The Pakistan Credit Rating Agency Limited

Rating Report

Gas & Oil Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Jun-2021	A+	A1	Stable	Maintain	-
04-Jun-2020	A+	A1	Stable	Upgrade	-
29-Nov-2019	A	A1	Positive	Maintain	-
31-May-2019	A	A1	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings incorporate Gas & Oil Pakistan Limited, herein, referred to as GO's, every increasing presence in the oil marketing (OMC) segment. The company has augmented its market share in a competitive market, benefiting from the strategic positioning of the stations that it feeds. The growth spree continues. GO aims to carry out its expansion strategy by further penetrating the retail segment of semi-urban and rural areas. The company has increased its storage capacity, consolidated from 130,160 MTs to 197,038 MTs out of which 36,288 MTs storage is leased from FTTL. This complements its tenacity to keep the pace of growth with this existing storage capacity. GO further aims to inaugurate more company owned and operated sites, which will further enhance the margins. GO has traditionally capitalized on strong managerial support from its sponsors who have significant knowledge in oil procurement and distribution. The equity base of the company has taken support from internal capital generation and higher accumulated profitability. The management intends to keep the leverage indicators aligned to its risk profile. The company aims to further improve their market share as it moves on its expansion drive, utilizing a mixture of internally generated equity and debt. Moving forward, GO aims to diversify its revenue streams, strengthening its business risk profile.

The rating captures the company's ability to sustain its business despite challenges arising from outbreak of COVID-19. Rollout of the planned business strategy and sustainable profitability is essential. In the meantime, financial metrics needs to be upheld in terms of working capital ratios, coverages and capital structure.

Disclosure

Name of Rated Entity	Gas & Oil Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Oil Marketing Companies(Nov-20)
Rating Analysts	Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Gas & Oil Pakistan Limited was incorporated in 2012. Initially operating as a Private Limited it now operates as a public unlisted company since September 2017. The company was granted license to establish in 2012 and license to operate in 2014 after completion of its first storage.

Background The company started its operation in 2014 in Punjab region, later expanding its sales and marketing network to Sindh in 2016, KPK in 2017 and Balochistan in 2019. Primarily, Gas & Oil Pakistan is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants.

Operations With a network of approximately 794 retail outlets, Gas & Oil Pakistan has ~ 9.4% market share based on (Mogas/HSD/HOBC) as of April-2021. The company has storage infrastructure of approximately 197,038 MT spread all across the country and the storage capacity is expected to increase over the coming years. The depot at Mehmood Kot port close to PARCO, has a storage capacity of 84,225MT. Furthermore, Hub depot at Balochistan has been completed with the capacity of 12,670MT, Vehra depot have storage capacity of 20,590MT, daulat pur depot extension of 10,000MT and at port qasim having a long-term storage agreement of 36,288MT .

Ownership

Ownership Structure Mr. Khalid Riaz holds majority shareholding~ 58% followed by Mr. Shahzad Mubeen (21%), Mr. Bilal Ansari (11%) and Vitol Dubai Limited (foreign investor) earns it a remaining 10% stake in the Company.

Stability Overall shareholding remains stable. The inclusion of foreign investor, Vitol Dubai Limited, projects stability along with bringing in the hands-on experience of Retail and Oil transportation. Along with Vitol they also ensure their supplies through ENOC.

Business Acumen Company's sponsors have an extensive industry experience with major concentration in oil & lubricants' trading, distribution & transportation to OMCs all across Pakistan. Majority shareholder Mr. Khalid Riaz possesses extensive oil distribution and trading experience.

Financial Strength Sponsors have a strong financial background on account of well-diversified profitable businesses & based on significant industry experience.

Governance

Board Structure The board has a total of seven members, three members are representatives of Gas & Oil Pakistan. The other four members are serving as independent directors.

Members' Profile The BoD has a diversified experience and knowledge of marketing and distribution of oil. The Chairman of the board, Mr. Tariq Kirmani, 45 years of multifaceted experience in the corporate sector, both domestic and international. All the remaining directors also hold a senior position in other companies and have sound professional experience in oil, transportation, and financial industry.

Board Effectiveness The experiences of the board help in providing useful insight into the oil & marketing and finance industry, guiding the management in developing effective operational and financial policies. The board has formulated two committees, i) Audit, & ii) HR and Remuneration Committee, to ensure smooth and effective monitoring of operations.

Financial Transparency KPMG is the external auditors of the Company . They gave an unqualified opinion on the financial results of December 2020.

Management

Organizational Structure The company has an adequate organizational structure. The operations of the company have been bifurcated into three broad functional areas which comprise: i) Operations, ii) Finance, and iii) Sales. Each function is further divided into sub-units. The entire operational set-up of the company falls under the purview of CEO.

Management Team Mr. Khalid Riaz is the Managing Director of the company. He has an overall experience of ~40 years of which ~5 years is with GO. Mr. Zeeshan Tayyeb joined GO in CY19 as Chief Operating Officer & Chief Financial Officer. Average experience years of top management clocks in at ~23yrs, reflecting a good management profile.

Effectiveness To oversee the management of the company, GO has constituted two committees comprising various members of the management team. The committees include i) Procurement Committee and ii) Credit Committee.

MIS Top management receives a daily performance report of operations which results in optimal monitoring. Gas & Oil takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, the quality of the I.T. infrastructure and the breadth and depth of activities remained well satisfactory.

Control Environment 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 Awais Haider. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

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 Gas & Oil Pakistan has ~ 9.4% market share as of January- April 2021 on the basis of (MOGAS/HSD/HOBC) . The emergence of new players in the OMC sector is causing pressure on white oil segment market share. The big-five OMCs (PSO, Shell, Total PARCO, GO & Attock Petroleum) still retain a large chunk of the market at 80% with PSO dominating at ~40% during FY20. However, emerging names like Attock Petroleum and Gas and Oil Pakistan Limited have contributed to increased competition in the industry.

Revenues During CY20, the company recorded a revenue of PKR 144,222mln in comparison of PKR 142,651mln in CY19. Majorly the increase is due to the surge in sale of Mogas, HSD and HOBC. GO has achieved revenue of PKR 38,220mln during 3MCY21.

Margins Gross profit margins is 6.4% at CY20 increased from last year due to decrease in COGS (CY20: PKR 134,968mln, CY19: PKR 136,118mln) . The net profit margin is 1.8% (CY19: 0.4%). The increase is due to decline in foreign exchange loss coupled with lower finance cost. In course of CY20, the operating profit and PBIT margin stood at 4.9% and 4.1% respectively.

Sustainability The Company is following an aggressive expansion strategy and plans to open approximately 300 new retail outlets at the end of 2021 and 200 retail outlets every year afterwards. The company is expanding its footprints by inaugurating retail outlets in Balochistan, Islamabad, and AJK. To accommodate expansion, Gas & Oil Pakistan plans to construct a new depot at Vehari which will have an oil storage capacity of 22,000-24,000 MT. The company plans to follow an aggressive strategy by opening new retail outlets. Furthermore, the GO expects to collaborate with new foreign partners to gain synergistic benefits.

Financial Risk

Working Capital Gas and Oil Pakistan's Net Working Capital days remain stagnant at CY20: 21days (CY19: 21days) as increase in inventory days is nullify by increase in trade days payables . The company's inventory stood at PKR 17,497mln in CY20 (CY19: PKR 13,789mln) resulting in increased company's dependence on short term borrowings for bridge financing. In addition, the average payable and receivable stood at 46days and 27days respectively.

Coverages During CY20 company cash flows decrease due to higher investment in working capital in the form of trade receivables. The reason of surge in CFF activities is increase in short term borrowings of the Company. In the course of CY20, FCFO of the company has reached to PKR 6,326mln (CY19: PKR 2,685mln) and CFF is PKR 3,955mln . The increase in FCFO endorsed by decline in finance cost and foreign exchange loss. This, in turn, reflected in improving coverages as well [FCFO/finance cost: CY20: 2.9x, CY19: 1.1x].

Capitalization The Company has high percentage of leverage in their capital structure. The Long term borrowing of the company in CY20 is PKR 4,185mln (CY19: PKR: 3,651 mln) and Short term borrowing in CY20 is PKR 18,678mln (CY19: PKR 12,809mln) and PKR 25,678mln during 3MCY21.

PACRA

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

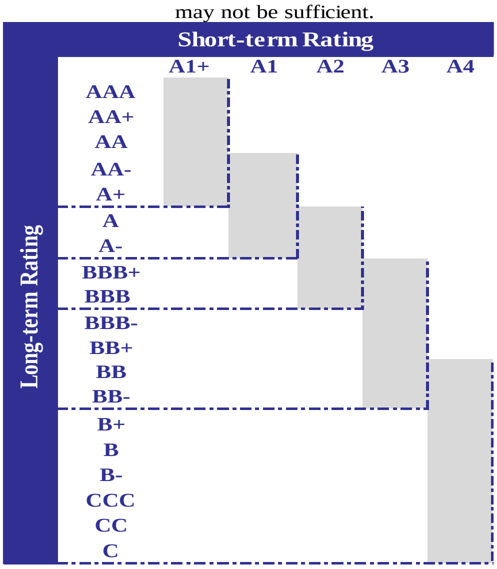
Gas & Oil Pakistan Limited Oil Marketing Companies	Dec-20 12M	Dec-19 12M	Dec-18 18M
A BALANCE SHEET			
1 Non-Current Assets	17,490	14,594	9,511
2 Investments	-	-	-
3 Related Party Exposure	-	429	-
4 Current Assets	39,669	31,230	25,890
a Inventories	*17,497*	*13,789*	*9,065*
b Trade Receivables	*14,091*	*7,218*	*10,407*
5 Total Assets	57,159	46,253	35,401
6 Current Liabilities	21,491	20,216	8,250
a Trade Payables	*19,223*	*16,962*	*7,222*
7 Borrowings	24,442	17,573	20,126
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	719	598	358
10 Net Assets	10,507	7,866	6,667
11 Shareholders' Equity	10,507	7,866	6,667
B INCOME STATEMENT			
1 Sales	144,222	142,651	132,015
a Cost of Good Sold	*(134,968)*	*(136,118)*	*(125,345)*
2 Gross Profit	9,254	6,533	6,671
a Operating Expenses	(2,194)	(2,034)	(2,651)
3 Operating Profit	7,060	4,499	4,019
a Non Operating Income or (Expense)	*(1,087)*	*(1,113)*	*(1,906)*
4 Profit or (Loss) before Interest and Tax	5,972	3,386	2,113
a Total Finance Cost	*(2,221)*	*(2,445)*	*(805)*
b Taxation	*(1,118)*	*(381)*	*(915)*
6 Net Income Or (Loss)	2,634	561	393
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*6,326*	*2,685*	*3,841*
b Net Cash from Operating Activities before Working Capital	*4,292*	*386*	*2,884*
c Changes in Working Capital	*(7,871)*	*7,172*	*(18,660)*
1 Net Cash provided by Operating Activities	(3,579)	7,558	(15,775)
2 Net Cash (Used in) or Available From Investing Activities	(3,012)	(2,830)	(6,331)
3 Net Cash (Used in) or Available From Financing Activities	3,955	(3,685)	20,985
4 Net Cash generated or (Used) during the period	(2,636)	1,042	(1,122)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	1.1%	8.1%	--
b Gross Profit Margin	6.4%	4.6%	5.1%
c Net Profit Margin	1.8%	0.4%	0.3%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-1.1%	6.9%	-11.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	27.7%	8.1%	3.9%
2 Working Capital Management			
a Gross Working Capital (Average Days)	67	52	59
b Net Working Capital (Average Days)	21	21	44
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.5	3.1
3 Coverages			
a EBITDA / Finance Cost	3.2	1.4	6.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	0.5	2.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	1.5	23.3	1.9
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	69.9%	69.1%	75.1%
b Interest or Markup Payable (Days)	57.1	62.9	142.0
c Entity Average Borrowing Rate	9.4%	12.0%	3.2%

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):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can 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 prior written consent