The Pakistan Credit Rating Agency Limited

Rating Report

PARCO Pearl Gas (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2023	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

PARCO Pearl Gas (Private) Limited (PPGL, the company), a wholly owned subsidiary of Pak Arab Refinery Limited, is the largest LPG Marketing companies of the Country. The Company has a strong presence in Pakistan's LPG sector for over four decades. The Company is successfully marketing their product under brand names; Pearl Gas and Super Gas. The company has largest market share of ~12% and caters to market needs of all three segments; Domestic, Commercial & Industrial. The demand from the customers are need-driven, which perpetually increases, as the energy starved industry doesn't have access to uninterrupted supply or any other viable alternatives. Success is pivotal on sound supply chain management through various LPG suppliers and fulfilling the ever-increasing demand through a well-managed fleet of logistical infrastructure. PPGL handles the volumes in excess of ~160,000 MT annually with 8 filling plants, 6 hospitalities and 5 gas distribution centers through their diversified presence at strategic locations in the Country with storage capacity of 3,575 MTons combined with the nation-wide network of 579 distributors and 1,162 B2B customers. The volumes of the Company are increasing over the period and during 9MFY23, the Company has witnessed the revenue growth of 41.6%. The Company is currently procuring major share of LPG from its parent company, direct inputs along with a few E&P companies. PPGL has a favorable capital structure with no debt on its balance sheet. In addition, to enhance business volumes company is aggressively working on new initiatives including integration of supply chain through terminal and pipeline network, the support will be mainly driven from the strengthened equity base (9MFY23: 2.7bln, FY22: PKR 1.9bln) and sound liquidity position, providing comfort to financial risk matrix. The cost structure is being managed; distribution costs, going forward, should be the main focus of the management.

The assigned ratings continue to derive strength from the strong sponsor with vast experience in the oil and gas sector, experienced management, including strong technical and operational support from the parent company PARCO. The ratings are dependent on sustained business model and its share in the overall country's LPG movement. Sustainability in system share remains vital for the ratings. Meanwhile, adherence to strong performance indicators is imperative.

Disclosure

Name of Rated Entity	PARCO Pearl Gas (Pvt.) 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 | Distribution | Gas(Jun-22)
Rating Analysts	Ahsan Zahid | ahsan.zahid@pacra.com | +92-42-35869504

Profile

Legal Structure PARCO Pearl Gas (Pvt.) Limited (PPGL, the company) was incorporated in Pakistan on 16th January 1982 as a private limited company. Pak Arab Refinery Limited (PARCO), a joint venture between Government of Pakistan and the Emirates of Abu Dhabi, acquired 100% shareholding of the company on 1st October 2012.

Background PPGL operates in Liquefied Petroleum Gas (LPG) sector in Pakistan. The company has had a strong presence in Pakistan's LPG sector for over four decades and was previously known as SHV Energy Pakistan and later acquired by PARCO.

Operations The company is principally engaged in the business of sale of Liquefied Petroleum Gas (LPG) as well as its related equipment and accessories. The company's main business is storage, bottling and marketing of LPG. PPGL deals in Retail and Bulk segments. Retail segment constitutes distributorship network across the whole country and bulk segment includes industrial customers including textile sector, ceramics, and food industry etc. The company is dependent on local LPG sources. The company has 08 filling Plants, 06 hospitality plants, 05 gas centers and 03 gas shops throughout the country. PPGL is managing the fleet of 80 vehicles (bowsers) which are company & contractor owned for LPG transportation.

Ownership

Ownership Structure PPGL is a wholly owned subsidiary of Pak Arab Refinery, a joint venture between Government of Pakistan and Emirates of Abu Dhabi.

Stability In its 40 plus years in Pakistan the company has amassed vast experience in serving the needs of Pakistan's energy market, and offers customized energy solutions for a wide range of applications for domestic, industrial, and commercial consumers. Considering the importance of the company, stability is considered strong.

Business Acumen PARCO stake in PPGL provides entire operational efficacy. PARCO is one of the leading name in the refinery sector of Pakistan, capturing market share of ~45% of the total domestic supply of Petroleum products.

Financial Strength Strong ownership structure demonstrated by PARCO, acts as a backbone for PPGL, providing absolute operational as well as financial support, whenever the need arises.

Governance

Board Structure The Company's overall control is overseen by six-member Board of Directors, all nominated by PARCO.

Members' Profile Capt. (Retd) Muhammad Mahmood, Additional Secretary In-charge Petroleum Division is the chairman of the Company having more than two decades of diversified experience. PPGL's board comprises of highly qualified members, mostly from well-renowned institutions.

Board Effectiveness During 9MFY22, the Board held multiple meetings, to approve financial results. Board committees are in place to oversee the business conduct.

Financial Transparency PPGL's Auditor, EY Ford Rhodes Chartered Accountants, one of the big four firms, have satisfactory QCR Rating from the Institute of Chartered Accountants of Pakistan and classified in category "A" on the panel of auditors maintained by the State Bank of Pakistan under section 35 of Banking Companies Ordinance, 1962. They have expressed an unqualified opinion on the company's financial statement as at end-Jun 22.

Management

Organizational Structure PPGL has a lean organizational structure with an experienced management team and a balanced mix of professionals.

Management Team Mr. Kashif Siddiqui is the CEO of PPGL. He brings vast experience of almost 30 years. He has previously worked in PSO.

Effectiveness Over the years PPGL's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making cause processes more systematic while the robustness of control systems is considered a reflection of strong management.

MIS The company generates MIS reports on daily, fortnightly, monthly, and annual basis. These mainly include daily cash position, saleable stock position and Accounts section MIS, monthly debtors aging, monthly management accounts, and Annual Financial Statements.

Control Environment PPGL has implemented – SAP – Enterprise Resource Planning (ERP) solution, to streamline planning and coordination across business lines, thereby increasing overall efficiency.

Business Risk

Industry Dynamics Natural gas is a universal fuel and a major contributor of energy to Pakistan. LPG is used an alternative to Natural Gas and due to the continuous depletion of gas reserves and no significant discoveries, consumers are diverting to alternative resources. There are 300 companies selling LPG throughout the country and nearly ~1,500,000 MT of volumes sold in a year. Meanwhile, work on various projects; importing indigenous gas, addition of RLNG through regasification terminals and respective enhancement of pipeline capacities to meet the supply deficiency.

Relative Position PPGL has the largest market share in business to business and business to consumer market with ~12% market share.

Revenues PPGL has performed very well in last few years and during 9MFY23 successfully earned revenues amounting to PKR 22.219bln. Though the LPG prices are regulated by OGRA but being the market leader in LPG consumer market company's topline has achieved 20bln mark on back of increased volumes. Company has successfully achieved 150,000 MT mark in volume handling during 9MFY23 (FY22: 140,000).

Margins PPGL operates in a regulated market. Therefore, Net profit margins remain consistent at 4%. However, company has increased the bottom line to PKR 822mln during 9MFY23 from PKR 753mln in FY22.

Sustainability PPGL is managing the fleet of 80 vehicles (bowsers) which are company & contractor owned for LPG transportation. These trucks are automatic and have the capacity to carry upto 30,000 Kg of LPG. Furthermore, company is planning to enhance its storage capacity by 2500 MT in next 3 years. And also working to enhance its delivery operations in retail sector.

Financial Risk

Working Capital Working capital requirements is fulfilled sufficiently by company's internal cash flows. Company is managing its working capital really well as evident from net working capital days of -10 during 9MFY23 (FY22: -9 days). The company does not face any liquidity crunch and has not availed any short term borrowings.

Coverages Company is able to generate sufficient free cash flows from its operations; 9MFY23: 522mln, FY22: 723mln, FY21: 498mln. Company does not have any significant borrowings hence interest coverage ratio reached 156.5x during 9MFY23 (FY22: 81.3) and debt coverage ratio stands at 23.8x in the same period (FY22: 25.6).

Capitalization Company has a very healthy capital structure which is evident from its leveraging ratio. Leveraging of the company is only 3.7% at end Mar 23 (FY22: 5.8%). Going forward, with the launch of product diversification the company's leveraging is expected to increase in near future.

Financial Summary

PKR mln

The Pakistan Credit Rating Agency Limited

PARCO Pearl Gas (Pvt.) Ltd Distribution | Gas	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	2,201	1,192	1,029	1,090
2 Investments	2,156	2,629	1,004	1,000
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,576	1,409	1,858	1,232
a Inventories	*500*	*332*	*111*	*111*
b Trade Receivables	*235*	*142*	*91*	*65*
5 Total Assets	6,933	5,229	3,891	3,323
6 Current Liabilities	2,535	1,765	881	542
a Trade Payables	*1,626*	*1,127*	*539*	*280*
7 Borrowings	104	119	91	83
8 Related Party Exposure	-	-	28	5
9 Non-Current Liabilities	1,569	1,393	1,271	1,225
10 Net Assets	2,724	1,952	1,620	1,467
11 Shareholders' Equity	2,724	1,952	1,620	1,467
B INCOME STATEMENT				
1 Sales	22,219	20,924	9,577	6,256
a Cost of Good Sold	*(20,056)*	*(19,533)*	*(8,738)*	*(5,731)*
2 Gross Profit	2,163	1,390	839	525
a Operating Expenses	(1,341)	(638)	(448)	(402)
3 Operating Profit	822	753	390	123
a Non Operating Income or (Expense)	*328*	*238*	*124*	*174*
4 Profit or (Loss) before Interest and Tax	1,149	991	515	297
a Total Finance Cost	*(3)*	*(12)*	*(8)*	-
b Taxation	*(374)*	*(324)*	*(154)*	*(91)*
6 Net Income Or (Loss)	772	654	353	206
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*522*	*723*	*357*	*620*
b Net Cash from Operating Activities before Working Capital Changes	*522*	*723*	*357*	*613*
c Changes in Working Capital	*609*	*385*	*203*	*75*
1 Net Cash provided by Operating Activities	1,131	1,108	560	688
2 Net Cash (Used in) or Available From Investing Activities	(803)	74	175	(97)
3 Net Cash (Used in) or Available From Financing Activities	(17)	(345)	(217)	(307)
4 Net Cash generated or (Used) during the period	310	838	518	284
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	41.6%	118.5%	53.1%	N/A
b Gross Profit Margin	9.7%	6.6%	8.8%	8.4%
c Net Profit Margin	3.5%	3.1%	3.7%	3.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.1%	5.3%	5.8%	11.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	44.0%	36.6%	22.9%	14.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	7	6	7	10
b Net Working Capital (Average Days)	-10	-9	-8	-6
c Current Ratio (Current Assets / Current Liabilities)	1.0	0.8	2.1	2.3
3 Coverages				
a EBITDA / Finance Cost	350.0	136.8	99.3	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	23.8	25.6	18.1	82.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.2	0.3	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	3.7%	5.8%	5.3%	5.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	N/A
c Entity Average Borrowing Rate	4.0%	8.5%	9.7%	0.0%

Credit Rating

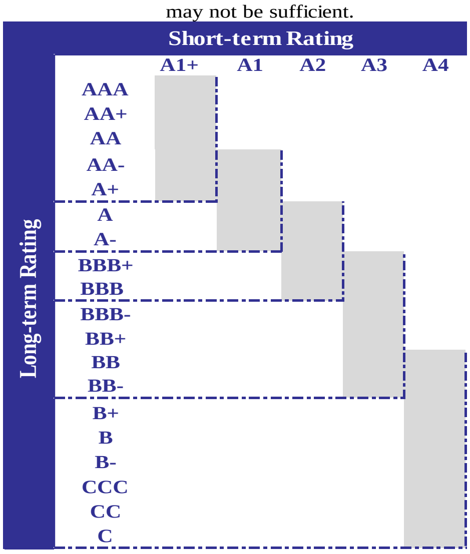
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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)
Proprietary Information