining to oil movements and purchases of crude oil. NRL uses in-house reports in balancing crude oil inventory. Meanwhile, the company has established a Disaster Recovery Site equipped with the latest technology ensuring smooth functionality in case of a natural disaster.

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 Based on the volume of petroleum products supplied in the local market by the refineries, NRL has a market share of 13% for 9MFY24. Furthermore, it has an added advantage of a lube refinery that allows production of non petroleum products for export and the local market.

Revenues An stable trend in the turnover was noted from the same period pervious year (9MFY24: PKR 236,581mln, 9MFY23: PKR 232,026mln) owing to high prices even though the demand for petroleum products declined due to inflationary pressure on the consumer. Gradual increase in product prices was noted in the 3rd quarter of FY24 as compared to the second quarter.

Margins Better pricing during the third quarter resulted in improved Gross Refining Margins. However, the rise in operating costs particularly related to utility tariffs resulted in a Gross Loss of PKR 3,168mln (9MFY23: PKR 7,950mln) . As a result Gross margins turned negative to -1.3%. Similarly, with addition of finance cost during the period, Net Margins further deteriorated to -3.2%.

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 the 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 NRL's working capital requirement emanates from import of raw materials and remains a function of fluctuating crude oil prices in international markets. During the period there has been a decline in sale volumes due to lower consumption in the economy followed by infiltration of smuggled products. As a result Gross Working Capital Days stood at 85 days. The company has a sizeable amount of Short term Borrowings amounting to 41,835mln to support its working capital needs.

Coverages FCFO's turned negative owing to a loss during the period. (9MFY24: -2,106mln, (9MFY23: -11,678mln). Additionally higher finance cost during the period has also put financial constraint on the Company . Interest Coverage (EBITDA/Finance cost) during 9MFY24 stood at -0.2x (9MFY23: -0.8x)

Capitalization NRL is moderately leveraged due to short term borrowings to support its working capital needs. The further delay in payments from the trade debtors have led to more reliance on the borrowings. Leveraging as on Mar'24 stood at 60.7%

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

National Refinery Limited	Mar-24	Jun-23	Jun-22	Jun-21
Refinery	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	35,604	32,977	33,098	39,480
2 Investments	15	15	17	10
3 Related Party Exposure	-	-	-	-
4 Current Assets	83,567	78,788	69,591	36,192
a Inventories	*62,154*	*48,137*	*45,685*	*21,404*
b Trade Receivables	*13,647*	*22,915*	*16,502*	*9,032*
5 Total Assets	119,186	111,780	102,706	75,682
6 Current Liabilities	49,464	38,869	43,292	22,810
a Trade Payables	*34,953*	*28,223*	*31,917*	*16,099*
7 Borrowings	41,835	37,516	18,526	20,003
8 Related Party Exposure	57	60	52	106
9 Non-Current Liabilities	753	736	1,018	1,174
10 Net Assets	27,076	34,599	39,819	31,587
11 Shareholders' Equity	27,076	34,599	39,819	31,587
B INCOME STATEMENT				
1 Sales	236,581	298,805	251,876	139,625
a Cost of Good Sold	*(239,749)*	*(285,609)*	*(228,081)*	*(135,700)*
2 Gross Profit	(3,168)	13,197	23,795	3,925
a Operating Expenses	(1,160)	(2,483)	(2,408)	(1,823)
3 Operating Profit	(4,328)	10,713	21,387	2,101
a Non Operating Income or (Expense)	*219*	*408*	*(509)*	*239*
4 Profit or (Loss) before Interest and Tax	(4,109)	11,122	20,878	2,341
a Total Finance Cost	*(6,045)*	*(16,244)*	*(9,068)*	*(940)*
b Taxation	*2,631*	*660*	*(2,731)*	*370*
6 Net Income Or (Loss)	(7,523)	(4,463)	9,079	1,770
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(2,106)*	*3,545*	*17,758*	*6,359*
b Net Cash from Operating Activities before Working Capital Changes	*(8,395)*	*(2,167)*	*15,301*	*4,575*
c Changes in Working Capital	*5,784*	*(15,035)*	*(12,476)*	*(7,314)*
1 Net Cash provided by Operating Activities	(2,611)	(17,202)	2,825	(2,739)
2 Net Cash (Used in) or Available From Investing Activities	(1,161)	(584)	(507)	(395)
3 Net Cash (Used in) or Available From Financing Activities	4,294	17,774	(2,307)	3,189
4 Net Cash generated or (Used) during the period	522	(13)	11	55
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	5.6%	18.6%	80.4%	N/A
b Gross Profit Margin	-1.3%	4.4%	9.4%	2.8%
c Net Profit Margin	-3.2%	-1.5%	3.6%	1.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.6%	-3.8%	2.1%	-0.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-32.5%	-12.0%	25.4%	5.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	85	81	67	80
b Net Working Capital (Average Days)	48	45	32	37
c Current Ratio (Current Assets / Current Liabilities)	1.7	2.0	1.6	1.6
3 Coverages				
a EBITDA / Finance Cost	-0.2	0.3	2.0	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	-0.2	0.2	2.0	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-0.7	0.0	0.0	1.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.7%	52.0%	31.8%	38.8%
b Interest or Markup Payable (Days)	60.9	25.8	21.4	37.2

Credit Rating

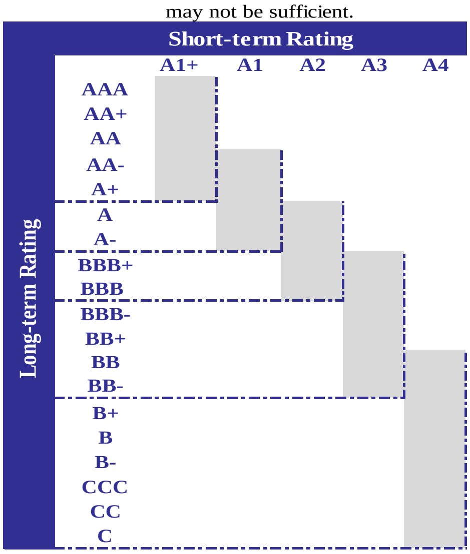
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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