The Pakistan Credit Rating Agency Limited

Rating Report

Aslam Energy (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 reflect the stable business profile of Aslam Energy (Private) Limited. Sponsors have been engaged in the business for over three decades reflecting strong business acumen. The company is primarily engaged in two business segments namely i) Trading and distribution of diesel, petrol, related products. This segment is further split into retail and bulk units. Under the retail side, the company operates a network of ~13 retail stations which is mainly spread out in the Punjab region whereas, under the bulk segment the company provides PoL product directly to customers ii) Furnishing fleet logistic services (Carriage income) to OMCs, mainly to sister concern ; Flow Petroleum.

Company's profits are being generated in tandem, equally from both the fleet logistic and distribution. The fleet, though small in size, is expected to be augmented. This will enhance the profitability going forward.

Financial risk profile of Aslam Energy is characterized by adequate leveraged capital structure. This along with improved cashflows help manage the financial risk. Adequate coverages lend support to financial profile; the company does not have any long term borrowings. Aslam Energy is refining its control and governance structure. An extensive ERP is being installed. The company is also bolstering its finance and audit team. The overall governance framework is also being enhanced. Aslam Energy capitalizes on strong entrepreneurial capital of its sponsors, having significant knowledge in oil trading segment from its sister concern, Aslam Oil Traders.

The ratings are dependent on the management's ability to sustain its business volumes while holding the margins. Improvement in margins would remain important. Growth in the business and financial profile along with effective changes in governance framework would be beneficial for the ratings. Meanwhile, financial transparency is considered important.

Disclosure

Name of Rated Entity	Aslam Energy (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 Aslam Energy Private Limited (AEPL), incorporated in July 2018 is principally engaged in trading of petroleum and its related products while providing transport services. The registered office of the Company is situated in Gujranwala.

Background The group started its operations in the early 1980s in the name of "Aslam Oil Traders" by (late) Rana Muhammad Aslam. Initially starting on a small scale, the company has expanded its operations garnering large footprints. AEPL is the sister company of Flow Petroleum Pvt Ltd (FPPL) and Aslam Oil Traders.

Operations The company is mainly engaged in the business of trading and distribution of diesel, petrol, and lubricants. It also provides logistic services (Carriage income) to various OMCs. Aslam Energy (Pvt) Ltd is running a fleet of almost 21 vehicles owned directly or indirectly with sister concerns.

Ownership

Ownership Structure The shareholding is equally amongst three brothers ; Mr. Muhammad Waris, Mr. Muhammad Asif and Muhammad Arif. Mr. Arif is the CEO of the company whereas the other two brothers serve as directors. The group operates under the stewardship of Mr. Waris ; he is also the leading sister concern, Flow Petroleum.

Stability The ownership of the company is clearly defined.

Business Acumen The business is being been 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 Arif joined AEPL Board since incorporation. He possesses more than 12 years of experience in fuel marketing & supply, logistics & transportation. He has significant exposure to field operations including project development, development planning and operational support. Mr. Muhammad Waris, CEO of FPPL joined the AEPL Board since incorporation. He possesses over 17 years of experience in the petroleum industry and has been involved at executive level in all stages of business operations. Lastly, Mr. Muhammad Asif possesses more than 7 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 and is leading towards a world renowned carriage contractor.

Board Effectiveness The board meetings are held weekly to address the strategic issues. They are joined by the COO, CFO, GM Retail & Communication and GM Sales & Marketing of FPPL join 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 FRANS is placed in category 'B' by the State Bank of Pakistan with satisfactory QCR of ICAP.

Management

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

Management Team The management team headed by Mr. Muhammad Arif has extensive experience in the Oil Sector.

Effectiveness AEPL has constituted only a committee comprising the three directors to oversee the management of the company. Going forward, demonstration of development, use of team norms, ground rules and sense of mutual accountability both to the members of the team as individual and team as a whole will remain key factor.

MIS The Company is currently not operating through ERP (Enterprise Resource Planning) solutions. A local software was prepared for financial transactions. The IT infrastructure does not integrate all departments. An ERP System is purchased and is being implemented. It is expected to be completed in June 2021.

Control Environment The company plans to develop ERP System to integrate online order management system where dealers can place their orders and track them. The fleet management system uses trackers to ascertain the movement of lorries.

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 company is garnering market share in PMG and HSD respectively, in the Punjab region. One of the key players in the industry, PARCO, solely deals in High-Speed diesel transportation. However, in the near future, along with HSD, the company would be transporting MOGAS through an existing network. Because of this, relative positioning, in turn, the market share of the carriage companies will change.

Revenues During 6MFY21, the AEPL recorded a revenue of PKR 3.8bln. During FY20, the revenue shot to PKR 4.1m up from PKR 1.1bln in the previous year depicting an increases of 292%. The revenue is dominated by trading whereas the transportation income provides support.

Margins Gross margins slightly remained consistent at 3.2% in 6MFY21. In course of 6MFY21, Operating Profit and Net Profit Margin stood at 2.5% and 2.2% respectively. The company witnessed improved margins as a result of increase in the dealer margin along with enhanced efficiency in operations.

Sustainability Going forward, the company intends to expand its retail network . Additionally, it also aims to grow in the segment of carriage income by growing its number of fleets. Aslam Energy 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 The Net Working Capital days has been decreased up to 7 days (FY20: 8 days vs. FY19:16 days) reflecting efficiency in working capital management. AEPL receivables stood at PKR 418mln (FY20: PKR 323mln; FY19: PKR 365mln) leading to improvement in receivables days. In addition to this, company's average inventory period decreased to 5 days (FY20: 3 days , FY19: 11 days).

Coverages The Company's cash flows remain a function of its profitability. During 6MFY21 and FY20 company cash flows increased majorly due to improvement in margins. In course of 6MFY21, FCFO of the company has reached to PKR 94mln (FY20: PKR 88mln & FY19: PKR 28mln).

Capitalization The Long-term borrowing of the company stood at PKR 8mln (FY20: PKR 10mln) whereas Short-term borrowing is PKR 51mln (FY20: PKR 52mln). The Long-term borrowing of the company decreased due to payment of lease liabilities. Equity of the company currently stands at PKR 234mln due to increase Revenue Reserve. Debt to capital ratio of the company currently stands at 20.4% in 6MFY21, previously it was 29.3% in FY20.

The Pakistan Credit Rating Agency Limited

Aslam Energy (Pvt.) Limited	Dec-20	Jun-20	Jun-19
Oil Trading Companies	6M	12M	12M

A BALANCE SHEET			
1 Non-Current Assets	98	100	28
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	641	403	404
a Inventories	*168*	*31*	*33*
b Trade Receivables	*418*	*323*	*365*
5 Total Assets	739	503	433
6 Current Liabilities	211	228	351
a Trade Payables	*196*	*170*	*345*
7 Borrowings	60	62	-
8 Related Party Exposure	230	59	8
9 Non-Current Liabilities	5	3	0
10 Net Assets	234	151	74
11 Shareholders' Equity	234	151	74

B INCOME STATEMENT			
1 Sales	3,768	4,149	1,060
a Cost of Good Sold	*(3,646)*	*(4,015)*	*(1,018)*
2 Gross Profit	122	134	41
a Operating Expenses	(26)	(31)	(11)
3 Operating Profit	96	102	30
a Non Operating Income or (Expense)	*0*	*0*	*0*
4 Profit or (Loss) before Interest and Tax	96	103	30
a Total Finance Cost	*(2)*	*(4)*	*(0)*
b Taxation	*(11)*	*(22)*	*(6)*
6 Net Income Or (Loss)	83	77	24

C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*94*	*88*	*28*
b Net Cash from Operating Activities before Working Capital Changes	*94*	*89*	*28*
c Changes in Working Capital	*(73)*	*(78)*	*(47)*
1 Net Cash provided by Operating Activities	21	11	(19)
2 Net Cash (Used in) or Available From Investing Activities	0	(31)	(29)
3 Net Cash (Used in) or Available From Financing Activities	(3)	48	50
4 Net Cash generated or (Used) during the period	18	28	2

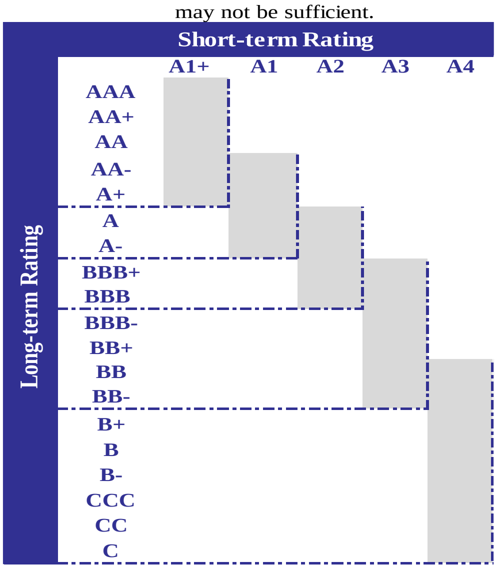
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	81.6%	291.6%	--
b Gross Profit Margin	3.2%	3.2%	3.9%
c Net Profit Margin	2.2%	1.8%	2.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.5%	0.2%	-1.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	86.7%	68.3%	32.3%
2 Working Capital Management			
a Gross Working Capital (Average Days)	23	33	137
b Net Working Capital (Average Days)	14	10	18
c Current Ratio (Current Assets / Current Liabilities)	3.0	1.8	1.2
3 Coverages			
a EBITDA / Finance Cost	50.8	27.0	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	3.4	1.6	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.7	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	20.4%	29.3%	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.
(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