



The Pakistan Credit Rating Agency Limited

Rating Report

Zaver Petroleum Corporation (Pvt.) Limited

Report Contents

1. Rating Analysis
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
30-Dec-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Zaver Petroleum Corporation (Pvt) Limited (Zaver “ZPCL”) is part of the group which includes Orient Petroleum Inc. (OPI) and Orient Petroleum Pty Ltd. (OPPL). Zaver Petroleum Corporation (Pvt) Limited is engaged in the exploration, development and production of oil and natural gas reserves in Pakistan. Currently, ZPCL operates one exploration block i.e. Sari South whereas it is non-operated partner in four exploratory blocks i.e. Sakhi Sarwar, Marwat and Harnai South operated by Orient Petroleum Inc. and Bannu West operated by Mari Petroleum Company Limited. ZPCL also holds non-operated working interests in Chanda D&PL under Shakardara Concession operated by Oil & Gas Development Company limited and Mehar & Sofiya D&PLs under Mehar Concession operated by UEP Alpha limited. The group is an established oil and gas business unit in Pakistan, with a portfolio of 9 Exploration Licenses and 8 Development and Production Leases. The topline stands at PKR1.2bn for the year ended Jun-20 and has remained stable over the years. Margins have remained modest. ZPCL’s management is pursuing an expansion strategy as it aims to make additions to its revenue stream. ZPCL has 2P recoverable reserves of 1.3 MMBOE (million barrels of oil equivalent) and net upside recoverable volume of 3.5 MMBOE from its production assets and 167 MMBOE resource potential from its exploratory assets. The work program to enhance production volumes in the upcoming years will be supported through a mix of in-house financing and debt. The balance sheet reflects low leveraging; it is expected to remain the same going forward. The equity base stands at PKR 5.6bln as of Jun-20. Although, the need to improve the working capital remains imperative.

The ratings are dependent on the relative positioning of the company in oil and gas industry, while sustaining the topline profitability and low leveraged capital structure. Volatility in operating margins remain key areas of consideration. Financial discipline is considered core to the ratings, with enduring emphasis on maintaining relevant coverages.

Disclosure

Name of Rated Entity	Zaver Petroleum Corporation (Pvt.) 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	Maryam Ijaz maryam.ijaz@pacra.com +92-42-35869504



Profile

Legal Structure Zaver Petroleum is a private limited company, incorporated in 1991. Orient Petroleum Inc. (OPI), Orient Petroleum Pty Ltd. (OPPL) and Zaver Petroleum Corporation (Pvt.) Ltd (ZPCL) are jointly referred to as 'The Group'.

Background Zaver Petroleum Corporation (Pvt) Limited (Zaver "ZPCL") incorporated in Pakistan on 25 August 1991. The registered office of the Company is situated in Islamabad. It is engaged in the exploration, development and production of oil and natural gas reserves in Pakistan.

Operations The company operates one exploration block i.e. Sari South whereas the company is a non-operated partner in Sakhi Sarwar, Marwat and Harnai South exploration licenses operated by Orient Petroleum Inc. (OPI) and Bannu West operated by Mari Petroleum Company Limited. The Company is also a non-operated partner in Chanda D&PL under Shakardara Concession operated by Oil & Gas Development Company limited and Mehar & Sofiya D&PLs under Mehar Concession operated by UEP Alpha limited.

Ownership

Ownership Structure Hashoo Holding (Pvt) Limited holds the majority stake i.e. 34% in Zaver Petroleum. Other major shareholders include Mr. Sadruddin Hashwani (20%), Gulf Properties (Pvt) Ltd (19%), Bagh-e-Landhi Properties (Pvt) Ltd (14%).

Stability The ultimate beneficial ownership lies with Mr. Sadruddin Hashwani, a well-known Pakistani businessman. His son, Mr. Hasan Ali Hashwani exercise oversight on the business operations of ZPCL.

Business Acumen Mr. Sadruddin Hashwani holds 100% beneficial ownership of ZPCL and have more than 40 years of business experience shows strong business acumen.

Financial Strength In addition to its own internal resources, ZPCL has strong financial backing of its sponsors.

Governance

Board Structure Zaver Petroleum board comprises of three members, with two non- executive directors and one executive director. OPI, as flagship company of the Group in oil & gas, provides operational support to ZPCL. In addition, ZPCL is supported by Technical Advisory Committee, consisting of well-established names of the industry.

Members' Profile The Board is chaired by Mr. Sadruddin Hashwani. All board members are experienced with aggregate industry experience of 35 years. Mr. Hasan Hashwani, younger son of Mr. Sadruddin Hashwani, is involved in day to day operations of the Company

Board Effectiveness Board holds quarterly meetings to review and guide the operations

Financial Transparency Grand Thornton Anjum Rahman are the auditors of Zaver Petroleum and have provided an unqualified opinion on the financial statements of June 2019 and June 2020.

Management

Organizational Structure ZPCL has a detailed hierarchical organizational structure through operational support agreement with OPI.

Management Team Mr. Kamran Ahmed, the CEO of Zaver Petroleum, has over 30 years of experience in investment banking, oil & gas upstream and downstream industry. The CEO is supported by Mr. Tauqeer A Nayyar, General Manager Finance; Mr. Akbar Ali Khan, General Manager Operation; Zaheer A. Zafar, General Manager Operations; Mr. Muhammad Saeed Akhtar, General Manager Reservoir Engineering.

Effectiveness ZPCL does not have its separate management team and its operations are managed by OPI management through an agreement.

MIS Zaver has implemented and uses all key modules of Oracle ERP suite. It was implemented in 2003. The suite provides real-time end-to-end integrated solution for all operations including financial, purchasing, inventory, HRMS, joint venture, cost allocation, fixed assets, payroll and approval management system.

Control Environment Zaver Petroleum has a dedicated team of professionals for in-house development, customization and maintenance of Oracle applications for Oil & Gas specific requirements. The company especially focuses on health and safety protocols through ensuring that all equipment is in excellent running order, work procedures ensure safe operations and people are properly trained and agree to work in the prescribed manner.

Business Risk

Industry Dynamics Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,114 exploration wells and 1,484 appraisal/development well drilled as of Dec'19. Future cash flows of the Company are dependent on a number of factors including, but not limited to i) success in finding and commercially producing reserves, and ii) prices of oil and natural gas. These key business risks are associated with all E&P companies.

Relative Position At present, there are 24 operators operating in Pakistan, out of which 10 are local. The market share is dominated by state-owned Oil and Gas Development Company Limited (OGDCL). The other large-tier companies comprise of PPL, Mari Petroleum and UEPL etc. Mid-tier companies include MOL, POL, ZPCL and Orient Petroleum Inc.

Revenues Topline of Zaver consist of Crude oil/ Condensate, gas and LPG. During FY20, the revenue increased by 5.7% and clocked in at PKR1,223m (FY19 PKR 1,157m). This was primarily because of increase in production. The sales mix of crude oil versus gas in FY20 stood at 72% and 28% respectively compared to FY19 where oil stood at 76% and gas stood at 24%. The profit after tax decreased significantly by 55% (FY20 PKR 98m, FY19 PKR 218m) mainly due to rig less workover jobs performed during the year which resulted in increased production.

Margins During FY20, gross margin of the company has seen a slight decline to ~27.9% (FY19: 35.1%, FY18: 11.8%). This is mainly due to increase in operating costs. During FY20, the operating margin reduced to ~21.3% from ~28.6% in FY19 on account of 6.4% increase in general and administrative expenses.

Sustainability ZPCL is part of well-established oil and gas business unit in Pakistan, with a portfolio of high quality assets and material growth potential from infill drilling and exploration activities, managed by a highly experienced management and operating team. The portfolio comprises of 6 Exploration Licenses and 3 Development and Production Leases. The overall combined asset portfolio offers total net 2P recoverable reserves of c. 1.3 MMBOE (million barrels of oil equivalent) and upside recoverable volume of 3.5 MMBOE from production assets and 167 MMBOE resource potential in its exploratory assets.. Going forward, the company expects enhanced production volumes in the upcoming years through its upcoming asset inventory which will be supported through a mix of in house financing and debt.

Financial Risk

Working Capital Trade Receivables of the Company stand at PKR 331m (FY19: PKR 302m) out of which PKR 62m is overdue. The increase is on account of increase in receivables from oil refineries. This has had a negative impact on the cash cycle, decreasing it from -12 days in FY19 to -83 days in FY20 due to increase in trade debtor days.

Coverages In FY20, Zaver Petroleum free cash flows from operations (FCFO) improved to PKR 455m (FY19: PKR 284m). The debt coverage ratio (FCFO/Finance cost + CMLTB) for the company stands at 12.3x in FY20.

Capitalization The Company currently has a low leveraged capital structure comprises 10.3% debt as at FY20 (FY19: 3.5%). As of FY2020, LTD comprises 100% (PKR 650m) of total debt. The Company has also made an investment in sukuks issued by Al Baraka Bank which will mature in FY21.



Zaver Petroleum		Jun-20	Jun-19	Jun-18
STATEMENT OF FINANCIAL POSITION		12M	12M	12M
		Audited	Audited	Audited
A NON-CURRENT ASSETS				
1	Operating Fixed Assets - Owned and Leasehold	2,131	1,786	986
2	Intangible Assets	-	-	-
3	Other Non-Current Assets	488	457	147
4	Deferred Taxation	-	-	-
	<i>Non-Current Assets</i>	2,619	2,242	1,133
B INVESTMENTS				
1	Equity Instruments	1,414	1,414	1,414
2	Debt Instruments	-	-	-
3	Investment Property	-	-	-
	<i>Investments</i>	1,414	1,414	1,414
C RELATED PARTY EXPOSURE				
1	Equity Instruments	-	-	-
2	Debt Instruments (Including Lending)	1	3	5
3	Due from Related Parties	2,709	2,427	2,827
	<i>Related Party Exposure</i>	2,710	2,431	2,833
D CURRENT ASSETS				
1	Stores and Spares	7	9	11
2	Inventories			
	a. Raw Material	5	2	2
	b. Work in Process	-	-	-
	c. Finished Goods	-	-	-
		5	2	2
3	Trade Receivables	331	302	182
4	Advances to Suppliers	-	-	-
5	Taxes	11	9	10
6	Taxes Refundable	-	-	-
7	Other Current Assets	96	99	37
8	Cash and Bank Balances	305	168	65
	<i>Current Assets</i>	754	591	307
E TOTAL ASSETS		7,497	6,678	5,686
F CURRENT LIABILITIES				
1	Trade Payables	681	519	48
2	Advances from Customers	-	-	-
3	Taxes	-	-	-
4	Interest or Markup Payable	40	3	-
5	Workers' Funds	10	10	10
6	Accrued Liabilities	14	18	7
7	Other Current Liabilities	57	29	20
8	Dividend Payable	-	-	-
	<i>Current Liabilities</i>	801	579	84
G BORROWINGS				
1	Current Maturity of Long-Term Borrowings	-	-	-
2	Short-Term Borrowings			
	a. Borrowings From FI	-	-	-
	b. Borrowings From SBP	-	-	-
	<i>Short-Term Borrowings</i>	-	-	-
3	Long-Term Borrowings			
	a. Borrowings From FI	650	-	-
	b. Borrowings From SBP	-	-	-
	<i>Long-Term Borrowings</i>	650	-	-
4	Debt Instruments	-	-	-
5	Preference Share Capital	-	-	-
	<i>Borrowings</i>	650	-	-
H RELATED PARTY EXPOSURE				
1	Borrowings	-	200	-
2	Subordinate Borrowings	-	-	-
3	Due to Related Parties	-	-	-
	<i>Related Party Exposure</i>	-	200	-
I NON-CURRENT LIABILITIES				
1	Deferred Taxation	-	-	-
2	Other Non-Current Liabilities	402	353	274
	<i>Non-Current Liabilities</i>	402	353	274
J NET ASSETS (E-F-G-H-I)		5,644	5,546	5,327
K SHAREHOLDERS' EQUITY				
1	Ordinary Share Capital	700	700	700
2	Capital Reserves	-	-	-
3	Revaluation Reserve			
	a. Fixed Assets	-	-	-
	b. Investments	-	-	-
		-	-	-
4	Revenue Reserves			
	a. General Reserves	-	-	-
	b. Unappropriated Profit	4,944	4,846	4,627
	<i>Shareholders' Equity</i>	5,644	5,546	5,327
L MEMORANDUM ITEM/S				
1	Short Term Borrowing Limits	0	0	0
2	Commitments and Contingencies	0	0	0
	<i>Check</i>	-	-	0.00

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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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- (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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