



The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Refinery Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Jun-2023	A-	A2	Stable	Maintain	Yes
09-Jun-2022	A-	A2	Stable	Maintain	Yes
09-Jun-2021	A-	A2	Stable	Maintain	Yes
09-Jun-2020	A-	A2	Stable	Maintain	Yes
10-Dec-2019	A-	A2	Stable	Maintain	-
10-Jun-2019	A-	A2	Stable	Maintain	-
12-Dec-2018	A-	A2	Stable	Maintain	-
31-May-2018	A-	A2	Stable	Maintain	-
29-Jun-2017	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of Pakistan Refinery Limited (the Company) draws comfort not only from its association with the state-owned petroleum corporation; Pakistan State Oil (PSO) but also from the fact that a considerable portion of country's petroleum demand is met through the Company. The local refinery sector took a toll owing to deteriorating economic condition of the country. The depreciation of PKR against USD resulted in unpredictable losses to the refineries based on imported crude oil. PRL's core business remains exposed to the vicissitudes in international crude and petroleum products' (POL) prices, which in turn, steer the gross refining margins (GRMs) of the Company. Throughput of fuel refinery operations declined to 57% as compared to 61% in the corresponding period. Stability in prices of crude oil was witnessed during the latest quarter resulted in steady product margins, consequently, the Company reported Gross Profit of PKR 4,464mln for third quarter FY23 (3QFY22: PKR 7,156mln) hence, providing support to the financial performance for the period ended nine months FY23. The cumulative Gross Profit for the nine months FY23 reported to PKR 6,174mln (9MFY22: PKR 8,605mln). The net profitability of the Company was impacted due to currency devaluation along with soaring interest rates. The Company incurred finance cost of PKR 3,177mln during 9MFY23. Therefore, during nine months period the Company reported Net Profit of PKR 2,531mln (9MFY22: PKR 5,415mln). With increase in interest rates steep rupee depreciation along with slow offtake as a result of falling demand, the Company reliance on working capital financing has increased significantly but is expected to remain in limits by the end of the fiscal year. The local refinery sector is going through some significant challenges pertaining to up-gradation of the refining complex. However, no final approval has been granted by the government which is expected to get delayed further amid current political instability in the country.

The ratings are reflective of the resilient business profile of Pakistan Refinery Limited (PRL) emanating from its sustainable operational history and its strategic importance in the domestic context. The ratings are dependent upon PRL's ability to effectively shield its business profile from external vulnerabilities. Revived performance indicators and prudent financial matrix are imperative to uphold the ratings. Further financial risk profile of the Company is expected to improve as the company is projected to recover from the losses incurred previously during the lockdown period on account of sustainability in international oil prices and available demand drivers in the market and better crude mix. Further, the approval of proposed Refining Policy, which will enhance Refineries' ability to upgrade remains imperative for the ratings

Disclosure

Name of Rated Entity	Pakistan Refinery Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Refineries(Nov-22)
Rating Analysts	Anam Waqas Ghayour anam.waqas@pacra.com +92-42-35869504

Profile

Legal Structure Pakistan Refinery Limited ("PRL") is a Public Limited Company, incorporated in 1960. It is listed on the Pakistan Stock Exchange

Background The plant came into operation, in October 1959. The designed capacity of the refinery was to process one million tons of crude oil annually. Additional capacity was added, subsequently, in October 1962. PRL, since inception, has been one of the principal producers and suppliers of petroleum products in the market.

Operations PRL, a hydroskimming refinery, is designed to process imported and local crude oil to meet the strategic and domestic fuel requirements of the country. Major products of the company comprise; LPG, Motor Gasoline, Kerosene, Jet Fuel (JP-I & JP-8), HSD, Furnace Oil, and Naphtha. The customers of the refinery include all the major oil marketing companies, operating in the country. PRL's refinery is situated at Korangi, while it has a tank terminal to store products, at the Keamari Terminal. In addition to these facilities, there is a network of pipelines connecting the refinery and the terminal to different supply points.

Ownership

Ownership Structure PRL is majority owned by Pakistan State Oil (PSO). PSO recently acquired further shareholding, previously held by Shell Petroleum and Chevron Global Energy, increasing its ownership share to 64%.

Stability The business has been governed and administered by entities, which have a distinguished name in the oil sector. Thus, the stability factor is considered strong.

Business Acumen PRL's sponsors have strong business skills, which has helped the company to achieve sustainable success over a considerable period of time. Sponsors, particularly now with PSO on board, have industry-specific working knowledge and strategic thinking capability.

Financial Strength The company's sponsors have the ability and willingness to support the entity on a continuing basis, and in times of crisis. The sovereign support of the government in the shape of PSO, has further enhanced this notion.

Governance

Board Structure PRL has an eleven member board, including the MD & CEO. The board comprises six non-executive, four independent, and one executive member.

Members' Profile Mr. Tariq Kirmani, an MBA, is the Chairman of the Board, with more than 30 years of experience in relevant sector. PRL's board comprises highly qualified members. It is composed of professionals with considerable foreign and local experience in the oil and gas sector. A few of the board members have an engineering background while some are qualified in the domain of finance and arts. Diversification in terms of knowledge and experience is considered good.

Board Effectiveness The BoD has constituted four committees to maintain strategic oversight, namely; i) Board Audit Committee ii) Board Human Resource and Remuneration Committee iii) Board Project Steering Committee and iv) Board Share Transfer Committee. The TORs of all the committees are formally defined. A strong control environment is maintained.

Financial Transparency PRL's new auditor, KPMG Taseer Hadi & Co, has expressed an unqualified opinion on financial statements at end FY22. Because of its listing status, financial transparency of the company is considered strong as it has to comply with the disclosures requirements of the regulators.

Management

Organizational Structure PRL's organizational architecture encompasses a well-built departmental structure comprising established reporting lines. The departments reporting directly to the MD comprise; a) Engineering, b) Refinery Upgrade Project, c) Technology & Inspection, d) Finance, e) Human Resources, f) Security, g) Commercial, h) Operations & HSEQ. Internal Audit Department & the Company Secretary report to the MD, indirectly.

Management Team Mr. Zahid Mir, the Managing Director and CEO of PRL since August' 19, is a petroleum engineer by profession and has an MBA. He is supported by a team of qualified and competent individuals.

Effectiveness Historically, PRL's effective management has played a major role in empowering the organization through its progressive results. Management's effective decision-making has led to processes becoming more systematic. The robustness of control systems is considered a reflection of strong management.

MIS PRL has implemented SAP ERP, since the year 2000. The SAP software is licensed and undergoes regular up-gradation. The modules implemented at PRL comprise; Finance, Material Management, HR and Plant Maintenance. PRL's IT infrastructure effectively manages all business operations of the company

Control Environment The existence of the Isomerization Unit has resulted in a production increase of Motor Gasoline (MOGAS), a high margin product. The unit is responsible to convert Naphtha into MOGAS.

Business Risk

Industry Dynamics Pakistan consumed a total of ~9mln metric tons (MT) of petroleum products (white oil) in 9MFY23 (9MFY21: ~13mln MT). This decrease is mainly seen due to decrease in the consumption of MOGAS and HSD due to higher petroleum prices and lower discretionary income. Consumption of black oil has been decreasing over the years mainly due to decline in the consumption of FO by ~ 28% to ~1.9mln MT (FY21: ~2.4mln MT), as the government of Pakistan plans to gradually reduce reliance on oil-based power plants to other power sources i.e. LNG & coal.

Relative Position Pakistan's total Refining Capacity stands at ~20mln MTs per annum (FY22), almost equal to the country's POL demand. However, capacity utilization levels remain low on account of the Sector's necessity to operate at an optimum level. Demand for Furnace Oil has declined due to the government's policy of reducing reliance on furnace oil for electricity generation

Revenues During 9MFY23, Pakistan refinery witnessed the decline of -8.5% and generated a turnover of -PKR 189mln in 9MFY21 (9MFY22: -PKR 111mln). This decrease is seen mainly due to i) decrease in volumetric sales due to super-inflation and decrease in discretionary income.

Margins Gross margins of the company have increased in 9MFY23 to -3.8% (FY20: -(4.8%) owing to i) Lower operating cost due to the decrease in the price of raw material ii) reduction in inventory losses. Operating margins (FY20: 5.6%) of the company are also increasing owing to a decrease in the operating expenses during the period under review.

Sustainability The refinery sector has been going through an existential crisis, as a result of the government's demand for environment friendly fuel. The issue of low FO offtake has been compounded by the introduction of the IMO 2020, which necessitates the use of low sulphur FO by the marine sector. Due to the substantial investment needed for the required upgrades to the refineries, the developments in this regard, have reached an impasse. A slump in demand of petroleum products, due to the lockdown in light of Covid-19, has put the industry players under further pressure. Government assistance is imperative, for the sustenance of the sector.

Financial Risk

Working Capital PRL's working capital requirement emanates from its need to finance its inventory and circular debt, which usually results in net receivable position to the company. During 9MFY23 gross working capital days has increased to 63days (9MFY22: 57 days, 9MFY21: 71 days). This is primarily due to the increase in inventory days and trade receivables. In order to meet working capital requirement, PRL resorts to short-term borrowings. During 9MFY23, total available financing facility is -PKR 9450mln of which -2% is utilized.

Coverages PRL's cash flow generation ability remains a function of its profitability and working capital requirements. During 9MFY23, coverages of the company have shown a declining trend (Interest coverage: 9MFY23: 2.2x, FY22: 11.2x 9MFY22: 7.6x) owing to reduced demand and profitability translating into lower FCFO. Nevertheless, amidst volatility in crude oil prices, sustaining a level of coverages for upcoming payments commensurate with the company's rating remains pivotal. Going forward, any accumulation of debt for the upcoming expansion and upgradation project may impact the coverages.

Capitalization PRL has a short-term loan from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) amounting to USD 40.26 million and USD 45.69 million respectively at mark-up rates ranging from fixed rate of 3.4% to 12% per annum repayable by July 19 and December 19, 2022 respectively. The Company leveraging ratio stood at 49% at 9MFY23 (FY22: 45%). The increase in leveraging is due to depreciation of PKR.



Pakistan Refinery Limited Refinery	Mar-23	Jun-22	Jun-21	Jun-20
	9M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	30,511	29,176	20,614	21,427
2 Investments	-	-	-	-
3 Related Party Exposure	10,047	56	59	92
4 Current Assets	69,567	61,715	20,321	13,933
a Inventories	32,401	24,057	10,415	7,527
b Trade Receivables	19,597	11,306	6,589	3,667
5 Total Assets	110,125	90,947	40,994	35,452
6 Current Liabilities	58,325	47,430	20,544	18,195
a Trade Payables	57,358	46,298	14,076	10,234
7 Borrowings	24,747	19,049	18,020	16,970
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	926	871	382	460
10 Net Assets	26,128	23,596	2,047	(173)
11 Shareholders' Equity	26,128	23,596	2,047	(173)

B INCOME STATEMENT

1 Sales	189,904	191,316	92,084	90,524
a Cost of Good Sold	(183,730)	(171,044)	(88,843)	(94,893)
2 Gross Profit	6,174	20,272	3,241	(4,368)
a Operating Expenses	(858)	(873)	(745)	(666)
3 Operating Profit	5,316	19,399	2,496	(5,034)
a Non Operating Income or (Expense)	1,963	(1,901)	454	50
4 Profit or (Loss) before Interest and Tax	7,279	17,498	2,950	(4,984)
a Total Finance Cost	(3,177)	(1,579)	(1,311)	(1,921)
b Taxation	(1,570)	(3,345)	(702)	(686)
6 Net Income Or (Loss)	2,531	12,573	937	(7,591)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	4,173	15,649	3,311	(4,677)
b Net Cash from Operating Activities before Working Capital Changes	1,678	14,030	1,917	(6,558)
c Changes in Working Capital	(5,912)	10,386	(6,029)	9,864
1 Net Cash provided by Operating Activities	(4,234)	24,416	(4,112)	3,306
2 Net Cash (Used in) or Available From Investing Activities	154	(214)	(242)	(1,283)
3 Net Cash (Used in) or Available From Financing Activities	(1,254)	(25,950)	2,237	(87)
4 Net Cash generated or (Used) during the period	(5,334)	(1,748)	(2,117)	1,936

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	32.3%	107.8%	1.7%	-21.8%
b Gross Profit Margin	3.3%	10.6%	3.5%	-4.8%
c Net Profit Margin	1.3%	6.6%	1.0%	-8.4%
d Cash Conversion Efficiency (FCFO adjusted)	-0.9%	13.6%	-3.0%	5.7%
e Return on Equity [Net Profit Margin * Asset Turnover]	13.6%	98.1%	100.0%	-455.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	63	50	59	67
b Net Working Capital (Average Days)	-12	-8	11	25
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.3	1.0	0.8
3 Coverages				
a EBITDA / Finance Cost	1.9	11.2	3.2	-2.9
b FCFO / Finance Cost + CMLTB + Excess STB	0.3	2.5	0.2	-0.3
c Debt Payback (Total Borrowings + Excess STI)	10.2	0.3	9.1	-3.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings + Share Capital)	48.6%	44.7%	89.8%	101.0%
b Interest or Markup Payable (Days)	0.0	0.0	58.0	85.1
c Entity Average Borrowing Rate	19.7%	8.6%	7.9%	8.0%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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

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(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)

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(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)

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