National Refinery Limited (NRL)

RATINGS (JUNE 2006)
National Refinery Limited

Entity	New	Previous
Long Term	AAA	AAA
Short Term	A1+	A1+

Financial Data

PKR (mln)

	31-Mar-06*	30-Jun-05
Total Assets	23,310.3	18,432.4
Equity	7,945.2	6,699.9
Operating profit	2,451.3	2,887.0
Net Income	1,978.3	2,120.5
Gross Margin (%)	5.02	6.32
ROE (%)	27.02	34.54
EBIDTA	3,170.2	3,476.1
Total Debt / Equity (%)	n.a	n.a

** Based on 9-months figures*

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Rating Rationale

Assessment

- The ratings reflect NRL's sustained dominant market position being the only refining complex in the country with both lube and fuel operations. The ratings also recognize the company's higher operational flexibility, which is critical in the changing market dynamics. This is evident from NRL's ability to keep the margins largely insulated from the cyclicality of the refining industry. The ratings also factor in the company's very strong financial profile emanating from a debt free capital structure and robust liquidity. Meanwhile, the profit retention policy has enhanced the risk absorption capacity of the company and this provides a cushion against any unforeseen contingencies. The benefits accruing to the company from its association with the only fully integrated group in the petroleum sector of the country is also a key-rating factor.
- During FY05, the performance of the company, as measured by ROE, experienced marginal deterioration primarily due to decline in margins in the last quarter of the year. However, turnover represented a robust 50% increase YoY mainly due to substantial increase in international oil prices. Volumes also increased with more than nameplate capacity utilization during the year. The first 9-months of FY06 depicted shrinkage of overall refining margins. NRL, nevertheless, in contrast to peers, exhibited resilience during this period and the drag on margins was relatively modest. Despite declining margins, the performance during this period exhibited a moderate improvement mainly owing to higher other income as higher average cash balances generated higher interest based returns for the company. The new management was also able to curtail selling, administration and general expenses.
- Going forward, increase in smuggling of lubes and lower demand of motor gasoline could put further pressure on margins but the management is taking certain initiatives to cope with the situation. These include initiating a dormant BTX plant in which motor gasoline would be used as a feedstock. Almost half of the production is expected to be utilized domestically while the rest would be exported with similar margins. Meanwhile, the increasing sophistication of the domestic lubricants market has led to a gradual move in demand towards High Viscosity Index "HVI" Lube Base Oil (LBO), away from Medium Viscosity Index LBO. The company is also enhancing the capacity of "HVI" LBO, which is expected to be completed soon. Although the local demand for "HVI" LBO is likely to continue, the management also plans to explore export markets. At the same time, anticipating any mandatory change towards lower sulphur content in HSD composition, the management is considering conversion of a redundant kerosene hydrotreater into HSD desulphurisation unit.
- NRL, with strong cash flow generation ability, has a debt free capital structure. The funding requirement for the planned incremental capex could be met either from internal resources, external debt or a combination of the two, depending upon what is considered as the most cost-effective option at that time. Nevertheless, the low risk financial profile is likely to be maintained.

Background

- NRL, incorporated as a public limited company in 1963 was taken over by the government of Pakistan (GoP) under the Economic reforms Order, 1972. As a result of GoP's privatization process, Attock Group through its companies – Pakistan Oilfields Limited, Attock Refinery Limited and Attock Petroleum Limited – acquired majority shareholding (51%) of NRL and the management control was transferred in July 2005. With this change, some members of the senior management have also been changed. The new Chief Executive, Mr. Shuaib A. Malik, having extensive experience in both upstream and downstream segments of oil business, has been associated with the Attock Group for over two decades.
- Due to the manner in which the refinery was constructed and expanded over the years, NRL effectively comprises three refineries. The three refineries are all located at the Korangi refinery site (263 acres) and include 1) Fuel Refinery, 2) Lube I Refinery, 3) Lube II Refinery, and 4) a BTX (Benzene, Toluene, Xylene) Plant. NRL has more than one fifth share of the total refining capacity of the country with close to full average capacity utilization for the last few years.