



The Pakistan Credit Rating Agency Limited

PAKISTAN REFINERY LIMITED

ENTITY RATINGS REPORT

	NEW [JUN-17]	PREVIOUS [JUN-16]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSIS
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

JUNE 2017

Profile

- Pakistan Refinery Limited (PRL), having refining capacity of 2.1mln tons per annum, is operational since Oct'62. Majority shareholding in PRL is held by Shell Petroleum Company Limited, UK, and (30%) Pakistan State Oil Company Limited (22.5%), HASCOL (14%).
- Chevron intends to sell its entire stock in the company. The transaction is currently under litigation on the basis of shareholder agreement between Class B shareholders.
- Shell has offered 26.67% stake in the company to PSO. The transaction is currently under regulatory approvals. Once concluded, PSO will become major shareholder in the company.
- The company has eleven member board (including the CEO) – six representing sponsoring companies (currently three from PSO, two from Shell and one Chevron), two directors from Hascol and one independent director.
- Mr. Aftab Husain, PRL's CEO, Chemical Engineer has been associated with PRL for over three decades. He is supported by a team of qualified and competent individuals.

Performance

- During 9MFY17, PRL witnessed a marginal increase in its turnover on a YoY basis ~1% mainly on account of an increase in the prices of petroleum products in the international market during most part of the period.
- Marginal increase in the overall operational expenses alongwith the finance cost exerted negativity on the bottomline. However, the positive contribution to GRMs due to ISOM helped in generating healthy profitability on a YoY basis (9MFY17: PKR 1,066mln, 9MFY16: of PKR860mln).

Business Strategy

- Going forward, the refinery is continuing to work on the Refinery Expansion and Up-gradation Project (REUP). The Diesel Hydrodesulphurization Unit (DHDS), which is part of the REUP will make the refinery become compliant with the Government of Pakistan's requirement to produce EURO II compliant Diesel. The company has received a feasibility report prepared by an international consultant engaged for evaluating different technological variants for expansion and up-gradation of the refinery including installation of DHDS

Working Capital & Cashflows

- PRL's working capital requirement emanate from its need to finance its inventory and circular debt, which usually results in net receivable position to the company.
- PRL's cash flow generation ability remains a function of its profitability and working capital requirements. During 9MFY17, healthy profitability helped in improving the company's cash flows. The company's coverages remained positive yet remained below the adequate level

Capital Structure

- PRL raised its equity during last year through a right issue amounting to PKR 2.59bln. The subscription money was received against the planned right issue of PKR 2.8bln. The remaining amount of PKR 210mln is subject to a restraining order that has been obtained from the court by one of the class B shareholder against the other class B shareholder.
- PRL has a long term loan of PKR 2bln obtained for an up-gradation project (Isomerization). The said loan will be repayable in ten semi-annual payments with a maturity of seven years @ 6MK+175bps. The repayments would commence during FY18.

Debt Instrument

- TFC II, carrying fixed profit rate of 10.75%, has a tenor of 5 years and will be due for maturity in Dec'18. Although principal repayment is at maturity, these instruments carry perpetual Put option. TFCs is secured by way of Hypothecation of a) Stocks and Receivables & b) Fixed Assets with certain margin

RATING RATIONALE

The ratings reflect strong business profile of PRL emanating from its sustainable operational history, strong demand of its products, and its strategic importance in the domestic context. The design of PRL's plant offers relatively limited flexibility; in turn, low margin and high exposure to volatile dynamics of international crude oil and refinery product pricing. However, with the successful commissioning of Isomerization plant, the company experienced volumetric growth in petrol, a high-margin product, which boosted profitability. The incremental cashflows are adequate considering size of the related debt obligations. In addition, the favorable oil prices supplemented the profitability and hence cashflows. The company is targeting up – gradation (Hydro-desulphurisation) and expansion (enhancing refinery existing capacity) projects.

KEY RATING DRIVERS

The ratings could be impacted by prolonged constrain in refining margins and/or adverse changes in the existing regulatory framework leading to depressed core cashflows. The company has conducted a leveraged up-gradation of its operating platform. Since repayment pattern is aligned to expected cash flows, timely settlement of obligation is important. Prudent management of new borrowings related to expansion, thereby impacting coverages, is important.



Pakistan Refinery Limited

BALANCE SHEET

	30-Mar-17	30-Jun-16	30-Mar-16	30-Jun-15
	3QFY17	Annual	3QFY16	Annual
Non-Current Assets	12,377	12,390	12,163	12,601
Investments (Incl. associates)	87	85	82	91
Equity	87	85	82	91
Current Assets	15,320	12,302	22,487	18,061
Inventory	8,027	5,090	4,378	5,516
Trade Receivables	5,223	5,211	12,169	6,231
Others	2,070	2,001	5,941	6,314
Total Assets	27,785	24,777	34,733	30,753
Debt	10,453	10,561	20,117	11,316
Short-term	8,218	6,594	16,129	7,194
Long-term (Incl. Current Maturity of long-term debt)	2,235	3,967	3,988	4,123
Other shortterm liabilities	13,941	11,787	11,831	17,514
Other Longterm Liabilities	246	261	140	138
Shareholder's Equity	3,145	2,167	2,645	1,785
Total Liabilities & Equity	27,785	24,777	34,733	30,753

INCOME STATEMENT

Turnover	50,011	64,733	49,754	91,175
Gross Profit	1,754	1,990	1,936	(677)
Net Other Income	381	(140)	83	187
Financial Charges	(456)	(909)	(688)	(707)
Net Income	1,066	283	860	(1,182)

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,255	2,050	2,168	(1,017)
Net Cash changes in Working Capital	(721)	(2,059)	(8,931)	2,021
Net Cash from Operating Activities	1,141	(1,071)	(7,383)	(56)
Net Cash from Investing Activities	(762)	(520)	(266)	(4,616)
Net Cash from Financing Activities	(295)	(637)	9,010	5,195

Ratio Analysis

Performance				
Turnover Growth	0.5%	-29.0%	-29.7%	-35.9%
Gross Margin	3.5%	3.1%	3.9%	-0.7%
Net Margin	2.1%	0.4%	1.7%	-1.3%
ROE	45.2%	11.7%	46.0%	-68.3%

Coverages

Interest Coverage (FCFO/Gross Interest)	4.9	2.3	3.2	-1.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.4	0.2	0.3	-0.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.4	0.2	0.3	-0.1
Debt Payback (Total LT Debt Incl. Uncovered Total STBs) / (FCFO-Gross Int.)	3.8	8.8	4.8	-6.2

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	0	0	13	2
--	---	---	----	---

Capital Structure (Total Debt/Total Debt+Equity)	0.0%	0.0%	88.4%	86.4%
---	-------------	-------------	--------------	--------------

CREDIT RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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+	Moderate risk. Possibility of credit risk developing.	
BB	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+	High credit risk.	
B	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	Very high credit risk. Substantial credit risk	
CC	“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.	

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

Pakistan Refinery Limited
 Refining
 Solicited

Purpose of the Rating

Independent Risk Assessment
 Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Jun-17	A-	A2	Stable	Maintain
29-Jun-16	A-	A2	Stable	Maintain
30-Jun-15	A-	A2	Stable	Maintain
30-Jun-14	A-	A2	Stable	Maintain
06-May-13	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology (2016)
 Refining Sector study | Oct-16

Rating Analysts

Aman Zafar
aman.zafar@pacra.com
 (92-42-35869504)

Rai Umar Zafar
rai.umar@pacra.com
 (92-42-35869504)

[Rating Team Statement](#)**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)**Rating Shopping**

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on

investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such

cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity

to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance

PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[Probability of Default \(PD\)](#)

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