



The Pakistan Credit Rating Agency Limited

Rating Report

Bakri Energy Limited

Report Contents

1. Rating Analyses
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Feb-2018	A+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Bakri Energy's association with a strong sponsor - Saudi based Bakri Group. The company has a growing presence in competitive oil marketing industry. Over the years, Bakri Energy has managed to gain 3% market share and has 300 retail outlets. Bakri Energy capitalizes on second largest oil storage infrastructure of over 180,825 MTs spread across three terminals at Port Qasim, Machike and Shikarpur. The company's significant ongoing and expected investment in infrastructure (storage, supply chain, and retail outlets) will facilitate sustainable growth. The company has witnessed stable growth in revenues where one-third of the revenue is generated from sales of Furnace Oil. Due to lower consumption of Furnace Oil in the country, the management intends to diversify the revenue stream and improve earnings: Bakri Energy plans to focus on retail clients and enhance its supply chain infrastructure by setting-up its own supply chain company. To nurture its retail penetration the company is 1) rebranding its outlets on model lines in a phased manner, 2) open new outlets along CPEC route and in the central parts of the country (mainly Punjab) where it has currently, low share, and 3) laying down supportive storage capabilities to ensure timely availability of its products. The rating is supported by strong management structure reflected by three management committees in place to efficiently procure and deliver the product. In order to support expansion, the company would be using a combination of debt and initial public offering proceeds. Bakri Energy has healthy financial risk profile with strong coverage indicators and low leveraging. Currently, the company has no long-term debt whereas short-term borrowing needs emanate from working capital management. Given its plans, the debt level would go up but moderately.

In addition to the timely development of infrastructure and supply chain, the ratings are dependent on Bakri Energy's ability to build broad-based market penetration. This should help to minimize the impact of constrained demand of FO.

Disclosure

Name of Rated Entity	Bakri Energy Limited
Type of Opinion	Entity
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(2017-07-27), Methodology Correlation between long-term and short-term rating scale(2017-06-30), Methodology Criteria Modifiers(2017-06-30)
Related Research	Sector Study Oil Marketing Companies(2017-06-23)
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BAKRI ENERGY LIMITED - PROFILE	
Incorporated	1996
Commenced operations	2007
Major business lines	Procurement, storage, distribution, marketing and import of petroleum products and lubricants.
Legal status	Public Limited (unlisted)
Number of Outlets	300
Storage Capacity	180,825 Mts
Storage Locations	Port Qasim, Machike, Shikarpur

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Pakistan consumed a total of ~26mln metric tons (MT) of petroleum products (POL) in FY17, ~9.4% higher than the same period last year. ▪ With a refining capacity of ~13mln MT, the country meets a significant portion of its POL demand through imports. ▪ More than twenty OMCs are operating in the domestic sector to transport and supply fuel to the country.

OWNERSHIP

- The company is owned by Rawafid Investments LLC based in UAE. Shareholding of Rawafid Investments LLC lies with the members of Bakri Group (Bakri Family). The Company has initiated plans to enhance its board to seven members while also adding independent directors.
- The main activities of Bakri Group are concentrated in oil and energy trading, shipbuilding and ship repair, seaports and marine services, ship and airport refueling, ship management and international chartering.
- The sponsors have significant industry related experience.

GOVERNANCE

- The board of Bakri Energy comprises four experienced professionals. Two members are sponsors of Bakri Group and other two member are group executives. The company initiated plans to enhance its board size to 7 members while also adding independent directors.
- All members, notably sponsor director is actively involved in the oversight of the company. Mr Hussain Al Shammaa is the CEO of the company. He has been involved in the oil business since last 35 years. He was previously with Kuwait Petroleum Company (KPC). He is well renowned in the oil industry of Pakistan.

MANAGEMENT & CONTROLS

- Bakri Energy has a lean organizational structure with clear segregation of responsibilities, experience management team and a balanced mix of professionals.
- There are three management committees in place i) Purchase Committee, ii) Product Pricing Committee and iii) Human Resource Committee.
- The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.
- Bakri Energy relies on its well-developed infrastructure – three storage terminals and supply chain supported by a strong tank-lorry fleet and pipelines network– for transportation of petroleum products pan-Pakistan.

BUSINESS RISK

- Bakri Energy occupied 3% market share in FY17.
- During FY17, topline (PKR 36bln) increased 50%; wherein, major benefit ripped through price hikes. Whereas the volume of MOGAS decreased by ~7.5% (FY17: 237mln MT, FY16: 256mln MT) similarly HSD decreased by 10% (FY17: 240mln MT, FY16: 267mln MT) only FO demand increased by 9 %.
- Consequently, gross margins increased from 4.4% in FY16 to 6.5%.
- During 1H FY18, the performance continued following same trend line; growth in revenue of 18.2% YoY translated into revenue of PKR 19.6bln.
- Going forward, the company plans to focus on retail clients to improve and sustain profitability and diversify revenue stream while enhancing the share. To nurture its retail operations the company is 1) rebranding its outlets on model lines in a phased manner, 2) open new outlets along CPEC route & in the central parts of the country mainly Punjab where it has low share, & 3) laying down supportive storage capabilities to ensure timely availability of its products.

FINANCIAL RISK

- Bakri Energy has a well-managed working capital. In distress situations, the company has standing credit lines from banks. Company's net working capital days declined from 27 days in FY17 to 20 days in 1H FY18.
- FCFO coverage changed form 0.6x in FY16 to 2x in FY17.
- The current low levels of debt resulted in improvement in the company's coverages on a YoY basis (FY17:9.6x, FY16:4.3x).

CAPITAL STRUCTURE

- The company currently has a low leveraged capital structure. The company's capital structure stood at 33% as at 1H FY18 (FY17: 22%). The trend in leveraging remains volatile as the company's almost entire debt represents short-term financing facilities for working capital management.
- The planned capex will be financed through equity and proceeds from IPO. The company uses overdraft facility to manage its working capital requirements. The company might raise bridge financing until IPO.



Bakri Energy Limited.

PKR mln

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16
	6M	FY17	FY16
Non-Current Assets	2,804	2,691	2,445
Current Assets	6,957	5,937	6,921
Inventory	4,211	3,189	3,064
Trade Receivables	2,080	2,104	2,692
Others	665	645	1,165
Total Assets	9,760	8,628	9,366
Debt	1,873	919	3,453
Short-Term	1,060	159	2,381
Long-Term (Incl. Current Maturity of Long-Term Debt)	813	760	1,072
Other short-term liabilities	3,926	4,013	3,254
Other long-term liabilities	166	334	335
Shareholders' Equity	3,795	3,362	2,324
Total Liabilities & Equity	9,760	8,628	9,366

INCOME STATEMENT

Turnover	19,663	35,782	23,786
Gross Profit	943	2,328	1,056
Net Other Income	283	230	309
Financial Charges	(48)	(200)	(170)
Net Income	433	1,030	448

Cashflow Statement

Free Cashflow from Operations (FCFO)	690	1,601	630
Net Cash changes in Working Capital	(1,175)	1,625	(917)
Net Cash from Operating Activities	(528)	3,031	(463)
Net Cash from Investing Activities	(287)	(542)	(246)
Net Cash from Financing Activities	858	(2,539)	632
Net Cash generated during the period			

Ratio Analysis

Performance			
Turnover Growth	18.2%	50.4%	-22.1%
Gross Margin	4.8%	6.5%	4.4%
Net Margin	2.2%	2.9%	1.9%
ROE	24.2%	36.2%	26.4%
Coverages			
Interest Coverage (FCFO/Gross Interest)	14.3	8.0	3.7
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.9	2.0	0.6
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.9	2.0	0.6
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	0.6	0.5	2.3
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	19.5	27.0	58.8
Capital Structure (Total Debt/Total Debt+Equity)	33.0%	21.5%	59.8%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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.	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. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
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	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. 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			
A-			
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 or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
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			
BB-			
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			
B-			
CCC	Very high 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.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch	Outlook (Stable, Positive, Negative, Developing)	Suspension	Withdrawn
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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	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, a suspended rating should be considered 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, or e) the entity/issuer defaults.
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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

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(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)

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(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.

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(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)

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(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)

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