



The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan National Shipping Corporation

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	AA	A1+	Stable	Maintain	-
29-Jun-2018	AA	A1+	Stable	Maintain	-
29-Dec-2017	AA	A1+	Stable	Maintain	-
13-Feb-2017	AA	A1+	Stable	Upgrade	-
16-Feb-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect PNSC's strong ownership - majority owned by the Government of Pakistan (~87.3%) - and its strategic significance as the country's flag carrier. On a stand-alone basis, PNSC's business profile has gained significant strength in recent years on account of efficient fleet utilization and cost management measures taken by the management. The company's governance body has undergone considerable changes. Business volumes beginning FY18 have witnessed a contraction on the backdrop of the reduction in furnace oil imports. Additionally, this has impacted the company's revenue from the Pakistan State Oil (PSO). Currently, the company operates through a fleet of managed and chartered-hire vessels to stimulate business volumes. It now embarks on emerging into "white oil" import with an aim of increasing its owned fleet size, by acquisition of three (3) more vessels. The expansion would majorly be financed through debt; thus leveraging is expected to go high, however, this would also boost up the revenue base and is likely to generate higher margins than that currently emanating from chartered-hire vessels. This, along-with on-balance sheet liquidity, supports the overall risk profile of the company.

The ratings are dependent on the Corporation's ability to generate envisaged cash flows post-expansion. Meanwhile, any change in debt matrix stressing the financial risk profile may have a negative impact on the ratings.

Disclosure

Name of Rated Entity	Pakistan National Shipping Corporation
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Shipping(May-18)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure The Pakistan National Shipping Corporation ("PNSC" or "the Corporation") is an autonomous corporation, functioning under the overall control of the Ministry of Maritime Affairs, Government of Pakistan. The Corporation is listed on the Pakistan Stock Exchange since 1980, and has nineteen subsidiaries and one associate concern.

Background PNSC came into existence by the merger of National Shipping Corporation (NSC) and Pakistan Shipping Corporation in 1979 through Pakistan National Shipping Corporation Ordinance, No XX, 1979. The Corporation is entirely autonomous and is managed by its Board of Directors (BoD).

Operations PNSC, being the national flag carrier of Pakistan, is involved in the transportation of dry bulk and liquid cargoes globally through managed and chartered vessels. The corporation operates a fleet of 9 vessels, including 4 tankers and 5 bulk carriers, and holds a capacity of ~681,806 DWT. A small portion of its operations also comprises income from real estate business.

Ownership

Ownership Structure PNSC is majorly owned by the Government of Pakistan (GoP) (~87.3%), through the Ministry of Maritime Affairs, followed by PNSC Employees Empowerment Trust (~1.83%).

Stability Stable ownership structure exists, with the GoP possessing majority stakeholding in the Corporation since its formation.

Business Acumen The Corporation was formed under constitutional protection with an objective of providing the country with a national flag shipping service. Major stakeholder in the Corporation is the GoP. Business acumen is, therefore, considered strong.

Financial Strength Financial strength of the owners is considered strong.

Governance

Board Structure The Corporation's BoD is constituted by the Federal Government and minority shareholders. A seven member board of directors exist, with five of these directors (including the Chairman) being nominated by the GoP. The rest two directors are elected by the shareholders.

Members' Profile The Board is chaired by Mr. Rizwan Ahmed. He joined PNSC in December'17. Prior to his association with PNSC, Mr. Rizwan had served on various key positions in the federal and provincial governments. He has brought with him vast professional experience in administration, finances, management, human resource, law enforcement and public procurement.

Board Effectiveness The Board has formed two sub-committees, namely (i) Audit & Finance Committee & (ii) HR and Remuneration Committee.

Financial Transparency The Corporation complies with the Code of Corporate Governance applicable on listed entities, which strengthens its overall governance framework. Additionally, the Corporation is jointly audited by the EY Fort Rhodes, Chartered Accountants and KPMG Taseer Hadi & Co., Chartered Accountants, two of the big four firms.

Management

Organizational Structure PNSC has a well-defined organizational structure with a professional management team.

Management Team Seasoned professionals, having long association with PNSC hold the key management positions in the Corporation. Mr. Rizwan Ahmed, the Board Chairman, also acts in the capacity of the CEO as per the PNSC Ordinance, 1979.

Effectiveness In order to keep an effective oversight of the business operations, twelve management committees are in place constituting various key management personnel.

MIS PNSC deploys Enterprise Resource Planning (ERP) software – "Ship Management Expert System" (SES) – for its MIS reporting. The system provides online link between vessel and head office. The Corporation employs 'Purple Finder' – an international satellite system, to track its vessels with the help of equipment trackers that have been installed in the fleet.

Control Environment The corporation relies on strong governance practices and discrete management system. A tall organization structure with clearly defined lines of responsibilities exist. This is accompanied by an integrated well-versed Information system to support functions pertinent to a shipping corporation.

Business Risk

Industry Dynamics Pakistan's total seaborne trade during FY18 reached to ~100mln DWT (FY17: ~90mln DWT), out of which ~66mln DWT constituted dry bulk trade and ~34mln DWT accounted for liquid bulk trade. Liquid bulk comprises import of crude oil variants by the oil and gas sector, particularly refineries and OMCs. White oil import (such as MOGAS) is becoming the new mania of the era as the global and domestic market witness a shift in energy mix to "clean oil". Overall Furnace Oil consumption in the country has dropped to ~29% of the total fuel consumption in FY18 (FY17: ~37%).

Relative Position The Corporation's share in Pakistan's seaborne trade recorded at ~12.7% during FY18 (FY17: ~15.9%). In liquid bulk cargo, PNSC has a considerable share (~31%), whereas in dry bulk, the Corporation possesses a share of ~3%.

Revenues PNSC's revenue emanates from two sources; liquid cargo (~62%) and dry bulk (~38%). Dry bulk can further be sub-divided into slot charter and bulk cargo. A small proportion of revenue comes from rental income. During FY18 and 1QFY19, PNSC's topline reflected a downward trend on account of reduced business with PSO for the import of furnace oil. Topline clocked in at PKR~9.9bln in FY18 (FY17: PKR~12.3bln) down by ~20% YoY. During 1QFY19, revenue stood at PKR~2.1bln, down by ~33% from the same period last year.

Margins PNSC's margins witnessed a contraction during FY18 and 1QFY19, on the backdrop of high competition in the global shipping market. Since shipping industry is indexed, AFRA rates directly impact the freight rate charged by PNSC to refineries. Average AFRA rates in FY18 were lower as compared to FY17. Gross Margin for FY18 clocked in at PKR~21% (FY17: ~28%). During 1QFY19, gross margin recorded at ~21%.

Sustainability PNSC – being a Sovereign ownership, is a sustainable corporation. Business volumes, however, encountered volatility due to political uncertainties in the country and changes in global energy mix. PNSC is therefore keen on embarking on project for 'white oil' imports. The corporation intends on adding three new vessels to its fleet, 2 LR-1 and 1 Aframax/LR-1, which shall be financed through debt and equity in the ratio 90:10.

Financial Risk

Working Capital PNSC's working capital needs originate mainly from demurrage expenses receivable from the clients. Majority of the demurrage expenses are of PSO. PNSC meets working capital needs from internal cash flow generation.

Coverages FCFO - a function of EBITDA - remained strong though declined owing to lower profitability (1QFY19: PKR~475mln, FY18: PKR~2,350mln, FY17: PKR~3,796mln). Declined FCFO decreased the overall coverages, though still remained in a comfortable zone.

Capitalization PNSC paid dividend worth of PKR~250mln in FY18. The corporation has a very low leveraged structure (1QFY19: ~7.8%, FY18:~8.6%, FY17: ~12.2%). The same is expected to push upwards as debt for the acquisition of vessels is obtained. Going forward, change in debt matrix alongside expansion is critical.



Pakistan National Shipping Corporation Limited

BALANCE SHEET

	30-Sep-18 3M	30-Jun-18 Annual	30-Jun-17 Annual	30-Jun-16 Annual
Non-Current Assets	25,138	25,303	25,913	26,492
Investments (Incl. associates)	5,011	4,146	4,177	3,972
Equity	50	51	50	50
Debt	4,961	4,095	4,127	3,922
Current Assets	6,799	8,081	7,563	6,074
Trade Receivables	3,028	3,131	2,725	1,960
Others	3,771	4,950	4,838	4,115
Total Assets	36,948	37,530	37,652	36,538
Debt	2,655	2,954	4,154	5,352
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	2,655	2,954	4,154	5,352
Other shortterm liabilities	2,123	2,633	3,061	2,991
Other Longterm Liabilities	613	601	592	613
Shareholder's Equity	31,556	31,341	29,845	27,582
Total Liabilities & Equity	36,948	37,530	37,652	36,538

INCOME STATEMENT

Turnover	2,092	9,878	12,286	12,368
Gross Profit	429	2,057	3,455	3,491
Other Income	134	1,111	985	509
Financial Charges	(57)	(250)	(330)	(559)
Net Income	216	1,641	2,477	2,323

Cashflow Statement

Free Cashflow from Operations (FCFO)	475	2,350	3,796	3,505
Net Cash changes in Working Capital	(508)	(831)	(970)	662
Net Cash from Operating Activities	(83)	1,274	2,502	3,618
Net Cash from Investing Activities	210	(2,211)	1,988	(2,066)
Net Cash from Financing Activities	(303)	(1,461)	(1,471)	(2,365)
Net Cash generated during the period	(175)	(2,398)	3,018	(812)

Ratio Analysis

Performance

Turnover Growth	-33%	-20%	-1%	-20%
Gross Margin	21%	21%	28%	28%
Net Margin	10%	17%	20%	19%
ROE	3%	5%	9%	8%

Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	1.6	2.5	2.0
Interest Coverage (x) (FCFO/Gross Interest)	8.3	9.4	11.5	6.3
Debt Payback-Years (Total Lt.Debt (excluding Covered Short Term Borrowings) / FC	1.6	1.4	1.2	1.8

Liquidity

Short-term Total Leverage (Net Current Assets - STB) / Current Assets	69%	67%	60%	51%
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	48	48	50	50

Capital Structure (Total Debt/Total Debt+Equity)

7.8%	8.6%	12.2%	16.3%
------	------	-------	-------

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

(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