The Pakistan Credit Rating Agency Limited

Rating Report

BE Energy Limited (formerly Bakri Energy Limited)

Report Contents

Rating History

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

Rating Rationale and Key Rating Drivers

The ratings reflect BE Energy Limited (formerly Bakri Energy Limited) association with a strong sponsor - Saudi based Bakri Group. Over the years, BE Energy has managed to gain ~3% market share and has ~308 retail outlets. BE Energy capitalizes on second largest oil storage infrastructure of over 180,000 MTs spread across three terminals located at Port Qasim, Machike, Shikarpur, and one depot at Daulatpur. 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 and also manages to diversify its product mix (HSD: PMG: FO – 45% : 35% : 20%). It has been successful in managing the impact of the reduction in demand of FO. BE Energy plans to focus on retail clients and enhance its supply chain infrastructure. To nurture its retail penetration the company is 1) rebranding its outlets on modern 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 a strong management structure reflected by three management committees in place to efficiently procure and deliver the product. BE 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 BE Energy's ability to build broad-based market penetration. Additionally, with the new debt to be acquired, sustainability of coverages would remain important for the ratings.

Disclosure

Name of Rated Entity	BE Energy Limited (formerly Bakri Energy Limited)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun18(Jun-18)
Related Research	Sector Study | Oil Marketing Companies(Dec-17)
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Profile

Legal Structure BE Energy Limited [formerly Bakri Energy Limited] was incorporated in Pakistan as a private limited company. The company was granted a license to establish an Oil Marketing Company in 2005 and commenced its operations effective from 2007.

Background In 2016, the company was granted permission to merge Overseas Oil Trading Company (Pvt.) Limited (OOTC) into Bakri Trading Company Pakistan (Pvt.) Limited. Pursuant to the merger, Bakri Trading Company Pakistan (Pvt.) Limited changed its name to Bakri Energy (Pvt.) Limited during FY17. However, during FY18, the company's name was then changed to BE Energy Limited. OOTC was involved in the procurement, storage, and marketing of petroleum products and various kinds of lubricants.

Operations Primarily, BE Energy is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. BE Energy has a moderate market share (~3%) in a competitive and growing oil market in Pakistan.

Ownership

Ownership Structure The company is owned by Rawafid Investments LLC (~99.97%) based in UAE. Shareholding of Rawafid Investments LLC lies with the members of Bakri Group (Bakri Family).

Stability The Group Business has been governed and administered by the members of Bakri Family and they are in process of preparing a succession plan for their business in future.

Business Acumen 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.

Financial Strength The financial strength of the sponsors is considered good as the sponsors have well diversified profitable businesses. Sponsors have the ability to understand and deal with a "business situation" (risks and opportunities) in a manner that is likely to lead to a good outcome.

Governance

Board Structure The board of BE Energy comprises four experienced professionals. Two members are sponsors of Bakri Group and other two members are group executives. The company initiated plans to enhance its board size to seven members with intentions to include independent directors.

Members' Profile The BoD have a diversified experience and knowledge of marketing and distribution of oil. All the directors also hold the senior position in other companies of Bakri group and have sound professional experience in the oil industry. Mr. Hussain Al Shammaa is the CEO of the company. He has been involved in the oil business for the last 35 years. He was previously with Kuwait Petroleum Company (KPC). He is well renowned in the oil industry of Pakistan.

Board Effectiveness The experience of the board will help in providing useful insight into the oil & marketing and finance industry, guiding the management in developing effective operational and financial policies. There is one committee at board level; Board of Directors Committee. The Board of Director Committee is for controlling & overseeing the company performance, developing strategic plans, taking decisions on strategic matters.

Financial Transparency M/S EY Ford Rhodes has been engaged as BE Energy's external auditors during FY17. The auditor has expressed an unqualified opinion on the financial statements of the company as at 30 June, 2017.

Management

Organizational Structure The company has a well-defined organizational structure with clear segregation of responsibilities. The operations of the company are mainly divided into i) Operations, supply chain & logistics, ii) Projects, iii) Marketing, iv) finance and v) Human Resource. IT & Communication and finance department report directly to the Senior General Manager Finance. Sales and Marketing department directly reports to General Manager Retail. The entire operational set-up of the company falls under the purview of the Managing Director, with each department head directly reporting to him.

Management Team Mr. Javed Alam is the Managing Director of the company. He has an overall experience of ~42 years of which ~10 years is with the Bakri Group. All management team is well qualified, while most of the senior management has been associated with the company since long.

Effectiveness To oversee the management of the company, BE Energy has constituted three committees comprising various members of the management team. This includes i) Purchase Committee, ii) Product Pricing Committee and iii) HR Committee.

MIS Top management receives a daily performance report of plant's operation throughput which results in optimal monitoring. BE Energy 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 BE Energy relies on its well-developed infrastructure – three storage terminals, one depot and, and strong supply chain supported by a strong tank-lorry fleet and pipelines network– for transportation of petroleum products pan-Pakistan.

Business Risk

Industry Dynamics Pakistan consumed a total of ~25mln metric tons (MT) of petroleum products (POL) in FY18. With a refining capacity of ~13mln MT, the country meets a significant portion of its POL demand through imports. More than fifteen OMCs are operating in the domestic sector to transport and supply fuel to the country.

Relative Position With an improved demand scenario in the country, BE Energy's overall market share has increased over the years to 3%. The emergence of other players in the OMC sector is causing pressure on the white oil segment market share.

Revenues During 9MFY18 topline of the company stood at PKR 29.7bln (9MFY17: PKR 26.2bln), an increase of ~13%. This increase has been seen owing to an increase in the volumes of HSD and a surge in the price. HSD and PMG, both contribute ~45% and ~35% respectively to the total top line, while FO contributes ~20%

Margins Cost of production increased by a higher proportion (~16%) than revenues, resultantly a decline in the gross margins (9MFY18: ~4.3%, 9MFY17: ~6.8%, FY17: ~6.5%) is observed. Accounting for taxation, the net income of the company stood at PKR ~566mln (9MFY17: PKR ~625mln), plunged by ~9%. Consequently, the net profit margin of the company also declined (9MFY18: ~1.9%, 9MFY17: ~2.4%, FY17: ~2.9%, FY16: ~1.9%).

Sustainability Going forward, the company plans to focus on retail clients to have sustained profitability and diversify revenue stream while enhancing the market 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 a low share, & 3) laying down supportive storage capabilities to ensure timely availability of its products.

Financial Risk

Working Capital BE Energy has a well-managed working capital and to cover the working capital gap, the company has sufficient standing credit lines from banks. Company's net working capital days surged from 20 days in FY17 to 32 days in 9MFY18. The company uses an overdraft facility to manage its working capital requirements. Company's total arranged facility of PKR 11bln of which ~10% utilized as at end-Mar18.

Coverages In course of 9MFY18, FCFO of the company has reached to PKR 1,001mln. During FY17, FCFO of the company stood at PKR ~1,601mln (FY16: PKR 630mln). Improvement has been seen owing to increase in profitability YoY basis. This, in turn, reflecting adequate coverages as well [Debt Coverage: 9MFY18: 1.7x, FY17: 2.0x, FY16: 0.6x].

Capitalization The company currently has a low leveraged capital structure. The company's capital structure stood at ~30% as at 9MFY18 (FY17: ~22%, FY16: ~60%). The trend in leveraging remains volatile as the company's substantial debt represents short-term financing facilities for working capital management. The company is also planning to execute successful IPO, however, the process will be carried through once the market and political conditions in the country will be favorable.

BE Energy Limited

PKR mln

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	FY17	FY16	FY15
Non-Current Assets	**2,814**	**2,691**	**2,445**	**1,201**
Investments (Incl. Associates)	**0**	**0**	**0**	**922**
Equity	0	0	0	922
Debt Instruments	0	0	0	0
Current Assets	**6,596**	**5,937**	**6,921**	**3,010**
Inventory	3,810	3,189	3,064	391
Trade Receivables	1,832	2,104	2,692	2,477
Others	954	645	1,165	142
Total Assets	**9,410**	**8,628**	**9,366**	**5,133**
Debt	**1,710**	**919**	**3,453**	**2,451**
Short-Term	1,039	159	2,381	1,160
Long-Term (Incl. Current Maturity of Long-Term Debt)	671	760	1,072	1,291
Other short-term liabilities	3,414	4,013	3,254	1,580
Other long-term liabilities	365	334	335	37
Shareholders' Equity	**3,921**	**3,362**	**2,324**	**1,064**
Total Liabilities & Equity	**9,410**	**8,628**	**9,366**	**5,133**
INCOME STATEMENT				
Turnover	**29,734**	**35,782**	**23,786**	**30,527**
Gross Profit	1,265	2,328	1,056	1,275
Net Other Income	388	173	291	274
Financial Charges	(96)	(200)	(170)	(354)
Net Income	**566**	**1,030**	**448**	**300**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,001	1,601	630	974
Net Cash changes in Working Capital	(1,231)	1,625	(917)	892
Net Cash from Operating Activities	(314)	3,031	(463)	1,517
Net Cash from InvestingActivities	(379)	(542)	(246)	(38)
Net Cash from Financing Activities	837	(2,539)	787	(1,687)
Net Cash generated during the period				
Ratio Analysis				
Performance				
Turnover Growth	-	50.4%	-22.1%	-
Gross Margin	4.3%	6.5%	4.4%	4.2%
Net Margin	1.9%	2.9%	1.9%	1.0%
ROE	14.4%	30.6%	19.3%	28.2%
Coverages				
Interest Coverage (FCFO/Gross Interest)	10.4	8.0	3.7	2.8
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.7	2.0	0.6	0.8
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.7	2.0	0.6	0.8
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross In	0.6	0.5	2.3	2.1
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	32.4	19.9	52.6	18.6
Capital Structure (Total Debt/Total Debt+Equity)	30.4%	21.5%	59.8%	69.7%

PACRA

Rating Scale

Credit Rating Scale & Definitions

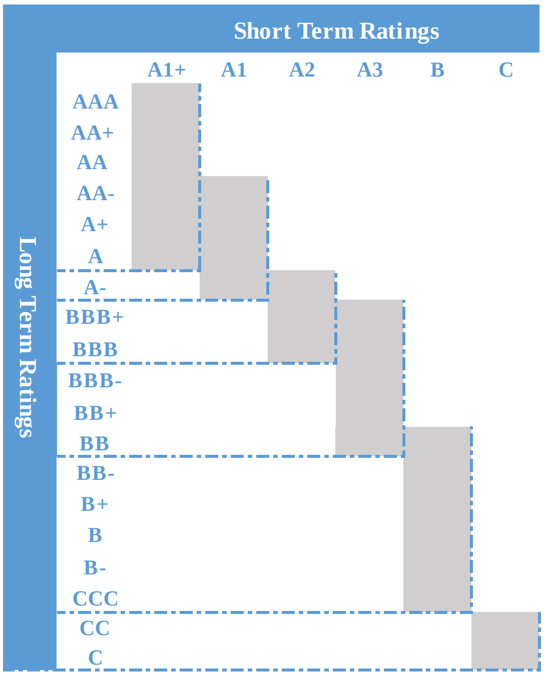
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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(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)
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