



The Pakistan Credit Rating Agency Limited

# **GAS & OIL PAKISTAN (PVT.) LIMITED**

## **RATINGS REPORT**

	<b>INITIAL [OCT-17]</b>	<b>REPORT CONTENTS</b>
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<b>Commercial Paper PKR: 1 billion</b>	A	

OCTOBER 2017

## **Profile**

- Gas & Oil Pakistan (Pvt.) Limited (GO), has a network of ~ 300 retail outlets and ~3% market share for FY17 (5% end Sep-17).
- GO has storage infrastructure of ~ 34,400 MTs spread all across the country and the storage capacity is expected to increase over the coming years.

## **Ownership**

- The company is primarily owned by four individuals. Mr. Khalid Riaz has 49% stake in the company followed by Mr. Farhan Abbas Sheikh (who is also the CEO) and Mr. Shehzad Mubeen who has 20% stake, each, and Mr. Bilal Ansari with 10% stake.
- Majority of the sponsors have significant industry related experience whereas other sponsors provide assistance in business operations.

## **Governance**

- Previously the board constituted of all the sponsors. The Company recently restructured its board. The new board of GO comprises nine experienced professionals. Five members are representatives of GO and four members are independent.
- All of the board members are experienced professionals with diversified backgrounds. Induction of a diverse, independent set of individuals as board members would improve the overall governance framework.

## **Management & Controls**

- Well-defined organizational structure with clear segregation of responsibilities.
- To oversee company management, two committees are in place, comprising various management personnel. The committees include i) Procurement Committee and ii) Credit Committee.
- The company has sizeable storage and distribution infrastructure. However, it has adequate supply chain and procurement function whereas MIS reporting needs improvement.

## **Business Risk**

- Company's strategy to target rural and semi urban market has resulted in aggressive expansion.
- During the period, MOGAS volumes of GO increased by ~95% (FY17: 0.32mln MT, FY16: 0.17mln MT) owing to the ever-increasing sales of vehicles and higher economic activity, similarly HSD volumes increased by 102% (FY17: 0.43mln MT, FY16: 0.22mln MT).
- During FY17, the company's revenues stood at PKR 34.4bln as against PKR 15.4bln in the same period last year, depicting an increase of 123%.
- Gross margins slightly decreased from 5.6% in FY16 to 5.2% due to increase in cost of sales. Pre-tax profit margins increased over the year from 3.1% in FY16 to 3.6% in FY17.

## **Financial Risk**

- GO has a well-managed working capital. GO uses Letter of Credit (LC) as payment method for its imports. The company draws comfort from hefty cash flows due to increase in operating cash flows.
- During FY17, company generated sizeable cash flows on account of improved performance mainly a function of enhancement in the system share.
- The current low levels of debt resulted in improvement in the company's coverages on a YoY basis (FY17:10.8x, FY16:9.1x).

## **Capital Structure**

- The company's capital structure stood at 63% as at FY17 (FY16: 38%). The trend in leveraging remains volatile as the company's almost entire debt represents short-term financing facilities for working capital management.
- The planned capex will be financed through procurement of debt and proceeds from IPO.

## **Commercial Paper**

- GO plans to issue a privately-placed unsecured and subordinated Commercial Paper of PKR 1 billion in September, 2017 to finance its working capital requirements.
- The instrument carries profit at the rate of 6 month KIBOR + 1.50% p.a.

## **RATING RATIONALE**

The ratings incorporate Gas & Oil Pakistan (Pvt.) Limited's (GO) growing presence in the oil marketing company (OMC) segment. The company has successfully attained over 3% market share, in a competitive market, over three years of operations and has ~ 300 retail outlets. The company plans to aggressively penetrate the retail segment in the growing industry by targeting expansion across semi-urban and rural areas as urban market is highly competitive. GO capitalizes on strong managerial support from its sponsors who have significant knowledge in oil procurement and distribution segment. The ratings drive strength from well-structured organization and experienced management team. The company is in the midst of large scale capex programme to increase its storage capacity in order to support its expansion initiatives. The company plans to finance the capex through debt issue and public offering (IPO). Currently, GO has healthy financial risk profile reflected by low leveraging and strong coverage indicators. The debt driven expansion would enhance the overall leveraging though remaining at a comfortable level.

## **KEY RATING DRIVERS**

The rating particularly recognizes on going developments to improve its overall governance framework including i) planned listing – significantly improving transparency ii) induction of a diverse, independent set of individuals as board members iii) quality external auditors and iv) adoption of a conservative financial matrix. In addition to timely implementation of these initiatives, the ratings are dependent on GO's ability to achieve desired market penetration along supportive supply chain network and healthy margins.



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## Gas & Oil Pakistan (Private) Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	FY17	FY16	FY15
<b>Non-Current Assets</b>	<b>3,634</b>	<b>1,851</b>	<b>1,049</b>
<b>Investments (Incl. Associates)</b>	-	-	-
Equity	-	-	-
Debt Instruments	-	-	-
<b>Current Assets</b>	<b>8,220</b>	<b>5,579</b>	<b>935</b>
Inventory	4,747	3,216	466
Trade Receivables	461	370	248
Others	3,012	1,994	220
<b>Total Assets</b>	<b>11,854</b>	<b>7,431</b>	<b>1,983</b>
<b>Debt</b>	<b>1,892</b>	<b>1,087</b>	<b>597</b>
Short-Term	1,010	523	443
Long-Term (Incl. Current Maturity of Long-Term Debt)	882	564	154
Other short-term liabilities	6,972	4,501	447
Other long-term liabilities	134	94	2
<b>Shareholders' Equity</b>	<b>2,903</b>	<b>1,796</b>	<b>966</b>
<b>Total Liabilities &amp; Equity</b>	<b>11,901</b>	<b>7,478</b>	<b>2,012</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>34,390</b>	<b>15,387</b>	<b>1,656</b>
Gross Profit	1,781	860	123
Net Other Income	34	20	(1)
Financial Charges	(123)	(70)	(7)
<b>Net Income</b>	<b>1,037</b>	<b>301</b>	<b>17</b>

### Cashflow Statement

Free Cashflow from Operations (FCFO)	1,324	636	89
Net Cash changes in Working Capital	1,340	119	(486)
Net Cash from Operating Activities	2,564	701	(406)
Net Cash from Investing Activities	(1,907)	(846)	(384)
Net Cash from Financing Activities	801	872	795

### Ratio Analysis

#### Performance

Turnover Growth	123.5%	829.3%	-
Gross Margin	5.2%	5.6%	7.5%
Net Margin	3.0%	2.0%	1.0%
ROE	44.2%	21.8%	2.6%

#### Coverages

Interest Coverage (FCFO/Gross Interest)	10.8	9.1	12.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	3.5	3.9	1.8
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.5	3.9	1.8
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Intere	0.7	1.0	1.9

#### Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	0.2	31.8	73.1
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<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	<b>39.5%</b>	<b>37.7%</b>	<b>38.2%</b>
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Gas & Oil Pakistan (Private) Limited

October 2017

## 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<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>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure 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>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>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>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> <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>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

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## Regulatory and Supplementary Disclosure

**Name of Entity**  
**Sector**  
**Type of Relationship**

Gas & Oil Pakistan (Pvt.) Limited  
Oil Marketing Company  
Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History: Equity**

Dissemination Date	Long Term	Short Term	Outlook	Action
16-Oct-17	A	A1	Stable	Initial

**Rating History: CP**

Dissemination Date	Long Term	Short Term	Outlook	Action
16-Oct-17	A	N/A	Stable	Preliminary

**Related Criteria and Research**

**Rating Methodology**

Corporate Rating Methodology  
Debt Instrument Rating Methodology

**Research**

Oil Marketing Companies | June-2017

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[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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