The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan National Shipping Corporation

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	AA	A1+	Stable	Maintain	-
23-Dec-2022	AA	A1+	Stable	Maintain	-
24-Dec-2021	AA	A1+	Stable	Maintain	-
24-Dec-2020	AA	A1+	Stable	Maintain	-
26-Dec-2019	AA	A1+	Stable	Maintain	-
27-Jun-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
29-Jun-2018	AA	A1+	Stable	Maintain	-
29-Dec-2017	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect PNSC's strong ownership - majority owned by the Government of Pakistan (89.13%) - and its strategic significance as the country's national flag carrier. The Corporation operates on a "One Vessel One Company" basis. PNSC’s business profile has gained significant strength in recent years on account of efficient fleet utilization and cost management measures taken by the management. Revenues emanate from a mixture of liquid and dry cargo, with liquid cargo bearing a higher weightage. Corporation's revenues in 1QFY24 and FY23 surged on the account of steep increase in AFRA and exchange rates. Moreover, after disposal of one tanker, M.T. Karachi, the position was maintained due to the inclusion of two oil tanker vessels M.T. Mardan and M.T. Sargodha, however, total seaborne trade of Liquid Bulk showcased a decreasing trend. The Dry Bulk segment total trade has also been decreasing due to high shipping rates, surged due to macro economics factors. However, the effect is now settling down and the industry is recovering. Similarly, the Company showcased a recovering trend in the volumes shipped in Dry Bulk Segment. Furthermore, globally, the freight and charter rates have remained under pressure and the industry has remain strained, however are rebounding back to normal. While, the volatility in crude oil prices remains pertinent. Despite uncertain factors of the industry, PNSC is successfully following prudent financial discipline alongside the growth trajectory. Also, corporation is persistently working to further increase the fleet size. Additions in managed fleet will significantly support the existing revenue base of 12 vessels, and generate better topline & profit margins than from chartered-hire vessels business. This factor, put along with the Corporation's on-balance sheet liquidity, is a support to the overall risk profile.

The ratings are dependent on the Corporation's ability to generate amicable cash flows post expansion. Meanwhile, sagacious financial discipline is imperative.

Disclosure

Name of Rated Entity	Pakistan National Shipping Corporation
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-23)
Related Research	Sector Study | Shipping(Jun-23)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan National Shipping Corporation (herein referred to as the "PNSC" or "the Corporation") is an autonomous Corporation, functioning under the control of the Ministry of Maritime Affairs, Government of Pakistan. The Corporation is listed on the Pakistan Stock Exchange since 1980, and has nineteen subsidiaries and one associate concern.

Background PNSC came into existence by the merger of National Shipping Corporation (NSC) and Pakistan Shipping Corporation (PSC) in 1979 through Pakistan National Shipping Corporation Ordinance, No XX, 1979. The Corporation is entirely autonomous and is managed by its Board of Directors (BoD).

Operations PNSC, being the national flag carrier of Pakistan, is involved in the transportation of dry bulk and liquid cargoes globally through managed and chartered vessels. The Corporation manages a fleet of 12 vessels, consisting of 7 tankers and 5 bulk carriers. The cargo carrying capacity of PNSC stands at ~938,876 DWT as at End-Sep'23. A small portion of PNSC's operations also comprises income from real estate business.

Ownership

Ownership Structure PNSC is majorly owned by the Government of Pakistan (GoP) (87.56%), through the Ministry of Maritime Affairs, followed by the PNSC Employees Empowerment Trust (1.57%), bringing the total GoP holding to 89.13%

Stability Stable ownership structure exists, with the GoP possessing majority stockholding in the Corporation, since its formation.

Business Acumen The Corporation was formed under constitutional protection with an objective of providing the country with a national flag shipping service. Major stakeholder in the Corporation is the GoP. Business acumen is, therefore, considered strong

Financial Strength Financial strength of the owners is deemed strong because of the ownership of GoP.

Governance

Board Structure The Corporation's Board of Directors comprises members nominated by the Federal Government and minority shareholders. A seven member Board exists, with five of these directors (including the Chairman) nominated by the GoP.

Members' Profile Rear Admiral Jawad Ahmed, SI (M), the Chairman and CEO of PNSC, joined the corporation in Sep'22. He has done his specialization in navigation. The Officer has held various Command and Staff appointments which include Commanding Officer of a Gun Boat, Executive Officer of a Destroyer and Commanding Officer PNS SAIF (Frigate). Besides this, The Admiral has also served as Fleet Navigation and Direction Officer at Fleet Headquarters and SI at PN War College. Director Naval Intelligence (Operations), Defence Attache (Pakistan) in Malaysia, Commandant Pakistan Naval Academy, Commander West at Gwadar and as Hydrographer of Pakistan

Board Effectiveness The board has formed four committees (i) Audit & Finance Committee, (ii) HR, Nomination & CSR Committee, (iii) Strategy & Risk Management Committee, (iv) Vessel Procurement Committee

Financial Transparency The board ensures financial transparency. The corporation has an effective internal audit department. GT Anjum Rehman Chartered Accountants & Yousuf Adil Chartered Accountants are the External Auditors. They have expressed an unqualified opinion and review on the consolidated financial statements for the year ended June 30th 2023.

Management

Organizational Structure PNSC has a well-defined organizational structure with a professional management team.

Management Team Seasoned professionals, having long association with PNSC hold the key management positions in the Corporation. Rear Admiral Jawad Ahmed, SI (M), the Board Chairman, also acts in the capacity of the CEO, as per the PNSC Ordinance, 1979.

Effectiveness In order to keep an effective oversight of the business operations, twelve management committees are in place comprising various key management personnel.

MIS PNSC deploys Enterprise Resource Planning software – "Ship Management Expert System" (SES) – for its MIS reporting. The system provides online link between vessels and head office. The Corporation employs 'Purple Finder' – an international satellite system, to track its vessels with the help of equipment trackers that have been installed in the fleet.

Control Environment The Corporation relishes on strong governance practices and discrete management system. A tall organization structure with clearly defined lines of responsibilities exist. This is accompanied by an integrated well-versed information system to support functions pertinent to a shipping corporation

Business Risk

Industry Dynamics PNSC having a total DWT capacity of 938,876 metric tons lifted cargo of about 10.83 million tons (FY 2022: 11.97 million tons) during the year under review, which is equivalent to about 13.06% (FY 2022: 11.21%) of country's total 82.95 million tons (FY 2021: 106.820 million tons) seaborne trade by volume. Liquid bulk comprises import of crude oil variants by the oil and gas sector, particularly refineries and OMCs. White oil import (such as MOGAS) is becoming the new mania of the era as the global and domestic market witness a shift in energy mix to "clean oil". The shipping sector benefited from global economic environment.

Relative Position In liquid bulk cargo, PNSC has a considerable share (~32%), whereas in dry bulk, the Corporation possesses a share of ~2.9%. PNSC is privileged of being the sole national flag carrier with a fleet of bulk carriers and oil tankers, comprising 100% Pakistan fleet.

Revenues During FY23, PNSC generated highest turnover, in its history, of PKR 54,771mln as compared to PKR 27,714mln in the corresponding period. The factors leading to improved financial performance of the group includes induction of two new tanker vessels M.T. Mardan and M.T. Sargodha. Moreover, during 1QFY24, company's revenues declined slightly and stood at PKR 13,335mln (1QFY23: PKR 14,431mln).

Margins During FY23, due to exponential increase in revenue, the gross profit margin and net profit margin increased to 50% and 55% as compared to 30% and 20% respectively at end Jun-22.

Sustainability PNSC has successfully executed the business expansion plan and inducted two tanker vessels M.T. Mardan and M.T. Sargodha which also resulted in an increase in liquid cargo weight capacity by 214,246 MT. Corporation is also aggressively pursuing to induct one Aframax, one Ultramax and one Chemical tanker in the fleet of its managed vessel by the end of current fiscal year.

Financial Risk

Working Capital During FY23, working capital needs were low. In line with the Shipping Industry dynamics, PNSC's working capital management comprises need for funding receivable and payable days only. The Corporation meets its working capital needs from internal cash flow generation. A well-balanced cash conversion and payment cycle exists within the business model as evident from its impressive gross working capital days (FY23: 14 days, 1QFY24: 13 days) and net working capital days (FY23: 11 days, 1QFY24: 10 days).

Coverages During FY23 PNSC's cashflows (FCFO) – a function of EBITDA – increased by whopping 306% YoY. However, in 1QFY24 company FCFO's declined by 9%. Interest Coverages improved to 19.6x at FY23 from 17.1x in FY22. Core operating coverage decreased but stood strong at 4.7x as at FY23 (FY22: 6.0x) due to high CMLTB of PKR 4.4bln.

Capitalization PNSC paid dividend worth of PKR 1,287mln in FY23. The corporation has a low leveraged structure and stood at 9.4% as at FY23 due to high PAT of PKR 29,994mln. As at 1QFY24, due to repayment of previous loan and high unappropriated profit the leveraging decreased to 4.4%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Pakistan National Shipping Corporation Shipping	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	35,990	36,079	26,921	28,024
2 Investments	35,604	30,633	11,416	10,343
3 Related Party Exposure	3,221	3,914	3,205	2,729
4 Current Assets	14,213	15,365	11,854	5,495
a Inventories	-	-	-	-
b Trade Receivables	*1,691*	*2,055*	*2,106*	*704*
5 Total Assets	89,027	85,990	53,396	46,591
6 Current Liabilities	7,332	6,828	5,691	2,473
a Trade Payables	*367*	*482*	*459*	*263*
7 Borrowings	3,571	7,342	4,609	6,136
8 Related Party Exposure	-	-	-	183
9 Non-Current Liabilities	775	740	713	680
10 Net Assets	77,348	71,080	42,383	37,120
11 Shareholders' Equity	77,348	71,080	42,383	37,120
B INCOME STATEMENT				
1 Sales	13,355	54,771	27,714	12,789
a Cost of Good Sold	*(7,129)*	*(27,578)*	*(19,713)*	*(9,917)*
2 Gross Profit	6,226	27,193	8,001	2,871
a Operating Expenses	(420)	(1,609)	(2,569)	(1,316)
3 Operating Profit	5,807	25,585	5,432	1,555
a Non Operating Income or (Expense)	*1,660*	*7,703*	*1,396*	*1,445*
4 Profit or (Loss) before Interest and Tax	7,467	33,288	6,828	3,000
a Total Finance Cost	*(401)*	*(1,411)*	*(531)*	*(558)*
b Taxation	*(797)*	*(1,882)*	*(647)*	*(177)*
6 Net Income Or (Loss)	6,269	29,994	5,650	2,265
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*6,036*	*27,139*	*8,860*	*3,601*
b Net Cash from Operating Activities before Working Capital Changes	*5,618*	*25,908*	*8,351*	*3,064*
c Changes in Working Capital	*836*	*(1,985)*	*(374)*	*105*
1 Net Cash provided by Operating Activities	6,454	23,923	7,977	3,169
2 Net Cash (Used in) or Available From Investing Activities	(10,294)	(8,354)	3,787	(4,249)
3 Net Cash (Used in) or Available From Financing Activities	(3,771)	1,442	(1,927)	(1,631)
4 Net Cash generated or (Used) during the period	(7,612)	17,010	9,836	(2,711)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.5%	97.6%	116.7%	-7.4%
b Gross Profit Margin	46.6%	49.6%	28.9%	22.5%
c Net Profit Margin	46.9%	54.8%	20.4%	17.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	51.5%	45.9%	30.6%	29.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	33.8%	52.9%	14.2%	6.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	13	14	19	27
b Net Working Capital (Average Days)	10	11	14	17
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.3	2.1	2.2
3 Coverages				
a EBITDA / Finance Cost	16.5	20.7	18.3	7.1
b FCFO / Finance Cost+CMLTB+Excess STB	9.9	4.7	6.0	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.3	0.6	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	4.4%	9.4%	9.8%	14.5%
b Interest or Markup Payable (Days)	33.4	42.5	10.7	10.7
c Entity Average Borrowing Rate	22.0%	18.8%	9.4%	7.8%

Credit Rating

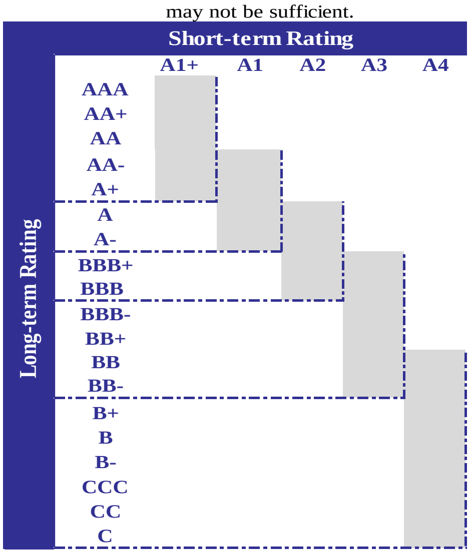
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)
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