



The Pakistan Credit Rating Agency Limited

Rating Report

BE Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Aug-2021	A+	A1	Stable	Maintain	-
28-Aug-2020	A+	A1	Stable	Maintain	-
28-Aug-2019	A+	A1	Stable	Maintain	-
28-Feb-2019	A+	A1	Stable	Maintain	-
28-Aug-2018	A+	A1+	Stable	Maintain	-
15-Feb-2018	A+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from the strong sponsorship of BE Energy, the Saudi based BE Group (previously known as the Bakri Group). The sponsor has global presence in energy related businesses, including operations in the downstream oil segment, located in various countries of Asia and Africa. Historic presence of BE Group dates back to 1994, when it operated as a supplier to PSO, subsequently participating in the OMC market in 2006. BE Energy has captured market share of ~3% as at Mar-21, gained through ~389 retail pumps spread across the country. Further, the Company holds an oil storage infrastructure of 207,725 MTs distributed between six terminals, spread across Port Qasim, Machike, Shikarpur, Daulatpur, Sahiwal and Mehmood Kot. The key product portfolio of the Company comprises of four products; HSD, MOGAS, HSFO and Lubricant, with HSD and MOGAS being key revenue generators. An additional revenue stream of hospitality income is generated through subletting of unutilized storage units. The conservative strategy adopted by BE Energy has aided in the distressed times caused by COVID-19, with gradual recovery observed in the period. BE Energy has maintained an adequate financial risk profile through moderate coverage indicators and leveraging.

The rating remains dependent on BE Energy's ability to enhance its capacity utilization, through infrastructure and supply chain development, in order to augment its market penetration and strengthen its relative position. Sustainability of bottom-line and key financial metrics, in terms of working capital ratios, financial coverages and gearing, remain crucial to the rating.

Disclosure

Name of Rated Entity	BE Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Oil Marketing Companies(Nov-20)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure BE Energy Limited (formerly Bakri Energy Limited) was incorporated as a private limited company in October 1996. The listed office of the company is situated at Shahrah e-Faisal, Karachi

Background The company had commenced its operations from Overseas Oil Trading Company (Pvt.) Limited (OOTCL) and Bakri Trading Company Pakistan (Pvt.) Limited. In 2016, the company was granted permission to merge Overseas Oil Trading Company (Pvt.) Limited (OOTCL) with and into Bakri Trading Company Pakistan (Pvt.) Limited. Pursuant to the merger, Bakri Trading Company Pakistan (Pvt.) Limited changed its name to Bakri Energy (Pvt.) Limited.

Operations Primarily, the company is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. The company has a strong presence in Sindh and Punjab region whereas its has growing presence in KPK and Gilgit-Baltistan.

Ownership

Ownership Structure The company is owned by Rawafid Investments LLC (~90.97%) which is based in UAE and 9% by Energy Petroleum Consultant Company based in Kuwait. Shareholding of Rawafid Investments LLC lies with the members of BE Group (Bakri Family). In BE Group, all five Bakri family sponsors are brothers, while their father is the Chairman of the Group.

Stability The Group Business has been governed and administered by the members of Bakri Family and they are in process of preparing a succession plan for their business in the future. So far, succession planning is not well-documented.

Business Acumen BE Group (formerly Bakri Group) was founded in 1973 initially, with the Group providing bunkering services to calling and passing vessels. Soon the group started trading in physical oil and oil products. The Group then established companies that provided shipping, time charter services, shipping management, and marine support services. BE Group continue to provide services in the Middle East, Sub- Indian and the Far East with the ambition to cover the rest of the world.

Financial Strength The financial strength of the sponsors is considered as good, as the sponsors have well diversified portfolio of profitable businesses. Sponsors have the ability to understand and deal with a "business situation" (risks and opportunities) in a manner that is likely to lead to a good outcome.

Governance

Board Structure The board of BE Energy comprises five experienced professionals. Two members are sponsors of BE Group, one is the CEO, while two member holds a key position in BE Group. All of them serve as executive members on the board of BE Energy Limited. Thus far, the board structure and size of the business operations do not justify the number of members, as the board lacks representation of independent members.

Members' Profile Mr. Zohair is the Chairman of the board. The BoD have a diversified experience and knowledge of marketing and distribution of oil. All the directors also hold a senior position in other companies of the BE group and have sound professional experience in the oil industry.

Board Effectiveness The experience of the board will help in providing useful insight into the oil & marketing and finance industry, guiding the management in developing effective operational and financial policies. There is one committee at board level; Board of Directors Committee.

Financial Transparency An unqualified opinion on the financial statements of FY-20 has been given by the auditors of the company, M/S EY Ford Rhodes.

Management

Organizational Structure The Company has a well-defined organizational structure with clear segregation of responsibilities. The operations of the company have been bifurcated into five broad functional areas which comprise: i) Operations, supply chain & logistics, ii) Projects, iii) Marketing, iv) finance and v) Human Resource.

Management Team Mr. Hussain Al Shammaa is the CEO of the company. However, he mostly resides in Kuwait. However, he takes a regular update from Mr. Javed Alam, who is the managing director (MD) of the company. Mr. Javed holds a bachelor's degree in Electrical Engineering. He has over ~40 years of total professional experience in his portfolio, howbeit, his association with the company is ~10 years.

Effectiveness To oversee the management of the company, the company has constituted committees comprising various members of the management team. The committees include i) Purchase Committee, ii) Product Pricing Committee and iii) HR Committee. The purpose of the Purchase Committee is to purchase all non-product items for the construction of depots, terminals and other construction tasks.

MIS The Company's operating environment relies on an IT infrastructure supported by ERP (Enterprise Resource Planning) solutions. The software has been acquired from M/S Sidath Hyder. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

Control Environment The Company has customer sales representatives at Karachi head office who take orders from the dealers. The orders are then punched in the system which is directed to the finance department. Finance department runs a credit check on the dealer, once cleared order is then forwarded to the operations who then fulfill the order. The company plans to develop an online portal where dealers can place their orders and track them. Once the order is fulfilled and tank lorry leaves the storage facility of the company, the dealer is responsible for the safe delivery of the product.

Business Risk

Industry Dynamics Pakistan's OMC market comprises 33 players. Consumption of Petroleum Products has reduced by ~3% over the last five years. Major drop was witnessed after FY19 due to reduced economic activities in same year, substitution of Furnace Oil by imported LNG in the power sector, and the emergence of Covid-19 in 2HFY20 adversely impacting the consumption. Total Petroleum Products consumption in FY20 was ~19mln tons (~20mln FY19).

Relative Position In the OMC Sector, 33 countries have been granted licenses, with ~15 OMCs currently operating in the country. PSO is termed to be the largest company operating in the industry and possesses major market share among its peers. BE Energy is considered a small sized player in the industry, holding only ~4% market share as of Nov-20.

Revenues The revenue of the Company took a hit early in June-20 as the pandemic was peaking out during that period, however as time progressed, a gradual rise was witnessed as the industry started to function at a normal pace, with business reopening. The gradual progression is reflected in the topline of the company at 9MFY21 period stood at PKR 40.4bln (9MFY20: PKR 37.7bln), depicting an increase of ~7.1% on a YoY basis.

Margins An opportunity to gain excess margins is available to the as the price setter for the industry is deemed to be PSO. as the company can purchase from the spot market compared to tenders floated by PSO. In terms of profitability margins of the Company, the G.P Margin considerably increased as cost of conducting business was reduced (9MFY21: 4.9% ; 9MFY20: 2.0%). Further a set back during previous peer quarter has gained momentum, with the Net Profit Margin showing positive growth at 2.5%. as at 9MFY21 (9MFY20: -1.2%).

Sustainability The management is planning to list the company on the stock exchange. The company is in the initial stage to offer its shares to the general public via IPO. Management is bearish on the market and they are waiting for the market to recover so they can get good value. Going forward, the management plans to increase its retail outlets.

Financial Risk

Working Capital The current ratio of the Company stands at 1.7x, assuring that the Company can pay its near term obligations. The Company gets 30 days to meet its payment obligations on HSD and MS imports whereas local refineries provide 14 days on all products. To meet the growing demand for oil, the company is engaged in importing fuel cargoes.

Coverages The Company's cash flow generation ability, is a function of profitability. The finance cost coverage of the Company stood at 26.5x at 9MFY21, which places confidence in the Company's ability to pay its debt obligations.

Capitalization A decrease in leveraging of the Company has been observed, as the Company decreased its borrowing during the period, establishing a capital structure of 19.3% at 9MFY21. The trend in leveraging remains volatile as the company's substantial debt represents short-term financing facilities that are used for sight LC.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

BE Energy Limited Oil Marketing Companies	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	7,059	6,922	3,980	2,955
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	3	-
4 Current Assets	5,206	4,773	12,529	10,866
a Inventories	2,108	2,774	6,847	6,571
b Trade Receivables	923	379	3,552	2,931
5 Total Assets	12,265	11,695	16,512	13,821
6 Current Liabilities	3,136	1,895	5,273	2,805
a Trade Payables	1,087	603	3,461	983
7 Borrowings	1,693	3,387	6,352	6,672
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	372	371	354	335
10 Net Assets	7,063	6,042	4,533	4,009
11 Shareholders' Equity	7,063	6,042	4,533	4,009

B INCOME STATEMENT

1 Sales	40,414	46,103	58,605	40,219
a Cost of Good Sold	(38,441)	(44,232)	(56,351)	(38,419)
2 Gross Profit	1,973	1,871	2,254	1,800
a Operating Expenses	(858)	(1,122)	(1,282)	(988)
3 Operating Profit	1,115	749	972	813
a Non Operating Income or (Expense)	377	107	420	403
4 Profit or (Loss) before Interest and Tax	1,492	856	1,392	1,215
a Total Finance Cost	(54)	(515)	(401)	(184)
b Taxation	(417)	(127)	(325)	(384)
6 Net Income Or (Loss)	1,021	214	665	647

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,270	781	1,718	1,197
b Net Cash from Operating Activities before Working Capital	1,218	311	1,410	1,074
c Changes in Working Capital	2,251	3,864	927	(6,172)
1 Net Cash provided by Operating Activities	3,470	4,175	2,337	(5,098)
2 Net Cash (Used in) or Available From Investing Activities	(363)	(866)	(1,391)	(607)
3 Net Cash (Used in) or Available From Financing Activities	(286)	(3,704)	(687)	5,764
4 Net Cash generated or (Used) during the period	2,820	(395)	259	59

D RATIO ANALYSIS

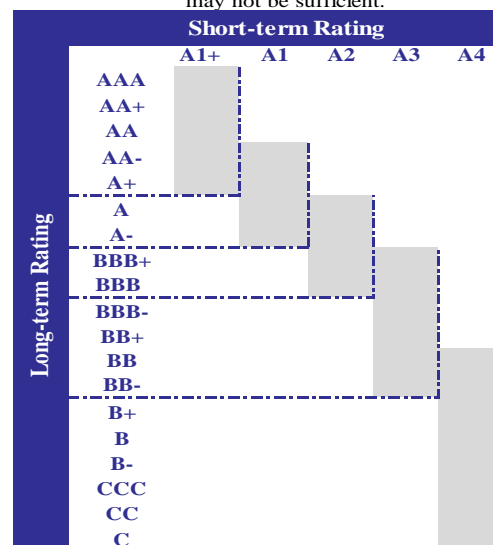
1 Performance				
a Sales Growth (for the period)	16.9%	-21.3%	45.7%	12.4%
b Gross Profit Margin	4.9%	4.1%	3.8%	4.5%
c Net Profit Margin	2.5%	0.5%	1.1%	1.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)	8.7%	10.1%	4.5%	-12.4%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]	20.8%	4.0%	15.6%	17.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	21	54	62	67
b Net Working Capital (Average Days)	15	38	48	48
c Current Ratio (Current Assets / Current Liabilities)	1.7	2.5	2.4	3.9
3 Coverages				
a EBITDA / Finance Cost	28.7	2.4	5.4	10.1
b FCFO / Finance Cost + CMLTB + Excess STB	10.2	1.3	1.3	1.4
c Debt Payback (Total Borrowings + Excess STB) / (FCFO - Finance Cost)	0.4	2.0	0.7	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings + Shareholders' Equity)	19.3%	35.9%	58.4%	62.5%
b Interest or Markup Payable (Days)	1169.2	212.4	0.0	0.0
c Entity Average Borrowing Rate	2.5%	10.0%	5.8%	6.7%

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.

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):

Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk 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.
- (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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