The Pakistan Credit Rating Agency Limited

Rating Report

Byco Petroleum Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Aug-2020	A-	A2	Stable	Initial	YES

Rating Rationale and Key Rating Drivers

The ratings reflect the resilient business profile of Byco Petroleum Pakistan Limited (Byco) emanating from its diversified operational capability and its strategic importance in the domestic context. The company possesses a notable share in meeting the economy's demand for petroleum products, with its refinery and marketing business. Byco's refinery business remains exposed to the vicissitudes in international crude and petroleum products' (POL) prices, which in turn, steer the gross refining margins (GRMs) of the company. The country's refinery sector has been going through significant challenges for an extended period, majorly pertaining to upgradation of the refining complexes and management of furnace oil (FO) produce. Depressed crude and POL prices in the International market coupled with the underlying issues of the sector had hampered the performance indicators of the industry players in FY19. Adding to the woes, the global oil market was further struck by widespread uncertainty due to the outbreak of the COVID-19 pandemic. This severely weakened the International Oil dynamics, creating a manifold impact on the domestic economy and the demand for petroleum products. Inventory accumulation, NRV adjustments and POL demand slide pressurized the GRMs and profitability margins of the sector players drastically. The trend is expected to reverse, going forward, as global prices move towards a stabilized trajectory and demand takes a gradual uptick, on account of ease in lockdown. Having said this, uncertainty still prevails as to the timeliness of complete restoration and recovery of losses that the Industry has absorbed, under the current situation. Byco's financial risk profile exhibits a challenging position with essential borrowings to cater working capital needs. Nonetheless, Byco stands out in embarking on a new strategic venture to upgrade its refinery process in order to cope with the key challenges prevailing in the sector. The project also encompasses installation of DHDS plant, which would make the company Euro-V compliant. Going forward, Byco may undergo changes in its ownership structure due to Abraaj Group - one of the two key sponsors, though the main shareholder is committed to continuity and extending requisite support.

The ratings are dependent upon Byco's ability to effectively shield its business profile from external vulnerabilities. Revived performance indicators and prudent financial matrix are imperative to uphold the ratings. The entity has been placed on Rating Watch to oversee challenges on the business and financial risk profile of the company, amongst others, related to industry dynamics.

Disclosure

Name of Rated Entity	Byco Petroleum 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 | Refineries(Nov-19)
Rating Analysts	Jibran Cheema | jibran.cheema@pacra.com | +92-42-35869504

Profile

Legal Structure Byco Petroleum Pakistan Limited (herein referred to as "Byco" or "the company") was incorporated in the year 1995, under the repealed Companies Ordinance, 1984 and was granted a certificate of commencement of business, later in the same year. The company is listed on the Pakistan Stock Exchange.

Background Byco was founded by its first Chairman, Mr. Parvez Abbasi. After installation of its first oil refinery, the company began commercial production in 2004. Byco's marketing segment was formally launched in 2007. During 2017, Byco Terminals Pakistan Limited (wholly owned subsidiary) and Byco Oil Pakistan Limited (Parent Company) merged into Byco Petroleum Pakistan Limited.

Operations The company currently operates in two business segments namely the Oil Refinery Business and Petroleum Marketing Business. Byco has two refineries in Hub, Baluchistan, with an aggregate rated capacity of 155,000 bpd, the highest in the industry. The company's marketing segment has over 390 retail outlets across the country. The registered office is situated at the Harbour Front, Dolmen City, Clifton, Karachi.

Ownership

Ownership Structure The company is a subsidiary of Byco Industries Incorporated (BII), Mauritius, which holds 91.83% shares in the company, while the rest is listed on the PSX. BII is joint venture by Byco Busient Incorporated (BBI) and Abraaj Mauritius Oil & Gas Limited (AMOGL) with a 60% and 40% stake, respectively.

Stability AMOGL is a wholly owned subsidiary of Abraaj Capital Limited – an Abraaj Group company. In 2018, the Group was forced into liquidation after a group of investors, commissioned an audit to investigate the alleged mismanagement of money in its health-care fund. Abraaj Group is expected to take an exit from the ownership of the Byco. The timeline of such, is dependent upon the completion of the liquidation process of the Group.

Business Acumen The Abbasi family, Byco's strategic sponsors, have strong business skills and industry-specific working knowledge, due to extensive experience in the oil industry, which has helped the company to achieve growth in market share in recent years, after the setback of a fire accident in the refinery complex, in 2015.

Financial Strength The company's sponsors have showcased a willingness to support the entity on a continuing basis, as evident by substantial sponsor loans.

Governance

Board Structure The control of the company vests with a seven-member Board of Directors (BoD) including the Chairman and the CEO. Five directors are representative of the Byco group, whereas the remaining two directors are independent.

Members' Profile Byco's BoD comprises qualified and experienced professionals. Mr. Mohammad Wasi Khan is the Chairman of the Board. Mr. Khan has been associated with the Byco Group since 2004. He brings with him, over 30 years of experience in the refining sector.

Board Effectiveness Board Committees are in place to exercise strategic oversight, namely the; (i) Audit Committee, (ii) Human Resource and Remuneration Committee and (iii) Risk Management Committee.

Financial Transparency M/s E&Y Sidat Hyder, Chartered Accountants, the external auditors of the company, have given an unqualified opinion on the company's financial statements for the year ended June 30, 2019 and the period ended December 31, 2019. The firm has been categorized in the 'A' category by the SBP and has been QCR rated by ICAP.

Management

Organizational Structure Presently, the company is divided in four main functions, namely i) Admin & HR, ii) Commercial, iii) Technical, and iv) Finance. Head of these departments report to the CEO, who in turn reports to the BoD.

Management Team Mr. Amir Abbassciy has been the Chief Executive Officer of Byco since January 2017, while also serving on the Board as an executive director. He brings with him, extensive experience spanning 3 decades in the industry. He has an MBA from the Business School of Lausanne, Switzerland.

Effectiveness The robustness of control systems is a reflection of strong management. The management's effective decision-making has led to processes becoming more systematic.

MIS Byco has implemented SAP as the ERP solution, to streamline planning and coordination across business lines, thereby increasing overall efficiency.

Control Environment Byco is one of the only refineries in Pakistan producing 92 RON PMG and are therefore not subject to the RON penalty. As part of the goal of adopting DuPont's Process Safety Management system, the company has focused on safe commission activities, multiple turnarounds, EHS resource development, and sustainability, at its refineries.

Business Risk

Industry Dynamics The country consumed a total of ~13.1mln metric tons (MT) of refined petroleum products in 9MFY20 (9MFY19: ~14.9mln MT), depicting a fall of ~12% compared to the corresponding period. This decrease is mainly seen due to a fall in the consumption of MOGAS and HSD as a result of a lack of growth in the transport sector. A further fall in demand because of the nationwide lockdown due to Covid-19 has added to the problems within the industry. Substantial inventory losses were borne by the industry players, due to the recent slump in the global oil prices.

Relative Position With respect to the relative positioning of the players in the premium products (HSD and MOGAS); efficiency and utilization of available capacity is essential. Two refineries namely PARCO and Byco Petroleum retain a large chunk of the market share of ~52%, while Pakistan Refinery, National Refinery, and Attock Refinery, contribute ~48% to the total domestic supply of POL products.

Revenues Economic uncertainty had an impact on the topline of the company, with the net revenue amounting to PKR~144,439mln in 9MFY20 (9MFY19: PKR~145,219mln), depicting a fall of 1% compared to the corresponding period. The Refinery and Marketing segments both contribute equally to the topline. Demand for all products was significantly hampered by the nationwide lockdown, imposed in the wake of Covid-19. Consequently, facing severe ullage constraints and no demand for products in sight, the refinery was temporarily put on cold circulation in March 2020.

Margins The gross profit declined and the net profit turned negative in 9MFY20, primarily due to lower refining margins as a result of a slump in demand since the start of the calendar year. During 9MFY20, the gross profit amounted to PKR~1,200mln (9MFY19: PKR~3,032mln), declining mainly as a result of higher exchange and inventory losses. Consequently, gross profit margins during 9MFY20, deteriorated to 0.8% (9MFY19: 2.1%). Moreover, finance costs during the period considerably increased due to the rise in the average KIBOR rate. During 9MFY20, the company incurred a net loss of PKR~2,672mln as compared to net profit of PKR~720mln, in the corresponding prior period. As a result, the net profit margins, turning negative during 9MFY20, clocked in at -1.9% (9MFY19: 0.5%).

Sustainability The refinery sector has been going through an existential crisis, as a result of the government's demand for environment friendly fuel. Due to the substantial investment needed for the required upgrades to the refineries, the developments in this regard, have reached an impasse. In spite of an improvement in the recent offtake of FO, uncertainty persists in its long term outlook, due to the government's preference for other input sources to be used by IPPs for electricity generation, such as LNG and Coal. In the wake of these challenges, Byco is embarking on a new venture to counter the FO offtake challenge and becoming compliant with Euro-V Standard HSD.

Financial Risk

Working Capital Byco's working capital requirement emanates from import of raw materials and remains a function of fluctuating crude oil prices in international markets. Byco's average gross working capital days during 9MFY20 clocked in at 60 days (9MFY19: 58 days). Moreover, the average net working capital days stood at -21 days (9MFY19: -28 days).

Coverages The Free Cash Flows from Operations (FCFO) continued on a downward trajectory (9MFY20: PKR~2,689mln, 9MFY19: PKR~3,789mln), owing to the heavy losses incurred during the period. Since the FCFO, during the period 9MFY20, were lower than the Finance Cost, the Debt Payback Ratio turned negative, highlighting a troublesome picture with regards to company's ability to honor its debt payments. Similarly, the coverages remained in a precarious position, during 9MFY20, with the ratio FCFO-to-Finance Cost, clocking in at 0.9x (9MFY19: 1.8x).

Capitalization The debt-to-equity ratio, as at End-9MFY20, clocked in at 61.5% (End-FY19: 61.9%), depicting a highly leveraged structure. Total Borrowings, including loan from the sponsor, amounted to PKR~34,606mln (End-FY19: PKR~39,592mln). Long-term loans constitute 61% of the total borrowings. As at End-9MFY20, the equity stood at PKR~24,689mln (End-FY19: PKR~27,361mln). Equity erosion is an industry-wide concern.

PKR mln

Byco Petroleum Pakistan Limited Refinery	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	72,179	71,316	72,443	71,278
2 Investments	-	-	-	-
3 Related Party Exposure	16,932	16,932	16,932	16,932
4 Current Assets	36,344	41,895	40,374	21,630
a Inventories	*22,113*	*29,260*	*29,391*	*12,583*
b Trade Receivables	*6,514*	*5,337*	*5,464*	*4,858*
5 Total Assets	125,455	130,143	129,748	109,839
6 Current Liabilities	55,202	51,708	61,614	44,960
a Trade Payables	*43,057*	*41,828*	*47,979*	*34,582*
7 Borrowings	25,009	29,995	16,769	19,424
8 Related Party Exposure	14,390	14,390	12,943	15,040
9 Non-Current Liabilities	6,165	6,689	9,043	9,257
10 Net Assets	24,689	27,361	29,381	21,157
11 Shareholders' Equity	24,689	27,361	29,381	21,157
B INCOME STATEMENT				
1 Sales	144,439	197,831	166,290	88,420
a Cost of Good Sold	*(143,239)*	*(195,871)*	*(157,141)*	*(84,196)*
2 Gross Profit	1,200	1,960	9,150	4,224
a Operating Expenses	(1,065)	(1,406)	(1,231)	(1,121)
3 Operating Profit	135	553	7,919	3,103
a Non Operating Income or (Expense)	*107*	*278*	*329*	*508*
4 Profit or (Loss) before Interest and Tax	242	832	8,248	3,612
a Total Finance Cost	*(2,914)*	*(3,070)*	*(2,878)*	*(2,285)*
b Taxation	-	*554*	*(350)*	*855*
6 Net Income Or (Loss)	(2,672)	(1,684)	5,020	2,182
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,689*	*3,144*	*10,032*	*6,135*
b Net Cash from Operating Activities before Working Capital Changes	*(2,415)*	*1,080*	*8,623*	*5,982*
c Changes in Working Capital	*9,155*	*(9,879)*	*(1,033)*	*5,997*
1 Net Cash provided by Operating Activities	6,740	(8,799)	7,590	11,979
2 Net Cash (Used in) or Available From Investing Activities	(2,496)	(2,781)	(3,157)	(3,648)
3 Net Cash (Used in) or Available From Financing Activities	(4,316)	11,969	(3,937)	(8,315)
4 Net Cash generated or (Used) during the period	(72)	389	497	16
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.7%	19.0%	88.1%	13.8%
b Gross Profit Margin	0.8%	1.0%	5.5%	4.8%
c Net Profit Margin	-1.9%	-0.9%	3.0%	2.5%
d Cash Conversion Efficiency (EBITDA/Sales)	2.0%	2.0%	6.3%	7.4%
e Return on Equity (ROE)	-13.7%	-5.9%	19.9%	10.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	60	64	57	48
b Net Working Capital (Average Days)	-21	-19	-33	-95
c Current Ratio (Total Current Assets/Total Current Liabilities)	0.7	0.8	0.7	0.5
3 Coverages				
a EBITDA / Finance Cost	1.0	1.3	3.7	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	0.1	0.3	0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-193.8	727.6	7.1	15.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	61.5%	61.9%	50.3%	62.0%
b Interest or Markup Payable (Days)	41.8	46.8	20.0	41.9
c Average Borrowing Rate	9.3%	8.3%	9.0%	6.6%

Credit Rating

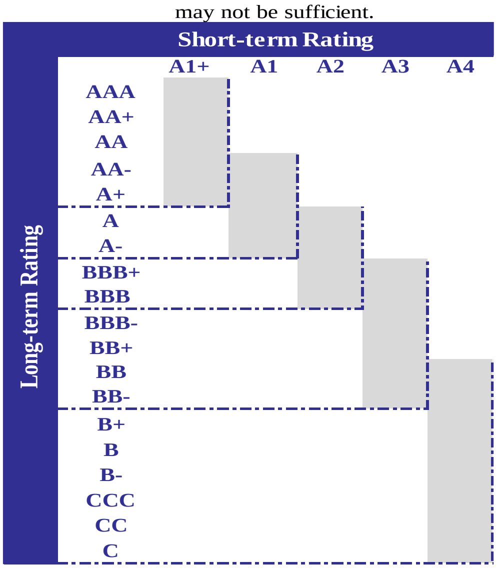
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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)
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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)

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)
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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)
(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)
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(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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