The Pakistan Credit Rating Agency Limited

Rating Report

Attock Refinery Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Nov-2019	AA	A1+	Stable	Maintain	-
30-May-2019	AA	A1+	Stable	Maintain	-
07-Dec-2018	AA	A1+	Stable	Maintain	-
31-May-2018	AA	A1+	Stable	Maintain	-
23-Jun-2017	AA	A1+	Stable	Maintain	-
13-Oct-2016	AA	A1+	Stable	Maintain	-
13-Oct-2015	AA	A1+	Stable	Maintain	-
20-Nov-2014	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect ARL's robust risk absorption capacity emanating from its sizable equity base. ARL's core business remains exposed to the vicissitudes in international crude oil and products prices, which in turn, steer the gross refining margins (GRMs) of the company. During FY19, volatile oil prices coupled with a sharp rupee depreciation emerged as one of the key challenges to ARL and the Refinery Sector as a whole. Resultantly, overall refinery margins remained under pressure hampering the profitability of the sector. Another major issue encountered was the declining demand of Furnace Oil (FO), as the Government took steps to shift power sector needs to alternate fuels like LNG and coal. The recent trend, however, is reflecting a revival, as is evident from a stabler rupee. This is expected to augur well for the company. The PMG and crude oil negative delta, which also played a role, has now reversed. ARL's topline takes benefit of its value-added products; post installation of DHDS and isomerization plant, the company is continuously enjoying benefits in sales volume as well as price. Free cashflows from operations, and in turn, coverages, have improved in 3MFY20, as compared to the prior year. ARL's strategic investments and sizable bank placements, continue to contribute in the form of dividend and interest income. It provides support to the risk profile of the company and remains a stable source of recurring non-core income. The Company’s association with the country's only integrated oil group - Attock Group (AG) - demonstrates to be a source of comfort to the ratings.

The ratings remain dependent on ARL's ability to effectively shield its business profile from external vulnerabilities. Upholding of comforting factors, including income flow from other sources, remains imperative. Meanwhile, continuity of deemed duty on diesel is also crucial.

Disclosure

Name of Rated Entity	Attock Refinery Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-19)
Related Research	Sector Study | Refineries(Nov-19)
Rating Analysts	Saadat Mirza | saadat.mirza@pacra.com | +92-42-35869504

Profile

Legal Structure Attock Refinery Limited ("ARL" or "the company") , incorporated as a private limited company in 1978, took over the crude oil refining business from Attock Oil Company. It was subsequently converted into a public limited company in 1979.

Background ARL is the pioneer of crude oil refining in the country with its operations dating back to 1922. Backed by a rich experience of more than 90 years of successful operations, ARL's plants have been gradually upgraded/replaced with modern hardware to remain competitive and meet new challenges and requirements.

Operations The company is principally engaged in the refining of crude oil. The company primarily produces LPG, premium motor gasoline, jet fuels, kerosene, highspeed diesel, light diesel oil, furnace fuel oil, mineral turpentine oil, jute batching oil, solvent oil and various grades of bitumen.

Ownership

Ownership Structure Attock Group, through Attock Oil Company (AOC) (~61%) and its group company Attock Petroleum Limited (2%) retains the majority stake (~63%), and management control in ARL. Other major shareholders consist of a) Individuals (~22%), b) Banks and other Financial Institutions (~7%), c) Mutual funds (~1%), d) Foreign Investors (~0.4%), e) Joint Stock Companies (2%), and Others (~4%).

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

Business Acumen ARL is a member of Attock Group of Companies, a fully integrated group covering all segments of oil and gas industry from exploration, production, and refining to marketing of a wide range of petroleum products. It is also engaged in manufacturing and trading of cement, information technology. The sponsors have an industry-specific working knowledge and strategic thinking capability.

Financial Strength The Pharaon Group, the principal stakeholder of the Attock Group, is engaged internationally in diversified activities, which include hotels, oil exploration, production and refining, chemicals, cement, and real estate. M/s Coral Holding Limited is the ultimate parent of AOC.

Governance

Board Structure ARL's Board of Directors comprises seven members. It consists of five non-executive members and two independent non-executive directors.

Members' Profile The Chairman of the BoD, Mr. Shuaib A. Malik, is also the CEO of Attock Oil Group. Mr. Shuaib has been associated with the Attock Group of Companies for approximately 4 decades. ARL's board comprises highly qualified board members. It is composed of professionals with considerable experience in the oil and gas sector. Experience profile of board is rich.

Board Effectiveness During FY19, the board held five meetings, four meetings to approve financial results and one to review the annual budget. Participation of members in board meetings also remained satisfactory. The board has constituted three committees to maintain effective oversight and efficient functioning. These comprise: a) Audit Committee, b) Technical and Finance Committee and c) HR & Remuneration Committee.

Financial Transparency A. F. Ferguson & Co. Chartered Accountants, the auditor of the company, has expressed an unqualified opinion on ARL's financial statements for FY19. Because of its listing status, financial transparency is considered strong as the company has to comply with the disclosures requirements of the regulators.

Management

Organizational Structure ARL's organization is structured around the effective functioning of nine major departments. Each department is headed by an experienced professional, reporting directly to the CEO. The departments comprise: a) Technical Services, b) Operations, c) Commercial & Material Management, d) Finance & Corporate Affairs, e) Human Resource & Administration, f) Maintenance, g) Engineering, h) Health, Safety, Environment & Quality, & i) Business Review & Assurance.

Management Team Mr. Adil Khattak, the CEO, has been associated with the group since the last 43 years. He has extensive experience in the petroleum sector. Mr. Assad Abbas, a fellow chartered accountant, is the CFO and has been associated with the company for 8 years. The management team is well qualified which has demonstrated stability over time. Most of the senior management has been linked with the company, since long.

Effectiveness Over the years ARL's effective management has played a major role in empowering the organization through its progressive results, even in times of economic uncertainty. Additionally, management's effective decision-making has led to systematic processes. The robustness of control systems is considered positive.

MIS The Company generates MIS reports on daily, fortnightly and monthly basis. These mainly include daily cash position, daily production report, saleable stock position, treasury and accounts section MIS, monthly debtors aging, monthly management accounts, quarterly budget and expense reporting.

Control Environment ARL has employed ERP Oracle Financials and CMMS (Maximo – developed by IBM) and HRMS system. Primavera software has been deployed to monitor developments on the expansion projects. Moreover, the company has obtained several prestigious international certifications for its quality, environment, occupational health and safety management systems.

Business Risk

Industry Dynamics Pakistan consumed a total of ~20mln metric tons (MT) of refined petroleum products in FY19 (FY18: ~25mln MT), indicating a decrease of ~20%. This decrease is mainly seen due to a fall in the consumption of MOGAS and HSD due to a lack of growth in the transport sector. Additionally, consumption of black oil has plunged due to declining consumption of Furnace oil, as the government of Pakistan is gradually reducing reliance on oil-based power plants in favor of other input sources for electricity generation i.e. LNG & Coal.

Relative Position With regards to relative positioning of the players in the premium products (HSD and MOGAS); efficiency and utilization of available capacity is essential. Two refineries namely PARCO and Byco Petroleum retain a large chunk of the market share of ~54%, while Pakistan Refinery, National Refinery, and Attock Refinery collectively contribute ~46% to the total domestic POL supply.

Revenues ARL witnessed considerable growth of ~36.4% in FY19 while generating net revenue of PKR ~176,754mln (FY18: PKR ~129,597mln). This increase was noted mainly due to volatility in international prices of crude and PoL products during FY19. While in 3MFY20, due to receding demand, the turnover (annualized) compared with FY18, shrunk by ~18.1%.

Margins Gross margins of the company remained negative in FY19 standing at ~-2.3% (FY18: ~-0.8%). Showing improvement in 3MFY20, the gross margins clocked at ~-0.7% (3MFY19: ~-1.4%). Pressure on the gross profits has been exerted by; declining gross refining margins on the backdrop of volatile international prices, particularly in the period when MOGAS traded lower than crude. The same trend was noted in the net profit margins of the company (3MFY20: ~1%, FY19: -3.0%, FY18: ~0.4%). Specifically in FY19, the bottomline was severely affected by rupee depreciation against US dollar, which swept away PKR ~4,740mln in FY19 (FY18: PKR ~1,396mln) from the profitability. Improvement was noticed in 3MFY20, is on the back of an exchange gain of PKR ~211mln (3MFY19: PKR ~-353.7mln).

Sustainability Going forward, the plan is to set up a state-of-the-art Continuous Catalyst Regeneration (CCR) unit for further improvement of motor gasoline specifications, hydrocracker, delayed coker and an additional reactor at DHDS unit. A scoping study has also been initiated to evaluate the most viable option/technology for bottom-of-barrel upgradation for minimization of Furnace Oil production and maximization of value added products.

Financial Risk

Working Capital ARL's working capital requirement emanates from its need to finance its inventory and circular debt. During 3MFY20, the average trade receivables days rose to 53 days (FY19: 39 days, FY18: 37 days). While, the average trade creditor days also increased to 77 days (FY19: 63 days, FY18: 62 days). With average inventory days remaining similar, ARL's average net working capital days in 3MFY20 clocked at -2 days (FY19: -4 days, FY18: -3 days). ARL meets its working capital requirements through internal cash generation whereas reliance on short-term borrowings is limited.

Coverages The Free Cash Flows From Operations (FCFO) during FY19 amounted to PKR 1,440mln (FY18: 265mln). The improvement in this regard is seen, owing to the dividends received from associated companies and interest income received from bank deposits. FCFO during the period 3MFY20 amounted to PKR ~1,230mln (3MFY19: PKR ~-243mln), indicating a significant improvement, compared to the prior corresponding period, as a result of improved profitability . Due to positive free cash flows, the company's coverages have revived [Interest coverage: 3MFY20: 3.5x, FY19: 0.8x, FY18: 0.2x].

Capitalization ARL has a robust capital structure with debt to equity ratio clocking at ~22.1% as at end-3MFY20 (end-FY19: ~23.2%, end-FY18: ~27.4%).

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Financial Summary
PKR mln

Attock Refinery Limited Refinery	Sep-19 3M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	35,653	35,696	34,586	35,885
2 Investments	-	-	986	-
3 Related Party Exposure	13,265	13,265	13,265	14,840
4 Current Assets	47,878	54,888	52,269	40,482
a Inventories	*8,150*	*10,019*	*9,789*	*5,712*
b Trade Receivables	*19,296*	*22,412*	*15,748*	*10,679*
5 Total Assets	96,796	103,850	101,106	91,207
6 Current Liabilities	53,132	60,010	46,945	31,954
a Trade Payables	*26,821*	*34,590*	*26,882*	*17,405*
7 Borrowings	9,636	10,181	14,843	19,872
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	34,028	33,658	39,318	39,381
11 Shareholders' Equity	34,028	33,658	39,318	39,381
B INCOME STATEMENT				
1 Sales	36,173	176,755	129,597	101,412
a Cost of Good Sold	*(36,430)*	*(180,816)*	*(130,675)*	*(97,079)*
2 Gross Profit	(257)	(4,061)	(1,079)	4,333
a Operating Expenses	(192)	(740)	(695)	(644)
3 Operating Profit	(449)	(4,802)	(1,774)	3,689
a Non Operating Income or (Expense)	*1,286*	*(787)*	*2,279*	*2,946*
4 Profit or (Loss) before Interest and Tax	837	(5,588)	505	6,635
a Total Finance Cost	*(354)*	*(1,883)*	*(1,529)*	*(1,263)*
b Taxation	*(114)*	*2,086*	*1,603*	*42*
6 Net Income Or (Loss)	369	(5,385)	579	5,414
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,230*	*1,440*	*265*	*5,315*
b Net Cash from Operating Activities before Working Capital Changes	*547*	*(5,790)*	*377*	*6,796*
c Changes in Working Capital	*(1,899)*	*5,099*	*7,088*	*1,842*
1 Net Cash provided by Operating Activities	(1,352)	(691)	7,466	8,638
2 Net Cash (Used in) or Available From Investing Activities	(369)	504	(1,438)	(949)
3 Net Cash (Used in) or Available From Financing Activities	(553)	(5,184)	(5,703)	4,258
4 Net Cash generated or (Used) during the period	(2,274)	(5,371)	324	11,947
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-18.1%	36.4%	27.8%	52.4%
b Gross Profit Margin	-0.7%	-2.3%	-0.8%	4.3%
c Net Profit Margin	1.0%	-3.0%	0.4%	5.3%
d Cash Conversion Efficiency (EBITDA/Sales)	4.2%	1.3%	0.8%	5.9%
e Return on Equity (ROE)	4.4%	-14.8%	1.5%	14.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	76	60	59	54
b Net Working Capital (Average Days)	-2	-4	-3	-3
c Current Ratio (Total Current Assets/Total Current Liabilities)	0.9	0.9	1.1	1.3
3 Coverages				
a EBITDA / Finance Cost	4.3	1.3	0.7	4.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	0.2	0.1	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.2	-34.5	-11.7	4.9
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	22.1%	23.2%	27.4%	33.5%
b Interest or Markup Payable (Days)	77.1	52.5	62.3	97.8
c Average Borrowing Rate	14.3%	15.1%	8.8%	7.2%

Credit Rating Scale & Definitions

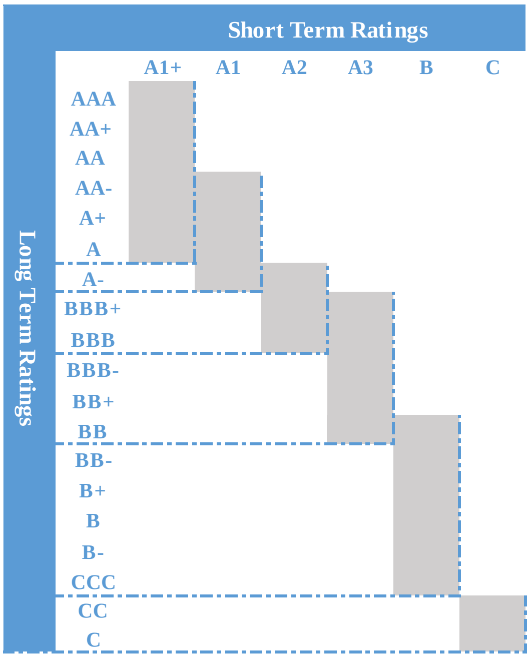
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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(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**
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(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.
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(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)
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