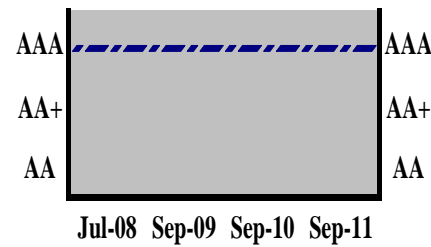


RATINGS (OCTOBER 2011)
NATIONAL REFINERY LIMITED

ENTITY	NEW	PREVIOUS
Long Term	AAA	AAA
Short Term	A1+	A1+

LT RATING HISTORY



FINANCIAL DATA

PKR (mln)

	FY11	FY10	FY09
Total Assets	56,694	51,639	42,345
Equity	24,607	19,637	17,353
Turnover	148,558	110,186	109,578
Net Income	6,568	3,285	1,533
Gross Margin	6.7%	5.8%	4.8%
ROE	53.4%	16.7%	8.8%
EBIDTA	8,366	4,410	2,174

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect National Refinery's very strong risk absorption capacity emanating from a debt-free capital structure, strong cashflows, and robust liquidity in the form of sizeable bank placements. This engenders ability in the company to manage persisting inter-corporate debt prevailing in the energy chain of the country. The ratings incorporate NRL's low business risk, originating from its relatively stable margins and its dominant position in the highly profitable lube segment. At the same time, the company enjoys synergic advantages as part of an integrated oil group - Attock Group.
- The ratings could be impacted by external factors such as unfavorable movements in international oil prices and adverse regulatory changes, leading to prolonged downturn in margins. The company's ability to maintain its leading position in the lube segment, thus, sustaining profitability, and effectively manage circular debt issue to avoid stress on cash flows remains important for the ratings. Meanwhile, it is crucial that the company maintains its seamless financial profile. Any debt driven expansion has to be taken carefully as that may impact coverages, in turn, ratings.

ASSESSMENT

- The refining industry in Pakistan, with a total capacity of 13mln tpa, has recently experienced healthy growth in refining margins (NRL: Jul11: \$7.34/bbl; May11: \$6.40/bbl) due to expansion in net spreads across the production slate. During FY11, the government de-regulated the prices of all petroleum products except kerosene oil, introducing a free market mechanism with effect from June 1, 2011. Under the new regime, refineries and OMCs have been allowed to determine the ex-refinery and ex-depot sale prices on monthly basis. Meanwhile, import price of Pakistan State Oil for previous month will act as benchmark for the ex-refinery prices of underlying products. In the case of HSD, refineries are allowed a deemed duty (7.5%) embedded in ex-refinery price. The recent government decision to include incidentals in the pricing formula would have positive impact on the industry players. Furthermore, the Economic Coordination Committee has recently shelved deregulation of Inland Freight Equalization Margin (IFEM) on oil products owing to strong political opposition. Meanwhile, the industry continuing to face the menace of circular debt, which has constrained the sector's liquidity.
- NRL, with a throughput capacity of 2.7mln tpa, contributes around 21% towards the country's refining capacity. This makes NRL the second largest refinery of Pakistan. NRL is the only domestic refinery with oil, lube and BTX operations. This diversity in operations while providing cushion against fluctuations in refining margins allows the company to adopt its product portfolio to changing demand patterns. The company enjoys a dominant share (80%) in the lucrative lube segment. Prices in this segment are aligned with international prices to keep products competitive against imports.
- During FY11, the company enhanced capacity utilization of its fuel segment (FY10: 84%, FY11: 90%) owing to improved margins therein. The fuel segment emerged into green zone (PAT_{fuel} FY10: PKR -707mln, FY11: PKR773mln), getting benefit from the increased sale volume and margin improvement. Meanwhile, margins in the lube segment significantly improved on a comparative basis as hike in selling price (19%) outpaced the increase in feedstock price (14%). Further, lower exchange loss (FY10: PKR345mln, FY11: PKR36mln) alongwith higher interest income on account of sizable investment in Govt. securities augmented the company's profitability
- NRL has implemented integrated Enterprise Resource Planning (ERP) software, SAP, for operations pertaining to finance, sales and distribution, material management, plant maintenance, and human resource management. In order to optimize its refining capacity and improve efficiency, several projects have been undertaken by the company. A Product Metering System and a new Water Reservoir was established during the year. Further, two ongoing fundamental projects include, a) Two Stage Unit at Lube-I Refinery is being revamped to enhance the installed crude oil processing capacity from 12,050 Barrel per stream day (bpsd) to 17,000bpsd and Vacuum fractionation capacity from present 5,200bpsd to 6,600bpsd. The management is building relationships in the international market in order to capitalize on the planned increase in capacity of the lube base oils. b) 101 Crude Distillation Unit at Fuel Refinery is being renewed to enhance the installed crude oil processing capacity from 50,000bpsd to 53,000bpsd. Meanwhile, NRL intends to undertake Refineries Integrated Project, which, upon completion, will enable NRL to desulphurize HSD and comply with Euro II/III standards.
- NRL with its debt-free capital structure enjoys a very strong financial profile, engendering very strong risk absorption capacity. Lately, the management intends to procure debt to complete its planned projects. This would put some stress on NRL's capital structure, though its extent and ensuing ramifications are yet to be evaluated.

PROFILE

- NRL, incorporated in 1963, was privatized in 2005. The Attock Group (AG) acquired the majority stake (51%) in NRL through its group companies – Pakistan Oilfields Limited (25%), Attock Refinery Limited (25%) and Attock Petroleum Limited (1%). Islamic Development Bank, Jeddah and NIT are other significant shareholders with 15% and 11% stake, respectively. The BoD has strong presence of AG's representatives. The CEO, Mr. Shuaib A. Malik, is a seasoned professional in the oil business. Attock Group, an integrated business group in the country's oil chain, has presence in all segments of the industry from exploration to marketing.
- NRL has two different refining segments – Fuel Refinery and a Lube Refinery – and a BTX plant. All production facilities are located at the Karachi refinery site.