The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan National Shipping Corporation

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Dec-2020	AA	A1+	Stable	Maintain	-
26-Dec-2019	AA	A1+	Stable	Maintain	-
27-Jun-2019	AA	A1+	Stable	Maintain	-
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	-
17-Feb-2015	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect PNSC's strong ownership - majority owned by the Government of Pakistan (89.13%) - and its strategic significance as the country's national flag carrier. The Corporation operates on a "One Vessel One Company" 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. Revenues emanate from a mixture of liquid and dry cargo, with liquid cargo bearing a higher weightage. Volatility in BDI index due to the impact of COVID-19 affected the bulk trade. The foregone share in topline is, however, covered by liquid trade through expanded tanker fleet; recently, two new oil tankers have joined the Corporation’s managed fleet bringing up the total fleet number to eleven (11) and dead-weight tonnage capacity to 831,711 DWT – being highest in the history. The Corporation also operates through chartered-hire vessels to stimulate business volumes. PNSC is planning to acquire three secondhand vessels, one for each of its business segments within the current fiscal year, namely one Aframax Crude Oil Tanker (105,000 DWT), one LR-1 Product Carrier (75,000 DWT) and one Ultramax Bulk Carrier (63,000 DWT).

Procurement of ships is 90% financed through external debt. On the other hand, additions in managed fleet are expected to boost up the revenue base by their revenue contribution in existing revenue base of 11 vessels. and generate better profit margins than from chartered-hire vessels business. This factor, put along with the Corporation's on-balance sheet liquidity, is a support to the overall risk profile. The ratings are dependent on the Corporation's ability to generate amicable cash flows post expansion. Meanwhile, prudent financial discipline alongside growth trajectory is imperative.

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-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20)
Related Research	Sector Study | Shipping(Jun-20)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Legal Structure The Pakistan National Shipping Corporation (herein referred to as the "PNSC" or "the Corporation") is an autonomous Corporation, functioning under the 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 (PSC) 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 manages a fleet of 11 vessels, consisting of 6 tankers and 5 bulk carriers. The cargo carrying capacity of PNSC stands at ~831,711 DWT as at End-Sep'20. A small portion of PNSC's 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 the PNSC Employees Empowerment Trust (1.83%), bringing the total GoP holding to 89.13%.

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 deemed strong because of the ownership of GoP.

Governance

Board Structure The Corporations's Board of Directors comprises members nominated by the Federal Government and minority shareholders. A seven member Board exists, with five of these directors (including the Chairman) nominated by the GoP. Two directors are elected by the shareholders.

Members' Profile The Board is chaired by Mr. Shakeel Ahmed Mangnejo. He joined the corporation in Jun'20. As a civil servant, he has been associated with Federal and Sindh governments on various assignments. He has served as Director General, Ports and Shipping, Ministry of Maritime Affairs. He has brought with him vast professional experience in administration, finance, management, human resource, criminal administration and public procurement.

Board Effectiveness The Board has formed three lower committees, namely (i) Audit & Finance Committee, (ii) HR and Nomination Committee & (iii) Strategy and Risk Management Committee

Financial Transparency The Corporation complies with the Listed Companies (Code of Corporate Governance) Regulations 2019, applicable on listed entities, which strengthens its overall governance framework. KPMG and GT Anjum Rehman Chartered Accountants are the External Auditors. They have expressed an unqualified opinion and review on the consolidated financial statements for the year ended June 30th 2020.

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. Shakeel Ahmed Mangnejo, 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 comprising various key management personnel.

MIS PNSC deploys Enterprise Resource Planning software – "Ship Management Expert System" (SES) – for its MIS reporting. The system provides online link between vessels 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 relishes 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 FY19 reached to ~110mln DWT (FY18: ~100mln DWT) but in FY20 it dropped to ~94mln DWT out of which ~66mln DWT constituted dry bulk trade and ~27mln 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". The shipping sector benefited from global economic environment. However, with looming global recession, the demand continues to remain subdued and adversely impacted in all segments of world shipping i.e., freight, asset values and demolition prices.

Relative Position The Corporation's share in Pakistan's seaborne trade was recorded at ~9.3% during FY20 (FY19: ~9.4%). In liquid bulk cargo, PNSC has a considerable share (~26%), whereas in dry bulk, the Corporation possesses a share of ~2.3%. PNSC is privileged of being the sole national flag carrier with a fleet of bulk carriers and oil tankers, comprising 100% Pakistan fleet

Revenues PNSC's revenue emanates from two sources both from owned and charter vessels; liquid cargo (~76%) and dry bulk (~24%). Dry bulk can further be subdivided into slot charter and bulk cargo. A small proportion of revenue comes from rental income too. Major customer of PNSC are the Oil refineries of the country.During FY20 and 3MFY21, despite the impact of Covid-19 PNSC shows promising growth. However, business in bulk trade was low but the liquid cargo covered it successfully. Topline clocked in at PKR~ 13.8bln in FY20 (FY19:11.38bln FY18: 9.9bln) showing growth of ~21% YoY. During 3MFY21, revenue stood at PKR~3.9bln, up from 3.06bln from the same period last year. More support coming from the upcoming expansions of existing refineries are expected to contribute to PNSC's revenue in future.

Margins During 3MFY19 & FY20 PNSC's margins continue their pattern and kept rising, despite pressure on the dry bulk side (Gross margin: 3MFY21: 32.9%, FY20: 33.1%, Operating margin: 3MFY21: 24.1%, FY20: 20.07%). Since shipping industry is indexed. Both AFRA rates and Bulk Dry Index (BDI) represented an uptick in 4QFY19 from the corresponding period, as global shipping industry is regaining its momentum. Due to the increase in borrowings, PNSC's finance cost increased during 3MFY21 & FY20 to PKR ~152mln & ~1,135mln (FY19: PKR~450mln, FY18: PKR~250mln,). PNSC's net profitability decreased to 17.5% in FY20 from 19% from corresponding year as the company acquired 2 Aframax carriers for Liquid bulk trade in FY20.

Sustainability PNSC – being a Sovereign ownership, is a sustainable corporation. Business volumes and margins are dependent on the global shipping market indicators as well as country level sea trade dynamics. However, as the Corporation is expected to operate as a Sovereign Asset, this would mitigate its susceptibility to commercial competition in the domestic landscape. PNSC has, lately, embarked on projects for 'white oil' imports. After successfully inducting two new tankers on board in FY19, PNSC is moving towards further fleet expansion. Accordingly, three more vessels are planned for procurement in the near future.

Financial Risk

Working Capital During 3MFY21 working capital needs were low. In line with the Shipping Industry dynamics, PNSC's working capital management comprises need for funding receivable and payable days only. The Corporation meets its working capital needs from internal cash flow generation. A well-balanced cash conversion and payment cycle exists within the business model as evident from its impressive gross working capital days (3MFY21:30 days, FY20: 17 days) and net working capital days (3MFY21: 22 days, FY20: 8 days).

Coverages During 3MFY20 and FY20 PNSC's cashflows (FCFO) increased by 46% & 43.5% YoY on the back of high turnover. Debt coverages declined in FY18: 1.4x, but started to revive during FY19: 3.2x and in FY20: 2x Interest coverages remained volatile yet comfortable (FY20: 4.2x, FY19: 7.6x, FY18: 9.6x).

Capitalization PNSC paid dividend worth of PKR~255mln in FY20. The corporation had a low leveraged structure the spike in FY19 is because company secured loan for expansion in fleet 3MFY21:17.3%, (FY20: ~18.1%, FY19: ~21.8%, FY18: ~8.6%).

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Financial Summary
PKR mln

00-Jan-00	Sep-20	Jun-20	Jun-19	Jun-18
##	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	28,579	28,937	29,981	22,241
2 Investments	9,015	7,461	6,481	7,208
3 Related Party Exposure	2,472	2,571	2,474	2,835
4 Current Assets	6,393	6,860	6,120	5,332
a Inventories	-	-	-	-
b Trade Receivables	*1,405*	*1,191*	*116*	*296*
5 Total Assets	46,460	45,828	45,055	37,616
6 Current Liabilities	2,661	2,681	2,653	2,633
a Trade Payables	*243*	*449*	*280*	*578*
7 Borrowings	7,129	7,461	9,083	2,954
8 Related Party Exposure	315	229	-	-
9 Non-Current Liabilities	802	764	711	601
10 Net Assets	35,552	34,694	32,608	31,427
11 Shareholders' Equity	35,553	34,694	32,608	31,341
B INCOME STATEMENT				
1 Sales	3,971	13,804	11,389	9,718
a Cost of Good Sold	*(2,663)*	*(9,235)*	*(8,277)*	*(7,660)*
2 Gross Profit	1,308	4,569	3,112	2,057
a Operating Expenses	(352)	(1,798)	(1,517)	(1,064)
3 Operating Profit	955	2,771	1,595	994
a Non Operating Income or (Expense)	*131*	*946*	*1,310*	*1,111*
4 Profit or (Loss) before Interest and Tax	1,086	3,717	2,904	2,104
a Total Finance Cost	*(154)*	*(1,135)*	*(450)*	*(250)*
b Taxation	*(74)*	*(168)*	*(260)*	*(213)*
6 Net Income Or (Loss)	859	2,414	2,194	1,641
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,448*	*4,921*	*3,371*	*2,350*
b Net Cash from Operating Activities before Working Capital Changes	*1,295*	*3,768*	*2,966*	*2,105*
c Changes in Working Capital	*(51)*	*(1,084)*	*(948)*	*(831)*
1 Net Cash provided by Operating Activities	1,244	2,684	2,017	1,274
2 Net Cash (Used in) or Available From Investing Activities	332	(1,647)	(7,825)	118
3 Net Cash (Used in) or Available From Financing Activities	(334)	(2,103)	6,049	(1,461)
4 Net Cash generated or (Used) during the period	1,242	(1,066)	241	(69)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	15.1%	21.2%	17.2%	-20.9%
b Gross Profit Margin	32.9%	33.1%	27.3%	21.2%
c Net Profit Margin	21.6%	17.5%	19.3%	16.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	35.2%	27.8%	21.3%	15.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	9.7%	7.0%	7.3%	5.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	30	17	7	10
b Net Working Capital (Average Days)	22	8	-7	-11
c Current Ratio (Current Assets / Current Liabilities)	2.4	2.6	2.3	2.0
3 Coverages				
a EBITDA / Finance Cost	9.9	4.7	8.9	11.8
b FCFO / Finance Cost+CMLTB+Excess STB	3.0	2.0	1.5	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.4	2.0	3.1	1.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	17.3%	18.1%	21.8%	8.6%
b Interest or Markup Payable (Days)	11.8	7.7	44.0	38.6
c Entity Average Borrowing Rate	7.8%	13.7%	9.2%	7.3%

Credit Rating

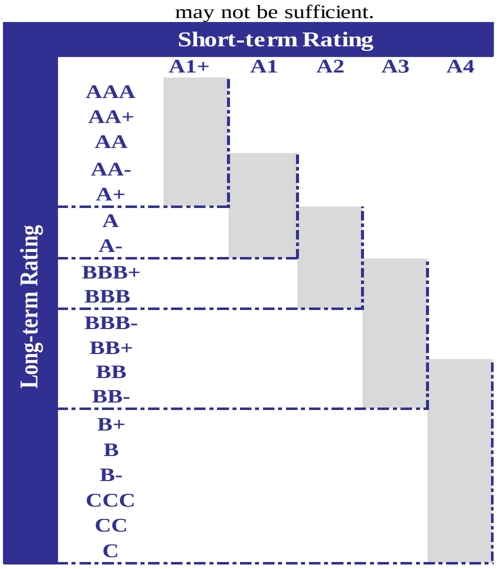
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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