RATING REPORT

Clover Pakistan Limited (CPL)

REPORT DATE:
June 19, 2019

RATING ANALYSTS:
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Rating Category	Rating	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Date	*June 19, 2019*	
Rating Outlook	Stable	
Outlook Date	*June 19, 2019*	

COMPANY INFORMATION	
Incorporated in 1986	**External auditors:** Grant Thornton Anjum Rahman Chartered Accountants
Public ListedCompany	**Chairman to the Board:** Mr. Jamshed Azmat
Key Shareholders :	**Chief Executive Officer:** Mr. Abu Talib Haideri
Fossil Energy (Private Limited) – 83%	
General Public (Local) – 17%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Corporates (May 2016)*
https://www.vis.com.pk/kc-meth.aspx

Clover Pakistan Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Brief History of Clover

Prior to acquisition by FEPL, CPL was engaged in the manufacture and sale of Tang under the trademark license agreement with Kraft Foods Inc USA (Kraft). In November 2011, the company sold operations related to Tang to Kraft Foods Inc for a consideration of Rs. 650m. From March 2013 the company distributed wrist watches of Titan India. It discontinued this line due to continuous losses and hence decided to engage with FEPL for restructuring its business.

Profile of Sponsor

Mr. Saleem Butt is a prominent shareholder in FEPL with 90% interest. He currently serves as CEO of Hascol Petroleum Limited. He possesses 25 years of experience in chartered accountancy, finance and corporate affairs.

Incorporated in 1986, Clover Pakistan Limited (CPL) functions in three distinct industries namely Foods, Auto Care and Business Solutions. CPL is owned by Fossil Energy (Pvt) Limited (FEPL) which currently holds 83% interest. FEPL was incorporated as a private limited company on November 12, 2013 and is primarily held within a single family. FEPL is a business conglomerate having presence in various sectors including oil, petroleum, energy, technology, food and financial services. Along with CPL, FEPL has exposure in the following companies:

Fossil Energy Companies (% ownership)	
Clover Pakistan Ltd	83%
Hascol Petroleum Ltd	14%
Hascol Terminal Ltd	24%
VOS Petroleum Ltd	50%
ZY Co Terminals Ltd	15%
Market 786 (Pvt) Ltd	100%

Brief Profile of Associates

VOS Petroleum (VOS)

In May 2018, VOS Petroleum was incorporated as a result of a joint venture between FEPL and Vitol Dubai Limited VOS is engaged in the business of storage and distribution of oil products and currently operates two oil terminals at Mehmoodkot & Gatti, Faisalabad with a planned tank capacity of 41,100 MTs& 36,100 MTs respectively. The company is currently under process to complete the Chakpirana Terminal with a storage capacity of 8000 MTs located in the district of Gujrat, Punjab.

Hascol Petroleum Limited (HPL)

HPL is second largest oil marketing company in terms of market share, engaged in the selling of petroleum products such as LPG, Motor Gasoline, High Speed Diesel, Fuel Oil & lubricants.

Hascol Terminals Limited (HTL)

HTL operates as an oil terminal company storing Furnace Oil, High Speed Diesel And Motor Spirit. The terminal offers 21 truck loading positions for local delivery and also connected to white oil pipeline for transportation of clean oil products up country.

Zy& Co Bulk Terminals (ZY)

ZY operates a bulk terminal at Kemari Port Karachi for the storage of crude oil, edible oil, chemical, petroleum products & furnace oil.

Market 786 (Pvt) Limited (Market 786)

Market 786 is a financial services firm engaging in equity & commodity brokerage along with providing advisory services. The company has also applied for money market services license.

Ownership of CPL

In 2018, FEPL acquired CPL by entering into a share purchase agreement with its previous shareholders namely SIZA(Pvt) Limited, SIZA Services (Pvt) Limited, SIZA Commodities (Pvt) Limited and Premier Fashions (Pvt) Limited. These companies belong to the Lakson Group of Companies. The agreement was negotiated for purchase of 5.19m shares at a price of Rs 23 per share.

Moreover, in April 2018, FEPL decided to merge its wholly owned subsidiary, Hascombe Business Solutions (Private) Limited (Hascombe) with CPL. Hascombe was formerly known as Gestetner Pakistan Limited and was involved in the technology industry. The company provided office automation and energy equipment under Petrotech Solutions. Post-merger, this business segment has been transferred into CPL. Shareholding of CPL now includes 83% represented by FEPL and 17% from general public.

Pre & Post merger capital		
No of shares	**FY18**	**9M2019**
FEPL	5.19	5.19
Hascombe merger	-	15.48
Others	4.25	4.25
	9.43	24.91
% holding		
FEPL	55.0%	83.0%
General Public	45.0%	17.0%
Total	100.0%	100.0%

Governance Framework and Internal Controls

There are a total of eight directors on the Board with Mr. Muhammad Jamshed Azmat as Chairman. The Board comprises seasoned professionals with extensive experience in various sectors including distribution, oil marketing, finance, energy and construction. In line with international best practices, the Board includes two independent directors. There are two Board level committees to oversee audit and human resource related matters.

Status of Board of Directors	
Mr. Muhammad Jamshed Azmat	Chairman
Mr. Nadeem Ahmed Butt	Non-Executive
Mr. Khawar Jamil Butt	Non-Executive
Mrs. Nazia Malik	Non-Executive
Mr. Asif Saeed Sindhu	Non-Executive
Mr. Abdul WahabKodvavi	Independent
Mr. Irfan Ali Hyder	Independent
Mr. Abu Talib Haideri	CEO

CPL is currently undergoing implementation of SAP ERP Suite S/4 HANA. Modules of the same include operations and finance. While the design phase is to be completed by June 2019, final testing phase is expected to complete by end-September 2019.

Key Management Profile

Management team at CPL is spearheaded by Abu Talib Haideri as Chief Executive Officer. He possesses over 26 years of experience in finance & accounting. Mr. Abu Talib is a fellow member of Institute of Chartered Accountants and has diversified experience in working with PwC, Deloitte & Saudi Aramco. While the CEO oversees the food division of CPL, ther other two segments are managed by dedicated business segment heads who report to the Chief Executive Officer.

Mr. Khawar Jamil Butt serves as Chief Technology Officer along with one of the business heads of Petrotech division. He is an information technology professional with over 30 years of experience of working in US & serving in companies which include UBS, Lehman Brothers, JP Morgan Chase, Dell, Cisco & Computer associates.

Mr. Jamshed Azmat is the Director Finance of Fossil Group and is spearheading the Finance function of CPL. He has over 30 years of experience in the finance and accounting working with PwC, ABV Rock Group & National Technology Group.

Core Business Segments

Following the acquisition by FEPL and subsequent merger, the company revamped its operations and currently operates in three business segments (i) Business Solutions (ii) Auto Care (iii) Food.

Business Solutions – Petrotech

This segment was merged into CPL as a result of merger with Hascombe. Bulk of CPL's revenue emanates from this Business Solutions segment given sales of high-valued products & services. Total revenue from Petrotech is expected to remain on the higher side. The company projects to earn a gross margin of around 39% under this division. This division plans to expand its clientele by targeting Askar Oil Company, Puma Energy, National refinery & Attock Petroleum. The segment is further subdivided into two segments (i) Office automation (ii) Energy equipment & services.

Office Automation

Office automation segment distributes RICOH printers, LEDs, video conferencing systems, scanners, XY Vending vending machines & Dell laptops along with related workflow services and document management. Revenue of the segment amounted to Rs 115m for 9MFY19.

Energy Equipment & Services

This segment provisions services such as petrol pumps installation, fuel dispensers, oil storage & handling equipment & pump cleaning services. It also distributes rotary pumps, motors, PD Flow meters & fuel dispensers which are imported from China. Total revenue from this segment stood at Rs 1.0b for 9MFY19. The major revenue driver for this business segment is being generated from HPL and VOS; pump cleaning & related equipment services to HPL and installation of oil storage terminals for VOS.

Software Development

Along with these services, the division is also involved in software development. This division develops e-commerce sites for food, autocare & real estate business segments.

Food Business

Food business segment of CPL currently operates at a nascent stage where CPL plans to sell its food products (jams, pickles, sauces, bottled water, & packaged spices) at HPL marts. All products will be toll manufactured by other existing food producers while CPL will only be responsible for branding, distributing and marketing activities. In the coming years, management plans to expand this food segment by distributing to medium sized wholesalers. A soft launch of these products was conducted in March 2019 which generated revenue of Rs 0.86m for 9MFY19. Projected revenue from food business is Rs.75m with a margin of 14% for FY19. The company is targeting a total of 200 marts including 120 marts of HPL for FY19 and 500 marts by 2020. Moreover, the company also plans to develop an e-commerce portal for the same by June 2019, as per management.

Auto Care Business

The Auto Care business of CPL operates within three further categories including (i) Car care products which comprise fuel boosters, cleaning & polishing products (Car Shampoo & Wax) (ii) Car filters (air & oil filters) (iii) Lubricants distribution. All lubricants, car care products, filters are toll manufactured by third parties. Car care products (shampoo, wax & filters) are manufactured in China and are distributed under the brand name of CPL. The company has also deployed Quality Controllers to ensure premium products for the same. The company has not been able to earn any revenue from this segment for 9MFY19 due to delay in order finalization of Hascombe merger.

Lubricants

Products under the lubricants segment include car engine oil, gear oil & generator oil. The local lubricant market is currently estimated at 401 KT (KiloTonne). Given the slowdown in economy, growth in lubricants market is expected to remain stagnant. During FY18, CPL sold 250,000 litres of lubricants resulting in a market share of 0.06%. Going forward, the company targets to sell 700,000 litres in FY19 and 1m litres by end-FY20. Proceeds from this segment stands at Rs 9.25m for 9MFY19.Projected revenue from the lubricants business for FY19 is Rs. 75m operating at a margin of 18%.

Operating & Financial Performance

Sales & Profitability

Given that the company has recently initiated its operations, total revenue base of the company amounted to Rs. 157.2m for FY18 (FY17: Rs. 0.6m). However, in 9MFY19, sales grew to Rs. 1.1b on the back of its merger with Hascombe. Gross margins of the company were reported at 36% (FY18: 20%) for the period ending March 31, 2019. Currently, proceeds primarily emanate from its Business Solutions segment with concentration towards related parties; sales to HPL and VOS account for 59% & 29% of total revenues, respectively. Management anticipates concentration in sales to decline with growth in other business segments. A large chunk of operating costs for the company comprises variable costs including purchase of inventory from third party and distribution costs. With increase in its revenue base, operating profit of the company improved to Rs. 314.6m (FY18: Rs. 31.6m) in 9MFY19. With minimal finance cost and exchange loss amounting to Rs. 5.0m, bottom line of the company improved to Rs. 267.2m in 9MFY19 vis-à-vis Rs. 23.7m in FY18.

Asset Mix

Total assets of CPL were reported at Rs. 1.3b (FY18: Rs 0.3b) which has significantly increased on account of its merger with Hascombe. Given that the company belongs to a services industry, asset base largely comprises intangible assets and short term investments; property, plant & equipment amounted to Rs. 21.3m contributing 1.6% of the total base. Intangible assets amounted to Rs. 549.2m and include addition of goodwill from merger, at end-9MFY19. Asset base also comprises short term investments of Rs. 284.7m with majority exposure in Term Deposit Receipts (TDRs). Assets have been funded primarily through equity with no debt on its books.

Capitalization, Funding and Liquidity

Paid-up capital of CPL amounted to Rs. 249.1m (FY18: 94.3m) at end-9MFY19 with a fresh capital injection of Rs. 154.8m from FEPL. Share premium of Rs. 450.5m from the merger contributes a considerable portion of equity. Accounting for reserves and share premium, equity level of CPL amounted to Rs. 1.0b (FY18: Rs 197.9m) at end 9MFY19. Currently, there is no debt on the books of CPL. However, the company has mobilized an interest free loan from its parent amounting to Rs 130.2m, at end 9MFY19. This loan was initially procured by Hascombe which was then given to CPL by way of merger. Leverage of the company was 0.09x at end-March 2019. The company has no plans of mobilizing short term or long term debt in the near future. With growth in business volumes, Funds Flow from Operations (FFO) improved to Rs. 270.5m (FY18: Rs 27.8m) for period ending 9MFY19.

FINANCIAL SUMMARY				(amount in Rs millions)
BALANCE SHEET	June 30, 2017	June 30, 2018	Dec 31, 2018	March 31, 2019
Property Plant & Equipment	0.0	0.5	22	21
Intangibles	0.0	0.0	549	549
Stock-in-Trade	0.0	0.0	64	82
Trade Debts	0.0	104	325	144
Cash & Bank Balances	4	78	89	28
Total Assets	179	308	1,273	1,283
Trade & Other Payables	0.5	59	129	92
Total Equity	174	198	967	1,042
Equity (including interest free loan)	0	0	1,097	1,172
INCOME STATEMENT				
Net Sales	1	157	891	1,131
Gross Profit	0	32	295	403
Administration & Selling	0	0	60	88
Operating Profit	(5)	27	235	315
Profit After Tax	0	24	192	267
FFO	-3	28	197	271
RATIO ANALYSIS				
Gross Margin (%)	19%	20%	33%	36%
Net Margin (%)	55%	15%	22%	24%
Leverage (x)	0.03	0.56	0.14	0.09
ROAA (%)	0%	10%	24%	21%
ROAE (%)	0%	13%	33%	27%

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Clover Pakistan Ltd
Sector	Consumer & Industrial goods
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
06/19/2019	A-	A-2	Stable	Initial