The Pakistan Credit Rating Agency Limited

Rating Report

Flow Petroleum (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jun-2022	BBB+	A2	Stable	Maintain	-
17-Jun-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's petroleum industry has 35 players in the sector with PSO, Total PARCO, HASCOL, Attock Petroleum Ltd, Shell Pakistan Ltd and Be Energy Pakistan being the major OMCs. The sector is highly regulated by OGRA, especially with respect to the prices of MOGAS and diesel. It was observed that global fuel prices have been escalating post pandemic, benefitting OMCs as they can pass on the hike to consumers. However, record high prices can, in future, constrain the growth provided oil prices continue to follow an uptrend amid escalating geopolitical tensions in Eastern Europe. With the Pakistani economy recovering from the impacts of COVID-19, fuel demand has surged, creating better prospects for OMCs during FY22. OMCs generated an aggregate revenue of PKR~2,528bln in FY21 (FY20: PKR~2,225bln), with an annual GDP contribution of 5.3% (FY20: 5.4%). During FY21, the sector's revenue registered a growth of 13.6%, owing to increased POL prices and volumetric sales. Additionally, three major products, HSD, MOGAS and RFO account for approximately 98% of the total POL consumption.
The Ratings reflect an improved business profile of Flow Petroleum (Pvt) Ltd. ('Flow Petroleum' or 'the Company') in line with current dynamics of petroleum industry. Despite increasing international POL price, being an OMC, the Company is able to pass on the hike to consumer with commissioning of new outlets, leading to better revenues. The Company has exhibited improvement in margins on the back of high petroleum prices , lower operational costs and reduced financial costs. The Company has a network of 35 operational retail outlets, fifty under construction units and a Permit for eighty-nine filling stations from OGRA. The Company had a capacity of ~1,500MT which has been further enhanced. Two new storage facilities are being constructed at Daulatpur and Kohat.

The ratings are dependent on Flow Petroleum's ability to build market penetration, improved operational and net profit margins and Improvements in Corporate Governance Structure. Working capital cycle is stretched and leveraged ratio increased moderately. However, entire loan from related parties is non-interest bearing and convertible to equity. Increasing number of retail out lets and storage capacity enhances confidence in Company's ability to sustain revenue growth and profit margins.

Disclosure

Name of Rated Entity	Flow Petroleum (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Oil Marketing Companies(Nov-21)
Rating Analysts	Behrooz Fareed | behrooz.fareed@pacra.com | +92-42-35869504

Profile

Legal Structure Flow Petroleum Private Limited (FPPL) was incorporated in Feb 2017, operating as a Private Limited. On 5th April 2018, the Company was granted a license to set up an Oil Marketing Company (OMC) by the Oil & Gas Regulatory Authority (OGRA). Its license is valid till Dec, 2023.

Background FPPL was founded by sponsors of Aslam Oil Traders who are one of the leading firm in the energy sector of Pakistan with a comprehensive range of products since 1980s. FPPL was established in Feb 2017 under Securities and Exchange Commission of Pakistan and having its registered office in Lahore, Pakistan.

Operations With a network of 35 retail outlets, FPPL has less than 1% market share as at end-Jun21 based on the total sales. Previously the Company has a capacity of 1,500MT which after addition of 2,850MT of capacity stands at 4,350MT. The Company has Operational Permit for 89 retail outlets from OGRA.

Ownership

Ownership Structure Flow petroleum is owned by three brothers with equal shareholding. i.e. Muhammad Waris (33.33%), Muhammad Asif (33.33%) and Muhammad Arif (33.33%).

Stability The ownership of Flow Petroleum has remained stable over the years through its sponsors, though the formal succession plan is not final yet.

Business Acumen Mr. Waris has been in the petroleum industry since a very young age. Adding to his technical skills, Mr. Waris holds a Bachelor's degree in Mechanical Engineering from the NUST. It is due to his vision and determination that FPPL has grown at such a rapid pace in a short period of time. Mr. Arif has been in the petroleum business since last 8 years. The group has been associated with oil business since 1980s. They established different companies who work in oil sector i.e., Aslam Energy Pvt Ltd. (AEPL)

Financial Strength Sponsors of the Company have shown a unequivocal commitment to support the Company in future. The group platform provides a firm support to the Company to enhance financial strength.

Governance

Board Structure Flow petroleum has a family dominated board, comprises of three members who are also the shareholders of the Company.

Members' Profile Mr. Muhammad Waris is the Chairmen & CEO of the Company. He is a Mechanical Engineer by profession and has rich experience of over 17 years of petroleum industry having been involved at executive level in all stages of business operations. He has an extensive experience in oil marketing, business development and Logistics. Moreover, other members of the board also have extensive experience in oil and marketing industry.

Board Effectiveness The board has room for improvement which will help the board to deliver its strategic goals and objectives. The committees will also ensure the effectiveness of the board. Currently, the Board has only HR committee.

Financial Transparency PKF F.R.A.N.T.S. Chartered Accountants are the External Auditors of the Company, who is a QCR rated firm. They gave an unqualified opinion on the financial statements for the year ended 30th Jun 21.

Management

Organizational Structure Flow Petroleum operates through four broad functional areas which are comprise of : (i) Retail & Commercial (ii) Finance & Accounts (iii) Marketing & Sales (iv) HR & Admin.

Management Team Since inception of the Company's operations in 2019, Mr. Muhammad Waris has been performing his duties as Managing Director/ CEO.

Effectiveness Function of the management committees is to accomplish the goals and objectives set out by the board and higher management. The Company has room to improve its effectiveness by forming management committees. The Company has Risk Management Committee responsible for managing strategic risk, FPPL is exposed to.

MIS The Company has cloud based ERP system named IERP integrated with all functions of the business, who has ability to generate management reports readily.

Control Environment The board of directors is responsible for establishing and monitoring risk management framework. The board alongside management is involved in ensuring effective implementation of the risk management policies. The company regularly assess its risk management policies in line with changing market dynamics. The Company is in process to build an internal audit department.

Business Risk

Industry Dynamics There are 35 registered players operating in the sector with PSO, Total PARCO, HASCOL, Attock Petroleum Ltd, Shell Pakistan Ltd and Be Energy Pakistan being the major OMCs. The sector is highly regulated by OGRA, especially with respect to the prices of two major products, MOGAS and diesel. It was observed that global fuel prices have been escalating post pandemic, benefitting OMCs as they can pass on the hike to the consumers. However, record high prices can, in future, constrain the extent to which the changes in prices can be passed, should oil prices continue to follow an uptrend amid escalating geopolitical tensions in Eastern Europe. With the Pakistani economy recovering from the impacts of COVID-19, fuel demand has surged. It is expected that OMCs will continue to attain healthy margins, and will spike to pre-pandemic levels during FY22. OMCs generated an aggregate revenue of PKR 2,528bln in FY21 (FY20: PKR 2,225bln, with an annual GDP contribution of 5.3% (FY20: 5.4%). During FY21, the sector's revenue registered a growth of 13.6%, owing to increased POL prices and volumetric sales. Additionally, three major products, HSD, MOGAS and RFO account for approximately 98% of the total POL consumption.

Relative Position The emergence of other players in the OMC sector is causing pressure on white oil segment market share. The big-five OMCs (PSO, Shell, Total PARCO, Hascol & Attock Petroleum) still retain a large chunk of the market share standing at ~80%. Only 20% market share is captured by smaller OMCs. Flow Petroleum has less than 1% market share.

Revenues During FY21, the Company witnessed an increase of ~152% in total revenue from the corresponding period last year and reached to PKR~4,386mln(FY20 PKR~1,736mln). This was due to increased sales quantum and prices of POL products. During 6MFY22, revenue of the Company stood at PKR~4,157mln.

Margins During FY21, Gross margins improved to 2.6% due to increased sales quantum and prices of POL products (FY20: 1%). Owing to efficient deployment of resources Operating margins improved to 0.5% during FY21(FY20: -2.6%). The effect of efficient management of operational expenses coupled with low finance cost trickled down to improved net profit of PKR~43mln (FY20:PKR -12mln). During 6MFY22, the Company witnessed a significant higher profit, reported to PKR 186mln.

Sustainability The profitability of the Company improved over the period and trying to expand its market share by increasing its retail outlets. The Company is trying to increase its operations by increasing the number of its retail outlets and customer base, which will provide the Company an organic growth.

Financial Risk

Working Capital As at end-Jun 21, inventory of the Company significantly grew by 4x to PKR 184mln (end-Jun20: PKR 44mln). The Company is largely managing its working capital through stretching of payables and borrowings from FIs. The Company's inventory significantly surged to PKR 4,010mln during 6MFY22. The Company has invested in its inventory over the period, which helped it in generating more profits as the prices of petroleum products increased in international market. Flow Petroleum's net working capital days recorded a significant dip during the period. This is mainly owing to change in average inventory days and increase in trade payable days.

Coverages Higher petroleum prices and profitability during the period lead to higher FCFO (FY21: PKR 34mln, FY20: PKR 7mln). However, finance cost decreased (FY21: PKR 6mln, FY20: PKR 9mln) due to lower borrowings availed in this period and lower interest rate. Hence, interest coverage in FY21 stood at 14.4x from 0.7x in FY20). Core and total operating coverage improved to (FY21: 5.3x FY20: 0.1x).

Capitalization The Company has modest leverage capital structure with debt-to-equity ratio of ~51% (FY21: 61%). The Company has total debt of PKR~524mln and an equity of PKR ~511mln as at end-Dec21. Total debt comprises of loans from related parties (FY21: PKR~526mln; FY20: PKR ~233mln).

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Financial Summary
PKR mln

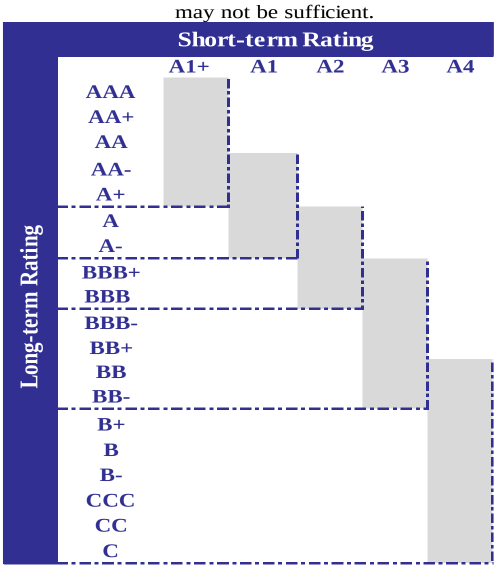
Flow Petroleum (Pvt) Limited	Dec-21	Jun-21	Jun-20	Jun-19
OMC	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	783	723	462	342
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,110	428	204	224
a Inventories	*4,010*	*184*	*44*	*0*
b Trade Receivables	*73*	*38*	*52*	*190*
5 Total Assets	5,893	1,151	667	566
6 Current Liabilities	4,858	301	104	192
a Trade Payables	*4,187*	*232*	*81*	*185*
7 Borrowings	-	-	45	-
8 Related Party Exposure	516	519	233	279
9 Non-Current Liabilities	9	7	4	2
10 Net Assets	511	325	282	94
11 Shareholders' Equity	511	325	282	94
B INCOME STATEMENT				
1 Sales	4,157	4,386	1,736	170
a Cost of Good Sold	*(3,882)*	*(4,270)*	*(1,716)*	*(168)*
2 Gross Profit	276	116	20	2
a Operating Expenses	(52)	(92)	(64)	(43)
3 Operating Profit	224	24	(44)	(41)
a Non Operating Income or (Expense)	*(3)*	*44*	*36*	*43*
4 Profit or (Loss) before Interest and Tax	221	68	(8)	2
a Total Finance Cost	*(4)*	*(6)*	*(9)*	*(0)*
b Taxation	*(31)*	*(18)*	*5*	*(1)*
6 Net Income Or (Loss)	186	43	(12)	1
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*229*	*34*	*7*	*(5)*
b Net Cash from Operating Activities before Working Capital Changes	*225*	*27*	*(2)*	*(5)*
c Changes in Working Capital	*94*	*30*	*(65)*	*(115)*
1 Net Cash provided by Operating Activities	319	58	(67)	(120)
2 Net Cash (Used in) or Available From Investing Activities	(67)	(261)	(116)	(74)
3 Net Cash (Used in) or Available From Financing Activities	-	228	189	190
4 Net Cash generated or (Used) during the period	252	25	6	(4)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	89.6%	152.7%	921.0%	--
b Gross Profit Margin	6.6%	2.6%	1.1%	1.3%
c Net Profit Margin	4.5%	1.0%	-0.7%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.8%	1.5%	-3.3%	-70.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	89.1%	14.2%	-6.6%	1.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	94	13	30	407
b Net Working Capital (Average Days)	-3	0	2	10
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.4	2.0	1.2
3 Coverages				
a EBITDA / Finance Cost	58.5	14.4	0.7	318.4
b FCFO / Finance Cost+CMLTB+Excess STB	54.6	5.3	0.1	-380.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	18.9	-133.4	-51.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	50.3%	61.5%	49.6%	74.8%
b Interest or Markup Payable (Days)	0.0	0.0	3.4	0.0
c Entity Average Borrowing Rate	1.6%	1.6%	3.1%	0.0%

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 | Clause 11-(A)(p).
(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