



The Pakistan Credit Rating Agency Limited

## Rating Report

### Attock Refinery Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-May-2020	AA	A1+	Stable	Maintain	YES
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 sound 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. The country's refinery sector is going through some significant challenges for an extended period, majorly pertaining to upgradation of the refining complexes and management of furnace oil (FO) produce. The FO offtake has further obstructed on the export front as IMO 2020 came into play since Jan'20. Depressed crude and POL prices in the International market coupled with the underlying issues of the sector had hampered the performance indicators of the industry players in the outgoing year FY19. Adding to the woes, the global oil market was further struck by widespread uncertainty due to outbreak of COVID-19 pandemic. This had severely weakened the International Oil dynamics, creating a manifold impact on the domestic economy as well as the local refinery industry. Inventory accumulation, NRV adjustments and POL demand slide pressurized the GRMs and profitability margins of the sector players drastically. Nonetheless, the concerns are expected to reverse, going forward, as global prices head on a stabilization trajectory and demand takes a gradual uptick on account of eased lockdown. Having said this, uncertainty still prevails as to the timeliness of complete restoration and recovery of losses that the Industry has absorbed under the current situation. ARL's topline takes benefit of its value-added products; post installation of DHDS and isomerization plant. Free cashflows from operations, and in turn, coverages, have deteriorated in 9MFY20. 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. Recurring non-core income remained insufficient to absorb the net losses. 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. The entity has been put on rating watch on account of inevitable factors and unprecedented situation of Covid-19 outbreak.

#### Disclosure

<b>Name of Rated Entity</b>	Attock Refinery Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Refineries(Nov-19)
<b>Rating Analysts</b>	Bazahtul Qamar   bazahtul.qamar@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** The country consumed a total of ~13.1mln metric tons (MT) of refined petroleum products in 9MFY20 (9MFY19: ~14.9mln MT), depicting a fall of ~12% compared to the corresponding period. This decrease is mainly seen due to a fall in the consumption of MOGAS and HSD as a result of a lack of growth in the transport sector. A further fall in demand because of the nationwide lockdown due to Covid-19 has added to the problems within the industry. Additionally, consumption of black oil has plunged due to declining demand of Furnace Oil (FO), as the government is gradually reducing reliance on oil-based power plants in favor of other input sources for electricity generation i.e. LNG & Coal. With the introduction of IMO 2020, offtake of FO will continue to be a major challenge.

**Relative Position** With respect to the 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 ~52%, while Pakistan Refinery, National Refinery, and Attock Refinery, contribute ~48% to the total domestic supply of POL products.

**Revenues** ARL witnessed considerable growth of ~36.4% in FY19 while generating net revenue of PKR ~109.21bln in 9MFY20 (FY19: PKR ~176.75bln). This increase was noted mainly due to volatility in international prices of crude and PoL products.

**Margins** Gross margins of the company remained negative in 9MFY20 standing at ~-3.2% (FY19: ~-2.3%). Pressure on the gross profits has been exerted by: declining gross refining margins, particularly in the period when MOGAS traded lower than crude. The same trend was noted in the net profit margins of the company (9MFY20: ~-2.1%, FY19: -3.0%, FY18: ~-0.4%). Specifically, the bottomline was severely affected by rupee depreciation against US dollar.

**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** ARL's working capital requirement emanates from its need to finance its inventory and circular debt. During 9MFY20, the average trade receivables days rose to 49 days (FY19: 39 days, FY18: 37 days). While, the average trade creditor days also increased to 81 days (FY19: 63 days, FY18: 62 days). With average inventory days remaining almost similar, ARL's average net working capital days in 9MFY20 clocked at -8 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** Due to negative free cash flows, the company's coverages have declined [Interest coverage: 9MFY20: -1.8x, FY19: 0.8x, FY18: 0.2x]

**Capitalization** ARL has a robust capital structure with debt to equity ratio clocking at ~21.6% as at end-9MFY20 (end-FY19: ~23.2%, end-FY18: ~27.4%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Attock Refinery Limited Refinery	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	36,392	35,696	34,586	35,885
2 Investments	-	-	986	-
3 Related Party Exposure	13,265	13,265	13,265	14,840
4 Current Assets	46,284	54,888	52,269	40,482
<i>a Inventories</i>	9,200	10,019	9,789	5,712
<i>b Trade Receivables</i>	17,008	22,412	15,748	10,679
5 Total Assets	95,941	103,850	101,106	91,207
6 Current Liabilities	55,244	60,010	46,945	31,954
<i>a Trade Payables</i>	30,084	34,590	26,882	17,405
7 Borrowings	8,809	10,181	14,843	19,872
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	31,888	33,658	39,318	39,381
11 Shareholders' Equity	31,888	33,658	39,318	39,381
<b>B INCOME STATEMENT</b>				
1 Sales	109,218	176,755	129,597	101,412
<i>a Cost of Good Sold</i>	(112,742)	(180,816)	(130,675)	(97,079)
2 Gross Profit	(3,524)	(4,061)	(1,079)	4,333
<i>a Operating Expenses</i>	(667)	(740)	(695)	(644)
3 Operating Profit	(4,191)	(4,802)	(1,774)	3,689
<i>a Non Operating Income or (Expense)</i>	2,024	(787)	2,279	2,946
4 Profit or (Loss) before Interest and Tax	(2,167)	(5,588)	505	6,635
<i>a Total Finance Cost</i>	(1,034)	(1,883)	(1,529)	(1,263)
<i>b Taxation</i>	876	2,086	1,603	42
6 Net Income Or (Loss)	(2,325)	(5,385)	579	5,414
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	(5,129)	1,440	265	5,315
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(5,129)	(5,790)	377	6,796
<i>c Changes in Working Capital</i>	-	5,099	7,088	1,842
1 Net Cash provided by Operating Activities	(5,129)	(691)	7,466	8,638
2 Net Cash (Used in) or Available From Investing Activities	1,307	504	(1,438)	(949)
3 Net Cash (Used in) or Available From Financing Activities	(2,795)	(5,184)	(5,703)	4,258
4 Net Cash generated or (Used) during the period	(6,617)	(5,371)	324	11,947
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	-17.6%	36.4%	27.8%	52.4%
<i>b Gross Profit Margin</i>	-3.2%	-2.3%	-0.8%	4.3%
<i>c Net Profit Margin</i>	-2.1%	-3.0%	0.4%	5.3%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	-4.2%	1.3%	0.8%	5.9%
<i>e Return on Equity (ROE)</i>	-9.5%	-14.8%	1.5%	14.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	73	60	59	54
<i>b Net Working Capital (Average Days)</i>	-8	-4	-3	-3
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	0.8	0.9	1.1	1.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-4.4	1.3	0.7	4.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-0.5	0.2	0.1	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-2.2	-34.5	-11.7	4.9
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	21.6%	23.2%	27.4%	33.5%
<i>b Interest or Markup Payable (Days)</i>	71.6	52.5	62.3	97.8
<i>c Average Borrowing Rate</i>	14.5%	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		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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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)

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- 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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- (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)
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- (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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