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
27-May-2021	AA	A1+	Negative	Maintain	YES
29-May-2020	AA	A1+	Stable	Maintain	YES
28-Nov-2019	AA	A1+	Stable	Maintain	-
30-May-2019	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. 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. In order to cater the issue Working Group constituted by the Government, comprising of the Government officials and representative of refineries, had finalised a draft Refining Policy which envisages certain fiscal and tariff concessions to the refining sector which are likely to improve financial condition of the refineries enabling upgradation of plants. However the final approval and actual financial impact is yet to be seen. 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. During the nine months period ended March 31, 2021, the Company suffered loss from refinery operations while the non-refinery income decreased as well. The margins started to slightly improve around December 2020. However, afterwards with onset of third wave of the pandemic, the margins again started to shrink. Free cashflows from operations, and in turn, coverages, have deteriorated in 9MFY21. 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. Further outlook of the Company is expected to improve upon approval of proposed Refining Policy, which will enhance Refineries' ability to upgrade and improve profitability.The entity has been put on rating watch on account of inevitable factors and unprecedented situation of Covid-19 outbreak.

Disclosure

Name of Rated Entity	Attock Refinery Limited
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),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Refineries(Nov-20)
Rating Analysts	Sana Shameen | sana.shameen@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 retains the majority stake and management control in ARL. Other major shareholders consist of a) Individuals (Local & Foreign) (~20%), b) Banks and other Financial Institutions (~18.9%).

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 four 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 9MFY21, the board held three meetings, three meetings to approve financial results and 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 9MFY21. 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 45 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 10 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.

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 During 9MFY21, the Company suffered loss after tax of Rs 1,129 mln from refinery operations (9MFY20: Loss of PKR 2,324 mln). Non-refinery income during this period was PKR 120 mln (9MFY20: PKR 554 mln). Accordingly, overall loss after taxation was PKR 1,009 mln (9MFY20: Loss of PKR 1,770 mln). Due to continuity of negative impact of COVID-19 pandemic, refinery margins in the global and domestic economy remained depressed and this affected results of our refinery. The margins started to slightly improve around December 2020. However, afterwards with onset of third wave of the pandemic, the margins again started to shrink.

Margins Gross margins of the company remained negative in 9MFY21 standing at ~-1.8% (FY20: ~-4.3%). Pressure on the gross profits has been exerted by; declining gross refining margins. The same trend was noted in the net profit margins of the company (9MFY21: -1.3%, FY20: -2.8%). In order to minimize losses, the management decided to operate the refinery at lower capacity during the period under review. During this period, the Company supplied 1,359 thousand Metric Tons of various petroleum products while operating at about 76% of the capacity (9MFY20: 1,305 thousand Metric Tons, 73% capacity).

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 9MFY21, the average trade receivables days decreased to 41 days (FY20: 54 days, FY19: 39 days). The average trade creditor days also decreased to 77 days (FY20: 88 days, FY19: 63 days). With average inventory days standing at 33 days, ARL's average net working capital days in 9MFY21 clocked at -3 days (FY19: -8 days, FY19: -4 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 remained negative [Interest coverage: 9MFY21: -0.2x, FY20: -0.3x, FY19: 0.2x].

Capitalization ARL has a robust capital structure with debt to equity ratio clocking at ~16% as at 9MFY21 (FY20: 15.5%, end-FY19: ~23.2%).

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Financial Summary
PKR mln

Attock Refinery Ltd	Mar-21	Jun-20	Jun-19	Jun-18
Refineries	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	48,380	49,287	35,696	34,586
2 Investments	-	-	-	986
3 Related Party Exposure	13,265	13,265	13,265	13,265
4 Current Assets	38,170	35,435	54,888	49,364
a Inventories	*9,306*	*7,164*	*10,019*	*9,789*
b Trade Receivables	*13,777*	*12,728*	*22,412*	*15,748*
5 Total Assets	99,814	97,987	103,850	98,200
6 Current Liabilities	48,746	46,148	60,010	46,945
a Trade Payables	*27,001*	*23,178*	*34,590*	*26,882*
7 Borrowings	8,174	7,936	10,181	14,843
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	42,894	43,903	33,658	36,413
11 Shareholders' Equity	42,894	43,903	33,658	39,318
B INCOME STATEMENT				
1 Sales	89,245	119,819	176,755	129,597
a Cost of Good Sold	*(90,808)*	*(125,000)*	*(180,816)*	*(130,675)*
2 Gross Profit	(1,563)	(5,180)	(4,061)	(1,079)
a Operating Expenses	(602)	(870)	(740)	(695)
3 Operating Profit	(2,165)	(6,051)	(4,802)	(1,774)
a Non Operating Income or (Expense)	*1,212*	*2,305*	*(787)*	*2,279*
4 Profit or (Loss) before Interest and Tax	(953)	(3,745)	(5,588)	505
a Total Finance Cost	*(631)*	*(936)*	*(1,883)*	*(1,529)*
b Taxation	*449*	*1,302*	*2,086*	*1,603*
6 Net Income Or (Loss)	(1,135)	(3,379)	(5,385)	579
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(1,601)*	*(3,725)*	*1,440*	*265*
b Net Cash from Operating Activities before Working Capital Changes	*(2,189)*	*(3,038)*	*(5,790)*	*377*
c Changes in Working Capital	*(0)*	*(2,412)*	*5,099*	*7,088*
1 Net Cash provided by Operating Activities	(2,189)	(5,450)	(691)	7,466
2 Net Cash (Used in) or Available From Investing Activities	78	(595)	504	(1,438)
3 Net Cash (Used in) or Available From Financing Activities	1,739	(2,415)	(5,184)	(5,703)
4 Net Cash generated or (Used) during the period	(373)	(8,460)	(5,371)	324
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-0.7%	-32.2%	36.4%	27.8%
b Gross Profit Margin	-1.8%	-4.3%	-2.3%	-0.8%
c Net Profit Margin	-1.3%	-2.8%	-3.0%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-1.8%	-5.1%	3.7%	5.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-3.6%	-7.5%	-16.4%	1.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	74	80	60	59
b Net Working Capital (Average Days)	-3	-8	-4	-3
c Current Ratio (Current Assets / Current Liabilities)	0.8	0.8	0.9	1.1
3 Coverages				
a EBITDA / Finance Cost	-2.4	-3.2	1.3	0.7
b FCFO / Finance Cost+CMLTB+Excess STB	-0.2	-0.3	0.2	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-6.3	-4.0	-34.5	-11.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	16.0%	15.3%	23.2%	27.4%
b Interest or Markup Payable (Days)	73.0	79.8	52.5	62.3
c Entity Average Borrowing Rate	10.2%	10.2%	14.7%	9.0%

Credit Rating

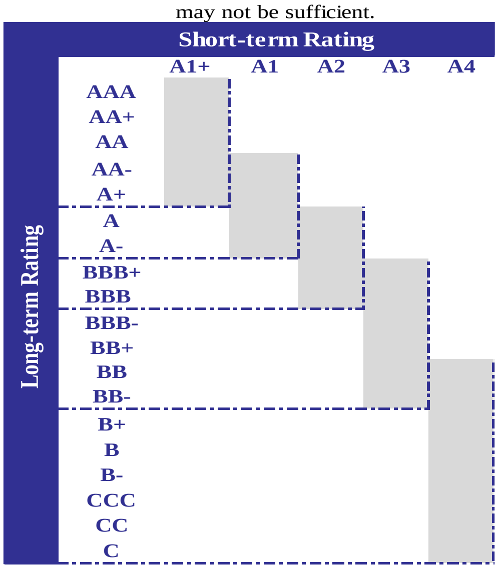
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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