RATING REPORT

Hascol Petroleum Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Sukuk 1	AA-		AA-	
Rating Outlook	Stable		Stable	
Rating Date	*Nov 2,2016*		*July 7, 2015*	

COMPANY INFORMATION	
Incorporated in March 2001	External auditors:**Grant Thornton, AnjumRahman, 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**
MumtazHasan Khan-28.77%	
Vitol Dubai Limited-15%	
Fossil Energy (Private) Limited-10.44%	
Marshal Gas (Pvt.) Limited-7.31%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016)http://www.jcrvis.com.pk/kc-meth.aspx

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. HPL continues to expand its retail network, with **314**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 growing market share, adequate financial risk profile and improving corporate governance framework. Aggressive market share acquisition strategy is planned to continue with HPL targeting to become the second largest player in the sector with a 15% market share by 2020. While overall financial profile is adequate given healthy cash flows in relation to outstanding obligations, leverage indicators have trended upwards in order to fund aggressive expansion plans. Maintaining growth momentum within the existing risk profile will be a key rating driver, going forward.

Petroleum sales witnessed a growth of 4.7% during FY16 and amounted to 22.4m tons (FY15: 21.4m tons). Growth in petroleum sales was driven by retail fuels (HSD and MOGAS) while FO off-take remained stagnant. Going forward, volumetric sales of petroleum products in future is expected to emanate strong demand in retails products driven by lower oil prices and increasing automobile sales. However, increase in LNG imports as planned by the government and commissioning of coal based power generation capacities may pose challenges to volumetric growth.Over the last five years, larger OMCs have lost significant market share to smaller OMCs indicating increasing competition from smaller players. This along with expected entry of a number of new players will result in further increase in competition.

HPL has continued to pursue expansion in its storage capacities and retail outlets. During 2015, the company completed its Daulatpur installation and acquired land for new installation in Sahiwal, TaruJabba and Thalian Punjab). Significant new capacities are expected to come online over the next two years. Retail network of the company increased to 314 stations at end-1H16 with the target of increasing number of outlets to 400 at year-end. HPL also differentiates itself from its competitors in terms of its business strategy. The management intends to maximize profitability by working on all components of the supply chain network. In this regard, the company has already established its footprint in the transportation business besides its core OMC business. The success of the same would be tested overtime.

HPL continued to outperform the industry with sales volumes increasing at a CAGR of 61.1% over the last three years. Sales mix posted notable improvement during 2015 with proportion of high margin retail fuels in sales mix increasing to 75% (2014: 67%). In percentage terms, growth was highest for PMG (70.7%) followed by HSD (35.7%) and FO (28.6%). Higher volumetric off-take alongwith revision in OMC margins, improved sales mix and lower inventory losses has resulted in improved profitability for HPL during 2015 and in the ongoing year.

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 with FFO/Total debt reported at 27.6% (2015: 29%, 2014: 32%) during 6M16. 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. Gearing indicators have trended upwards with the same being reported at 1.4x (2015: 1.1x; 2014: 1.1x) at end-June'2016. Going forward, capex is planned to be funded through a mix of debt and equity with dividend payout expected to remain at similar levels (70%). Future trend with respect to leverage indicators will be tracked by JCR-VIS.

Shareholding pattern of the company witnessed change with Vitol Dubai Limited (Vitol) acquiring 15% stake in the company. Vitol group is one of the largest oil trading concerns with the group shipping oil equivalent to about 7% of world oil demand. As per management, addition of Vitol as a key shareholder in the company will facilitate the company in securing and ensuring smooth supply of petroleum products and hedging its risk. Governance infrastructure has been strengthened with the induction of qualified professionals with relevant industry experience, reorganization and streamlining of the HR function and formalization of manuals policy framework.

Hascol Petroleum Limited — Appendix I

FINANCIAL SUMMARY				*(Amounts in PKR millions)*
BALANCE SHEET	**31-Dec-15**	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Fixed Assets	8,703	4,642	2,798	1,916
Investments	1,955	782	-	-
Stock-in-Trade	8,470	3,474	3,154	617
Trade Debts	4,263	4,549	2,116	1,301
Cash & Bank Balances	4,071	1,761	865	446
Total Assets	26,619	15,617	9,355	4,510
Trade and Other Payables	17,355	8,103	6,404	2,222
Long Term Debt *(*incl. current maturity)*	2,695	1,789	1,435	1,489
Short Term Debt	1,413	1,272	680	353
Tier-1 Equity	4,529	2,779	1,085	669
Total Equity	5,785	3,099	1,444	1,065
INCOME STATEMENT	**31-Dec-15**	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Net Sales	76,773	84,856	49,820	25,930
Gross Profit	2,756	1,979	1,313	934
Operating Profit	1,253	1,237	579	402
Profit After Tax	1,133	640	392	218
RATIO ANALYSIS	**31-Dec-15**	**31-Dec-14**	**31-Dec-13**	**31-Dec-12**
Gross Margin (%)	3.6%	2.3%	2.6%	3.6%
Net Working Capital	(1,969)	(1,084)	(1,073)	(472)
FFO to Total Debt (x)	29%	32%	22%	15%
FFO to Long Term Debt (x)	46%	56%	33%	19%
Debt Servicing Coverage Ratio (x)	2.10	2.46	1.34	1.37
ROAA (%)	5.36%	5.13%	5.65%	6.36%
ROAE (%)	25%	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 & Sukuk Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
02-Nov-16	A+	A-1	Stable	Reaffirmed
07-Jul-15	A+	A-1	Stable	Reaffirmed
31-Mar-14	A+	A-1	Stable	Upgrade
28-Jun-13	A-	A-2	Stable	Reaffirmed
28-Dec-12	A-	A-2	Stable	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: SUKUK		
02-Nov-16	AA-	Stable	Reaffirmed
08-Jan-16	AA-	Stable	Final
06-Nov-15	AA-	Stable	Preliminary

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.
Probability of Default	JCR-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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