RATING REPORT

Hascol Petroleum Limited

REPORT DATE:
July 7, 2015

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*July 7, 2015*		*March 31, 2014*	

COMPANY INFORMATION

Incorporated in March 2001	External auditors: **Messrs Grant Thornton, Anjum Rahman, Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. Mumtaz Hasan Khan**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Mumtaz Hasan Khan**
Mumtaz Hasan Khan –35%	
Fossil Energy (Pvt.) Limited –16%	
Marshal Gas (Pvt.) Limited –9%	

APPLICABLE METHODOLOGY(IES)

Methodology: Oil& Gas Industry (Feb 2004) http://www.jcrvis.com.pk/images/oilngas.pdf

Hascol Petroleum Limited

OVERVIEW OF THE INSTITUTION

HPL was incorporated in March, 2001 under the Companies Ordinance, 1984. HPL's primary business is the procurement, storage and marketing of petroleum and related products. HPL continues to expand its retail network, with **280** outlets currently. The company has been granted a full marketing license by the Government of Pakistan in February 2005.

RATING RATIONALE

The ratings assigned to Hascol Petroleum Limited (HPL) reflect its healthy financial risk profile as evident in the company's profitability and cash flow from operations in relation to outstanding obligations. Ratings also incorporate growing market share of the company to over 5.5% (FY13: 2%) during 10MFY15 on the back of enhanced storage capacity and expanding retail footprint. However, there is room for strengthening of the internal audit function.

Financial performance of companies within the OMC sector has been affected during 9MFY15 on account of decline in oil prices which has resulted in inventory losses. Impact of inventory losses has varied across industry players. However, increase in OMC margins along with growth in volumes is expected to favorably impact industry profitability, going forward, provided there is no significant decline in oil prices from current levels.

During 2014, HPL completed and commissioned its Machike installation. This along with additional storage capacities acquired on lease at Port Qasim and Kemari has resulted in enhancement of storage capacity of depots/terminals to 85,900 MT (2013: 57,950 MT). Aggressive expansion of storage facilities is planned to continue with 17,200MT and 40,000MT of additional capacities projected to come online during 2015 and 2016, respectively. Total capital expenditure for 2015 will be Rs. 960m. Expansion in retail outlets has also continued with number of retail outlets increasing to 275 (2014: 240; 2013: 210). Resultantly, proportion of retail sales increased to 50% (2013: 37%). During 2014, HPL acquired strategic holding in Pakistan Refinery Limited representing 13.72% shares of PRL; management expects synergies from the same to accrue over time.

Despite significant decline in oil prices, net sales increased by 70% during 2014 on the back of higher volumes. Growth in sales is a function of expansion in storage facilities and retail outlets. As part of a deliberate strategy, HPL has pursued growth in higher margin products (HSD & PMG) though in general there has been an increase across the product line; along with increase in OMC margins, this has translated into improved gross margins of 2.56% in 1Q15 (2014: 2%; 2013: 2.28%; 1Q14: 2.20%). Gross margins for 2014 were lower on account of inventory losses; however, impact of inventory losses has remained limited in relation to peers due to lower inventory holding period and proactive supply chain management. Going forward, profitability of the company is expected to continue to depict growth on the back of volumetric growth in sales, if the company is able to sustain margins at current levels.

Liquidity profile of the institution is considered strong on account of healthy cash flow from operations and well managed working capital cycle. Cash flow from operations is projected to remain comfortable in relation to future debt payments while capex is planned to be funded through a mix of debt and equity. Trade debts have been maintained at manageable levels; the company secures its sales to IPPs with financial instruments (good for payment cheques or bank guarantees) to ensure timely collection; continuity of this model at higher volumes will be tested over time. Equity of the company was reported at Rs. 3b at end-1Q15 on account of internal capital generation and funds raised through Initial Public Offering. While on-balance sheet leverage has declined, overall funded and non-funded exposure to financial institutions is sizeable as LC utilization has doubled with growth in business volumes.

Hascol Petroleum Limited

Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Fixed Assets	4,642	2,798	1,916
Investments	782	-	-
Stock-in-Trade	3,474	3,154	617
Trade Debts	4,549	2,116	1,301
Cash & Bank Balances	1,761	865	446
Total Assets	15,617	9,355	4,510
Trade and Other Payables	8,103	6,404	2,222
Long Term Debt *(*incl. current maturity)*	1,880	1,519	1,551
Short Term Debt	1,272	680	353
Tier-1 Equity	2,779	1,085	669
Total Equity	3,099	1,444	1,065
INCOME STATEMENT	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Net Sales	84,856	49,820	25,930
Gross Profit	1,979	1,313	934
Operating Profit	1,237	579	402
Profit After Tax	640	392	218
RATIO ANALYSIS	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Gross Margin (%)	2.00%	2.28%	3.14%
Net Working Capital	(1,084)	(1,073)	(472)
FFO to Total Debt (x)	32%	22%	15%
FFO to Long Term Debt (x)	54%	31%	19%
Debt Servicing Coverage Ratio (x)	2.42	1.28	1.39
ROAA (%)	5.13%	5.65%	6.36%
ROAE (%)	28%	31%	29%

* For debt and its ratios, commitments have been accounted for.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Hascol Petroleum Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
07-Jul-15	A+	A-1	Stable	Reaffirmed
31-Mar-14	A+	A-1	Stable	Upgrade
28-Jun-13	A-	A-2	Stable	Reaffirmed
12-Jun-12	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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