The Pakistan Credit Rating Agency Limited

Rating Report

TOTAL PARCO Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	AAA	A1+	Stable	Maintain	-
23-Dec-2022	AAA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Total PARCO Pakistan Limited's ("Total PARCO" or "the Company") ratings reflect its association with TotalEnergies Marketing Services (TMS) and Pak Arab Refinery Limited (PARCO). The two sponsors are considerably strong across the energy supply chain and are financially stable. Total PARCO is the largest international oil marketing company (OMC) operating in Pakistan. This along with holding the second largest market share in the local OMC sector provides Total PARCO room to support the regulators; thus has the ability to impact the overall structural landscape of the downstream oil marketing sector. The assigned rating also incorporates the Company's adept management of business and financial risks. Notably, the sustainability of the topline and profits; along with the strategic decision to retain profits over an extended period strengthened the Company's overall financial footing. Despite a considerable hike in PoL prices in a regulated price environment, the Company was successful in delivering strong financial performance. Total PARCO's marketing and operations generate fairly stable cash flows, despite the volatility in international oil market prices and other persistent risks. Maneuvering its strategy around the concept of a 'Service Station' rather than a 'Petrol Pump", Total PARCO aims to build & retain its customer base by developing brand loyalty that goes beyond transactional. In order to remain aligned with the contemporary world's energy needs, the Company has a clear view on the global energy transition.

The rating also remained cognizant of the strategic initiatives of Total PARCO, which inter alia includes the construction of new storage sites, expansion in production capacity of the lubricants plant, sustainable development goals and initiatives towards its corporate social responsibilities. The Company's sound governance framework and control environment augurs well for smooth & compliant business operations. Deployed IT infrastructure at the group level is considered robust, mitigating any business interruption risk.

Disclosure	
Name of Rated Entity	TOTAL PARCO Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | POL Distribution - OMCs & Dealers(Nov-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Total PARCO Pakistan Limited ("TPPL" or "the Company") is an unlisted public limited company.

Background In 1997, TotalEnergies Marketing and Services – France (TMS) entered into a joint venture with Atlas Group to form Total Atlas Lubricants Pakistan (Pvt) Ltd. (TALP) to deal in lubricants. Identifying opportunities, Total conceived another JV with Pak Arab Refinery Limited (PARCO) to form TPPL, an OMC. In 2011, Total acquired 100% stakes in the lubes business. In 2014, TPPL acquired Chevron Pakistan's retail business. Both businesses, TOPL (former TALP) & TPPL kept running parallel until 2014. The merger was effective from 1-Jan-15 when both businesses were merged under the banner of TPPL.

Operations TPPL primarily engages in marketing and selling petroleum products (POL) through its extensive retail network of 838 stations, including 5 company-operated sites. It possesses owned and leased storage capacities of 86,000MT and 35,000MT, respectively, along with access to a contracted fleet of over 550 tankers and relies on White Oil Pipeline (WOP) and Mahmoodkot-Faisalabad-Machhike (MFM) Pipeline services to transfer products from South to North Pakistan.

Ownership

Ownership Structure The Company is 50% owned by TotalEnergies Marketing and Services – France (TMS) and 50% by Pak Arab Refinery Limited (PARCO).

Stability Ownership of TPPL has remained stable since the acquisition of Chevrons'. TPPL is a strategic investment of sponsors and is anticipated to remain stable in the foreseeable future. PARCO, a Govt. owned entity while TMS has an operational history of over 100 years posing a petite risk of instability and succession problems.

Business Acumen The unprecedented success of parent entities is a clear reflection of the excellent business acumen of sponsors and their ability to form and execute business strategies. Sponsors have industry-specific working knowledge from upstream to downstream and strategic thinking capability.

Financial Strength The financial strength of Sponsors is unsurmountable. PARCO, a JV between Govt. of Pakistan and the Emirate of Abu Dhabi (~40%), through its Mubadala Investment Company, is the largest refinery in Pakistan and is AAA rated by PACRA and has an equity base of PKR 141bln as of CY22. The other ultimate sponsor, TotalEnergies (AA- rated by Fitch) possesses total assets of USD 304bln.

Governance

Board Structure TPPL has a six-member Board. Three members represent PARCO and the other three are nominees of TMS. To enhance transparency in the practices of the Board, The Chairman is nominated by PARCO while the CEO of the Company is appointed by TMS.

Members' Profile Mr. Momin Agha has assumed the role of Chairman of the Board, effective Aug'23. Mr. Agha, a seasoned Civil Servant with over 27 years of experience, also serves as the Chairman of PARCO. The Board comprises members with extensive and diversified professional backgrounds, spanning over 3 decades.

Board Effectiveness The Board operates with efficiency through three sub-committees: Finance, Audit, and Human Resource. Regular quarterly meetings, attended by all members, are conducted to deliberate on strategic decisions, ensuring comprehensive documentation of proceedings.

Financial Transparency The External Auditors EY Chartered Accountants issued an unqualified opinion on the Company's financial statements for Dec-22.

Management

Organizational Structure TPPL has an excellent organizational structure. The Company operates through 7 departments, Finance, HR & Admin, Corporate Strategy & Compliance, HSSEQ, Consumer Sales & Specialties, Operations and Retail. Each department is headed by the Vice President (VP). The entire operational set-up of the Company falls under the purview of the CEO.

Management Team Mr. Asif Iqbal has taken on the role of CEO at the Company, effective Oct'23. Formerly serving as the CEO and Country Chair at TotalEnergies Vietnam, Mr. Iqbal brings over 28 years of valuable experience in the energy sector. Throughout his career, he has held significant positions in various countries within the TotalEnergies Group."Other members of the management, as well, are seasoned professionals with carrying average experience of 2 decades.

Effectiveness To bring efficiencies in the system, management has formed various committees in each department but the jewel of the crown is ManCom, where all V.Ps evaluate strategies together. These committees meet weekly and whenever need be. Meeting minutes are maintained adequately.

MIS The whole organization is being managed through SAP except the HR module. It runs various modules and generates reports as required, including general ledger, sales & purchase, inventory control, carriage & freight, etc. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control. Apart from SAP, TPPL has also installed the software 'KissFlow' to manage daily tasks and to save time consumed in manual methods.

Control Environment TPPL has an in-house internal audit department as well, which monitors compliance with internal controls and presents reports directly to Audit Committee. TPPL's internal audit enhances operations and ensures compliance with internal controls, improving business practices.

Business Risk

Industry Dynamics Pakistan heavily depends on imports for its energy requirements due to its limited domestic POL production. A substantial increase in POL import costs was witnessed supported by rupee depreciation (FY22: US$17bln, FY21: US$8bln); however, the demand remains stable. While, during FY23, the demand for POL products, furnace oil (FO), high-speed diesel (HSD), motor spirit (MS), and high-octane blended component (HOBC) - which make up ~95% of the total sales, declined by ~15% due to macroeconomic pressures. The transportation and power sectors remain the main consumers, accounting for ~89% of total demand. Despite challenges, the sector's overall outlook - cashflows and liquidity - remains stable.

Relative Position With significant strategic importance for the oil industry, TPPL enjoys 2nd highest market share in the OMC sector after PSO, a sovereign-owned and supported entity. During 9MCY23, TPPL enjoyed a significant market share of ~13% and ~10% in MS and HSD, respectively.

Revenues TPPL's large marketing operations generate largely stable profits, although subject to risks related to regulatory developments and inventory gains/losses to some extent. During CY22, TPPL posted a significant growth of ~79% to PKR 479,212mln (CY21 PKR 268,031mln). During 9MCY23, the Company reported sales of PKR 435,915mln, where despite a ~15% decline in POL product sales, the impact was mitigated by higher prices, resulting in a ~26% growth. A significant proportion of these sales emanates from the Company's extensive network in Punjab, playing a pivotal role in its overall sales performance.

Margins The integration with PARCO and TMS provides operational synergies, leading to strong operating efficiency. Gross profit margin of TPPL is on an upward trajectory. During CY22, the gross profit margin rose to ~6.3% (CY21: ~5.7%), driven by elevated OMC margins along with cost controls and efficient operational handling. The Company maintained a GP margin of ~5.5% during 9MCY23. Operating margins improved to ~4.7% during CY22 (CY21: ~3.2%) owing to the efficient deployment of resources. During 9MCY23, operating profit margins remained strong at ~4.0%.

Sustainability TPPL is constantly working to improve user experience and is eyeing to open 25-30 retail stations each year to meet its growing customer demands. The Company also has an eye on EV transition and has installed an EV charger at Packages Mall Parking Lahore. However, the current strategy revolves ~95% around the fossil fuels business considering market dynamics.

Financial Risk

Working Capital TPPL leverages its robust financial flexibility to secure competitive domestic loans for working capital needs, primarily to finance trade payables and inventory through short-term borrowings. During CY22, short-term financing of the Company surged by ~141% (CY22: PKR 16,457mln, CY21: PKR 6,831mln) due to onerous working capital situation which is evident from Gross & Net working capital days respectively (CY22: 34 & 11 days, CY21: 31 & 1 days). During 9MCY23, the Company significantly reduced short-term borrowings by ~85%, opting for equity-based working capital management. The Company extended its cash conversion cycle, evident by Gross & Net working capital days respectively (38 & 15 days).

Coverages High POL prices and better profitability have led to higher FCFO during CY22: PKR 17,663mln as compared to corresponding year cash flows (CY21: PKR 7,062mln). During 9MCY23, FCFO surged significantly to PKR 18,893mln due to record-high fuel prices. In CY22, the interest coverage ratio declined to 10x (CY21: 13x), but by 9MCY23, it rebounded to 12x.

Capitalization The Company's capital structure demonstrated a significant positive shift, resulting in a debt-to-equity ratio of 20% (CY22: 49%) as of 9MCY23. This improvement is attributed to a substantial decrease in total debt, which now stands at PKR 7,280mln (CY22:21,329mln). The Company's equity stood at PKR 29,533mln as of 9MCY23 (CY22: PKR 22,453mln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Total PARCO Pakistan Limited	Sep-23	Dec-22	Dec-21	Dec-20
Oil Marketing Companies	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	25,443	23,567	23,057	22,366
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	73,630	60,437	39,114	14,670
a Inventories	*59,086*	*48,618*	*29,192*	*7,869*
b Trade Receivables	*7,961*	*6,451*	*4,618*	*4,132*
5 Total Assets	99,074	84,004	62,171	37,036
6 Current Liabilities	62,088	40,010	38,717	19,595
a Trade Payables	*45,459*	*30,002*	*30,914*	*12,807*
7 Borrowings	7,280	21,329	12,349	9,952
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	173	213	426	455
10 Net Assets	29,533	22,453	10,679	7,035
11 Shareholders' Equity	29,533	22,453	10,679	7,035
B INCOME STATEMENT				
1 Sales	435,915	479,212	268,031	193,647
a Cost of Good Sold	*(411,839)*	*(448,799)*	*(252,711)*	*(188,866)*
2 Gross Profit	24,076	30,413	15,321	4,782
a Operating Expenses	(6,652)	(8,029)	(7,143)	(6,108)
3 Operating Profit	17,424	22,384	8,178	(1,326)
a Non Operating Income or (Expense)	*(3,080)*	*(5,441)*	*(1,827)*	*(394)*
4 Profit or (Loss) before Interest and Tax	14,344	16,944	6,351	(1,720)
a Total Finance Cost	*(1,783)*	*(2,044)*	*(892)*	*(750)*
b Taxation	*(5,481)*	*(2,070)*	*(1,780)*	*(2,332)*
6 Net Income Or (Loss)	7,081	12,830	3,679	(4,802)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*18,893*	*17,663*	*7,602*	*(517)*
b Net Cash from Operating Activities before Working Capital Changes	*17,496*	*16,150*	*7,279*	*(829)*
c Changes in Working Capital	*(14,602)*	*(21,937)*	*(6,107)*	*(771)*
1 Net Cash provided by Operating Activities	2,893	(5,788)	1,172	(1,601)
2 Net Cash (Used in) or Available From Investing Activities	(3,606)	(2,714)	(1,972)	(1,494)
3 Net Cash (Used in) or Available From Financing Activities	(398)	1,019	4,513	1,020
4 Net Cash generated or (Used) during the period	(1,110)	(7,483)	3,712	(2,074)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	21.3%	78.8%	38.4%	-18.8%
b Gross Profit Margin	5.5%	6.3%	5.7%	2.5%
c Net Profit Margin	1.6%	2.7%	1.4%	-2.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.0%	-0.9%	0.6%	-0.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity*	36.3%	77.4%	41.5%	-50.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	38	34	31	24
b Net Working Capital (Average Days)	15	11	1	-3
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.5	1.0	0.7
3 Coverages				
a EBITDA / Finance Cost	11.9	10.0	12.9	0.8
b FCFO / Finance Cost+CMLTB+Excess STB	12.3	5.9	0.9	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.3	1.7	-12.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	19.8%	48.7%	53.6%	58.6%
b Interest or Markup Payable (Days)	0.0	34.1	67.8	37.8
c Entity Average Borrowing Rate	12.3%	11.3%	6.5%	8.4%

Credit Rating

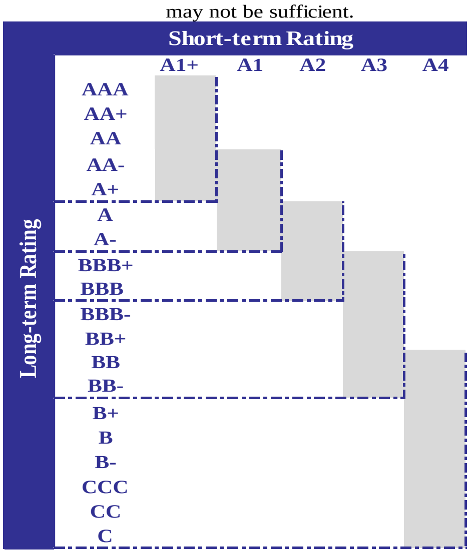
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent