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-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate the steady growth of Flow Petroleum (Pvt.) Ltd in the oil marketing company (OMC) sector. Set up in 2019, it has ~ 18 retail outlets, currently in Punjab. Storage infrastructure, aligned to the current size, has been laid out; the facility is at Faqirabad, Attock (capacity of 1,500 MT) while also utilizing hospitality storages. This will have to be enhanced for growth. The market share is miniscule at the moment, expected to increase, as number of new outlets are underway. This also provides an alternative stream of income, in lieu of joining fee. The profitability indicators are congruent to the current size, having dependence on the joining fee as well. The company has local supply chain, while ability to procure from the international suppliers is being worked out. Flow Petroleum capitalizes on strong entrepreneurial capital of its sponsors, having significant knowledge in oil trading segment from its sister concern, Aslam Oil Traders. The ratings drive strength from a structured organization and experienced management team.

Flow Petroleum has moderate financial risk profile reflected by adequate leveraging and coverage indicators. Currently, the company has no long-term debt whereas short-term borrowing needs emanate from working capital requirements. The new funding lines are being negotiated. Corporate governance structure needs to be enhanced; the BOD is currently occupied by the sponsors. Up gradation of oversight environment is vital.

The ratings are dependent on Flow Petroleum’s ability to build market penetration. Improvements in Corporate Governance Structure including but not limited to i) induction of a diverse, independent set of individuals as board members and ii) quality external auditors are important. In addition to timely implementation of these initiatives, the ratings are also reliant on the company’s ability to maintain a manageable leverage structure supported by healthy margins.

Disclosure

Name of Rated Entity	Flow Petroleum (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	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Legal Structure Flow Petroleum Private Limited (FPPL) is a public unlisted company. The company was granted a license to set up an Oil Marketing Company (OMC) by the Oil & Gas Regulatory Authority (OGRA) in April 2018.The registered office of the company is in Lahore, Pakistan.

Background Flow Petroleum Private Limited (FPPL) was founded by Aslam Oil Traders who have been associated with the oil sector since 1980s. The company is penetrating in the Punjab region. It's sister concern include Aslam Energy Private Limited and Aslam Oil Traders.

Operations Flow Petroleum is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. With a network of 18 retail outlets, FPPL has less than 1% market share as at FY-21 based on the total sales. For storage requirements, it has constructed a 1,500 metric tunes warehouse in Faqeerabad District Attock.

Ownership

Ownership Structure The shareholding is equally split amongst three brothers ; Mr. Muhammad Waris, Mr. Muhammad Asif and Muhammad Arif. Mr. Waris is the CEO of the company whereas the other two brothers serve as directors.

Stability The ownership of the company is clearly defined.

Business Acumen The business is being governed and managed by seasoned individuals in the Oil sector of Pakistan. The group has been involved in the Oil sector since 1980s, providing strategic vision and impetus.

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

Governance

Board Structure The board has total three members i.e. the shareholders of the company. There are no independent directors and committees. The minutes of meeting are recorded. The large board structure risks disagreement on certain decisions and may cause unnecessary delay.

Members' Profile Mr. Muhammad Waris is the CEO of FPPL. He possesses over 10 years of experience in the petroleum industry and has been involved at executive level in all stages of business operations. Mr. Muhammad Arif, is the CEO of the sister concern Aslam Energy (AEPL). He possesses more than 8 years of experience in fuel marketing & supply, logistics & transportation. Lastly, Mr. Muhammad Asif possesses more than 5 years of experience in fuel marketing & supply, logistics & transportation. He has significant exposure in the field of logistics and successfully managing a fleet of more than 100 vehicles and monitoring storage and distribution of petroleum products. He is managing the AEPL's carriage business.

Board Effectiveness The board meetings are held weekly to address the strategic issues. They are joined by the CFO, GM Retail & Commercial and GM Sales & Marketing whenever required.

Financial Transparency PKF FRANTS is the External Auditor since incorporation. They provided an unqualified review on the financial statements of June 2019 and 2020. PKF FRANTS is placed in category 'B' by the State Bank of Pakistan.

Management

Organizational Structure Flow Petroleum has an adequate organizational structure. The operations of the company have been bifurcated into four broad functional areas which comprise: i) Retail & Commercial, ii) Finance, iii) Marketing & Sales and iv) HR & Admin. Each function is further divided into sub-units. The entire operational set-up of the company falls under the purview of CEO, with each department head directly reporting to him.

Management Team Since initiation of operations in 2019, Mr. Muhammad Waris (CEO + Chairman) is the managing director of FPPL. The company is planning to develop a strategy model for its supply chain management, whereby Mr. Muhammad Arif is considered to have significant expertise. The CFO, Mr. Qaiser Abbas, is associated with the company since it's inception.

Effectiveness FPPL has constituted a committee comprising the three directors to oversee the management of the company.

MIS The company has implemented an ERP facilitating the operations. Top management receives a daily performance report of operations which results in optimal monitoring. The quality of the I.T. infrastructure and the breadth and depth of activities remain satisfactory.

Control Environment The Company's operating environment relies on an IT infrastructure supported by ERP (Enterprise Resource Planning) solutions. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

Business Risk

Industry Dynamics Consumption of Petroleum Products has reduced by ~3% over the last five years. Major drop was witnessed after FY19 due to reduced economic activities in same year, substitution of Furnace Oil by imported LNG in the power sector, and the emergence of Covid-19 in 2HFY20 adversely impacting the consumption. Total Petroleum Products consumption in FY20 was ~19mln tons (~20mln FY19).

Relative Position The big-five OMCs (PSO, Shell, Total PARCO, GO & Attock Petroleum) retain a large chunk of the market at 80% with PSO dominating at ~44% during FY20. FPPL is a small sized upcoming players occupying less than 1% market share.

Revenues During 6MFY21, FPPL recorded a revenue of PKR 2.3bln up from PKR 1.7bln as at FY20. Major increase is due to opening of new retail outlets which s 18. Segment diversification include HSD with 48%, Motor Spirit 41%, High Octane Blending Component (HOBC) 3% and High Sulfur Fuel Oil (HSFO) 8%.

Margins Gross margins slightly increased to 2.5% in 6MFY21 compared to 1.1% in FY20 as the company reaped benefit from increase in revenue. Hence pre-tax profit margin has increased to 1.7% in 6MFY21 compared to -0.5% in FY20. In course of 6MFY21, Operating Profit and Net Profit Margin stood at 0.7% and 0.8% respectively.

Sustainability Going forward, the company intends to expand its retail network exponentially. Flow has 17 retail outlets are located in Punjab with 1 outlet located in Azad Kashmir. The company takes synergic impetus from it's group operations. The company has local supply chain, while ability to procure from the international suppliers is being worked out. Flow Petroleum capitalizes on strong entrepreneurial capital of its sponsors, having significant knowledge in oil trading segment from its sister concern, Aslam Oil Traders. This is expected to enhance the business profile in the medium term.

Financial Risk

Working Capital FPPL Net Working Capital days decreased up to -2 days (FY20: 1 days) which is majorly due to the increase in trade payable days and reduction in receivable days. As company is paying earlier to their suppliers. FPPL receivables stood at PKR 288mln (FY20: PKR 52mln; FY19: PKR 193mln). In addition to this, company's average inventory period remained stagnant to 46 days (CY20: 44 days) resulting in increased company's dependence on short term borrowings for bridge financing.

Coverages The Company's cash flows remain a function of its profitability. During 6MFY21, cash flows witnessed an increasing trend majorly due to increase in profit before tax. In course of 6MFY21, FCFO of the company has reached to PKR 45mln (FY20: PKR 7mln). The increase is due to increase in EBITDA.

Capitalization The Long term borrowing of the company is PKR 45mln (FY20: PKR: Zero) and Short term borrowing is PKR 45mln (FY20: PKR 45mln). Equity of the company currently stands at PKR 485mln. Debt to capital ratio of the company currently stands at 16.4%. The partners have invested PKR300m as capital and alongwith a director loan of PKR 185mln.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

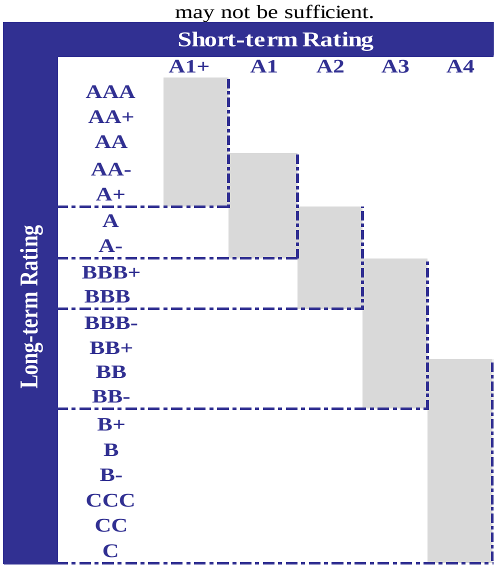
Flow Petroleum (Pvt.) Limited	Dec-20	Jun-20	Jun-19	Jun-18
Oil Marketing Companies	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	516	463	342	267
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	429	203	224	25
a Inventories	*46*	*44*	*-*	*-*
b Trade Receivables	*288*	*52*	*193*	*-*
5 Total Assets	946	667	566	292
6 Current Liabilities	366	151	192	119
a Trade Payables	*346*	*136*	*185*	*118*
7 Borrowings	90	45	-	-
8 Related Party Exposure	5	4	38	28
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	485	467	336	145
11 Shareholders' Equity	485	467	336	145
B INCOME STATEMENT				
1 Sales	2,269	1,736	170	-
a Cost of Good Sold	*(2,212)*	*(1,716)*	*(167)*	*-*
2 Gross Profit	57	20	3	-
a Operating Expenses	(41)	(64)	(44)	(12)
3 Operating Profit	17	(44)	(41)	(12)
a Non Operating Income or (Expense)	*22*	*36*	*43*	*2*
4 Profit or (Loss) before Interest and Tax	38	(8)	2	(10)
a Total Finance Cost	*(4)*	*(9)*	*(0)*	*(0)*
b Taxation	*(17)*	*5*	*(1)*	*3*
6 Net Income Or (Loss)	17	(12)	1	(7)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*45*	*7*	*(5)*	*(28)*
b Net Cash from Operating Activities before Working Capital Changes	*42*	*(2)*	*(5)*	*(28)*
c Changes in Working Capital	*(23)*	*(65)*	*(115)*	*147*
1 Net Cash provided by Operating Activities	20	(67)	(120)	119
2 Net Cash (Used in) or Available From Investing Activities	(59)	(116)	(74)	(164)
3 Net Cash (Used in) or Available From Financing Activities	45	189	190	52
4 Net Cash generated or (Used) during the period	6	6	(4)	6
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	161.4%	921.0%	--	N/A
b Gross Profit Margin	2.5%	1.1%	1.7%	N/A
c Net Profit Margin	0.8%	-0.7%	0.7%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sale	1.0%	-3.3%	-70.8%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/*	7.3%	-3.1%	0.5%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	17	35	414	N/A
b Net Working Capital (Average Days)	-2	1	88	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.3	1.2	0.2
3 Coverages				
a EBITDA / Finance Cost	23.0	76.4	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	22.5	83.0	N/A	-0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost	0.6	0.5	-7.1	-4.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	16.4%	9.4%	10.2%	16.3%
b Interest or Markup Payable (Days)	91.3	365.0	N/A	N/A

Credit Rating

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

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information