Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Hascol Petroleum Limited

REPORT DATE:
November 11, 2015

RATING ANALYSTS:
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RATING DETAILS	
	Preliminary
Rating Category	**Long-term**
Sukuk	AA-
Rating Outlook	Stable
Rating Date	*November 06, 2015*

COMPANY INFORMATION	
Incorporated in March 2001	External auditors:**MessrsGrant Thornton, AnjumRahman, Chartered Accountants**
Public Limited Company	Chairman of the Board: **Mr. MumtazHasan Khan**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. MumtazHasan Khan**
MumtazHasan 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

HPLwas incorporated in March, 2001 under the Companies Ordinance, 1984. HPL's primary business is the procurement, storage and marketing of petroleum and related products. The company had been granted a full marketing license by the Government of Pakistan in February 2005.

RATING RATIONALE

The ratingassigned to the proposed Sukuk issue of Hascol Petroleum Limited (HPL) reflects adequate debt servicing ability and security structure of the Sukuk.Financial risk profile of the entity has improved over time as evident from growing profitability and cash flow from operations in relation to outstanding obligations. Ratings also incorporate growing market share of the company on the back of enhanced storage capacity and expanding retail footprint.

Financial performance of companies within the OMC sector has been affected during FY15 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 the ongoing year, HPL completed and commissioned its Daulatpurdepot while Machike installation was completed in 2014. Aggressive expansion of storage facilities is planned to continue with a number of new storage facilities planned to come online in 2015 and 2016. Expansion in retail outlets is also planned to continue. During 2014, HPL acquired strategic holding in Pakistan Refinery Limited representing 13.74% shares of PRL. In addition to the location of the refinery, its connectivity to pipeline and the quality of its output have been identified as the major reasons by the management, for making this investment, in addition to secure greater supply side security. Aggregate un-realized gain on investment amounted to Rs. 1.46b at end-June'2015; this has reduced partially given the decline in price of shares subsequent to June'2015.

Despite significant decline in oil prices, gross sales of the company stood higher during 1H15 vis-à-vis 1H14 on the back of 74% increase in volumetric sales. Over the last 18 months, there has been an increase in the proportion of retail fuels i.e. HSD and PMG in sales mix while proportion of FO has declined from 45% in 2013 to 32% in 1H15. This along with increase in OMC margins has translated into improved gross margins of 3.15% (1H14: 2.43%) in 1H15. With improvement in gross margins and growth in volumes, profitability levels have depicted significant increase.

Liquidity profile of the institution is considered strong on account of healthy cash flow from operations and well managed working capital cycle. Funds flow from operations was negative in 1H15 on account of a sizeable cash outlay in lieu of sales taxes paid in the ongoing year. 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.

HPL plans to issue a privately placed long-term Islamic Term Certificates (Sukuk) to the tune of Rs. 2b (inclusive of a green shoe option of Rs. 500m). The proposed Sukuk will have a tenor of 6 years (including 1 year grace period) and is planned to be utilized for meet working capital requirements, funding expansion plans and retirement of existing high cost borrowing. The Company expects to be able to raise fresh funding at improved pricing, given the improvement in risk profile of the entity over time. The assigned rating draws strength from the security structure of the Sukuk which entails formation of a debt payment mechanism to include monthly retention of amount equivalent to one-third of the quarterly installment in an escrow account by the collection agent from company revenues to meet the upcoming installment. Security structure also includes first pari passu charge over specific depots and retail outlets of the company inclusive of a margin of 25%.

Going forward, the company has projected healthy growth in volumes over the next six years which will allow sufficient cash flows for adequate servicing coverage. While debt levels will increase post Sukuk issuance, increase will be limited since a sizeable portion of the debt will be utilized for retiring high cost borrowing outstanding. Despite increase in debt levels, gearing and leverage indicators are expected to decline with growth in equity base on account of healthy internal capital generation.

Hascol Petroleum Limited

Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**30-June-15**	**31-Dec-14**	**31-Dec-13**
Fixed Assets	7,821	4,642	2,798
Investments	2,635	782	-
Stock-in-Trade	4,451	3,474	3,154
Trade Debts	2,643	4,549	2,116
Cash & Bank Balances	1,781	1,761	865
Total Assets	18,290	15,617	9,355
Trade and Other Payables	9,283	8,103	6,404
Long Term Debt *(*incl. current maturity)*	1,968	1,880	1,519
Short Term Debt	1,173	1,272	680
Equity (Exc. Surplus on Fixed Assets)	4,599	2,779	1,085
Total Equity (Inc. Surplus on Fixed Assets)	5,901	3,099	1,444
INCOME STATEMENT	**1H15**	**2014**	**2013**
Net Sales	44,100	84,856	49,820
Gross Profit	1,393	1,979	1,313
Operating Profit	882	1,237	579
Profit After Tax	516	640	392
RATIO ANALYSIS	**1H15**	**2014**	**2013**
Gross Margin (%)	3.15%	2.00%	2.28%
FFO to Total Debt (x)	Negative	32%	22%
FFO to Long Term Debt (x)	Negative	54%	31%
Debt Servicing Coverage Ratio (x)	n/a	2.42	1.28
ROAA (%)	6.08%	5.13%	5.65%
ROAE (%)	28%	28%	31%

* 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	Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: Sukuk		
06-Nov-15	AA-	n/a	Stable	Preliminary

Instrument Structure	The security structure of the Sukuk entails first pari passu charge over specific depots and retail outlets of the company inclusive of a margin of 25%. Moreover, a debt payment mechanism will also be put in place to include monthly retention of amount equivalent to one-third of the quarterly installment in an escrow account by the collection agent from company revenues to meet the upcoming installment.
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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