

RATING REPORT

Hascol Petroleum Limited

REPORT DATE:

March 30, 2021

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	CC	C	BB+	A-3
Sukuk 1	D		BBB-	
Rating Outlook	Negative		Negative	
Rating Date	March 30, 2021		April 17, 2020	

COMPANY INFORMATION

Incorporated in March 2001	External auditors: Grant Thornton Anjum Rahman & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Alan Duncan
Key Shareholders:	Chief Executive Officer: Mr. Adeeb Ahmad
Vitol Dubai Limited - 40.2%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria:

Oil & Gas Industry (April 2019) <https://www.vis.com.pk/kc-meth.aspx>

Industrial Corporates (June 2019) <https://www.vis.com.pk/kc-meth.aspx>

Hascol Petroleum Limited

OVERVIEW OF THE INSTITUTION

Hascol Petroleum Limited (HPL) was incorporated in March, 2001 under the Companies Ordinance, 1984. Primary business activities involve procurement, storage and marketing of petroleum & related products. The company is listed on Pakistan Stock Exchange (PSX) and its head office is located in Karachi.

RATING RATIONALE

Hascol Petroleum Limited (HPL) is engaged in procurement, storage and marketing of petroleum and related products; the company obtained oil marketing license from Ministry of Petroleum and Natural Resources in 2005.

Rating Drivers:

Business & Financial Risk Indicators of the Entity have posted an adverse momentum

- The company's gross margins contracted into the negative territory 2019, and further worsening has been noted in 9M'20.
- Accordingly, the company's negative equity situation has worsened as of Sep'20, standing at negative Rs. 33.3b.
- With further loss of Rs. 3.1b reported in Q3'2020, the company's position as a going concern is considered to be constrained.
- At the same time, the debt accumulation has increased, in view of which the company's debt repayment ability has become increasingly constrained.

	2018	2019	9M'20
Gross Margin	4.6%	-1.2%	-3.1%
Net Margin	-0.1%	-16.7%	-24.7%
Debt	23,990.5	42,526.9	51,837.5
- Long Term	5,113.1	5,509.2	16,405.1
- Short Term	18,877.5	37,017.7	35,432.3
Equity	6,063.6	(14,685.0)	(33,306.4)

Default on Sukuk Payment

- HPL has defaulted on its Sukuk payment due on January 7th 2021.
- By December 2020, HPL had serviced 15 off 20 installments of the Sukuk, representing 75% of the principle amount.
- With the installment falling in January remaining unpaid, HPL has not managed to pay back Rs. 500m in absolute terms on the Sukuk issuance.

Hascol Petroleum Limited

Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>		Dec'18	Dec'19	Sep'20
Fixed Assets		22,563.2	33,824.8	32,238.1
Stock-in-Trade		22,615.3	19,219.9	12,145.1
Trade Debts		13,552.2	11,040.6	3,355.3
Cash & Bank Balances		8,799.4	13,586.4	2,162.6
Total Assets		74,096.8	87,474.7	59,747.4
Trade and Other Payables		38,728.3	53,436.4	35,065.1
Long Term Debt		5,113.1	5,509.2	16,405.1
Short Term Debt		18,877.5	37,017.7	35,432.3
Paid-up Capital		1,810.2	1,991.2	9,991.2
Shareholder Equity (excl. revaluation surplus)		6,063.6	(14,685.0)	(33,306.4)
		-	-	-
<u>INCOME STATEMENT</u>		2018	2019	9M'19
Sales-Net of Sales Tax		233,244.4	154,874.9	111,611.0
Gross Profit		10,706.8	(1,851.0)	(34.3)
Operating Profit/(loss)		5,718.4	(15,027.5)	(10,683.0)
Profit/(Loss) Before Tax		185.8	(24,887.2)	(19,023.0)
Profit/(Loss) After Tax		(215.0)	(25,873.8)	(20,939.9)
<u>RATIO ANALYSIS</u>		2018	2019	9M20
Gross Margin (%)		4.6%	-1.2%	-3.1%
Net Margin (%)		-0.1%	-16.7%	-24.7%
Net Working Capital		(10,310.6)	(45,095.4)	(52,164.1)
FFO to Total Debt		-7.1%	-48.4%	-18.9%
FFO to Long Term Debt		-33.5%	-373.2%	-59.8%
Gearing (x)		4.0	-2.9	-1.6
Leverage (x)		10.5	-6.7	-2.7
Current Ratio		0.8	0.5	0.3
ROAA (%)		-0.3%	-32.0%	-37.8%*
ROAE (%)		-2.9%	-600.2%	NA
* Annualized				

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

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.

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.

(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	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
	<u>RATING TYPE: ENTITY</u>				
	30-Mar-21	CC	C	Negative	Downgrade
	17-Apr-20	BB+	A-3	Negative	Downgrade
	04-Sep-19	BBB	A-3	Negative	Downgrade
	24-Apr-19	AA-	A-1	Negative	Maintained
	1-Nov-17	AA-	A-1	Stable	Upgrade
	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
	<u>RATING TYPE: SUKUK</u>				
	30-Mar-21	D	-		Default
	17-Apr-20	BBB-	Negative		Downgrade
	04-Sep-19	BBB+	Negative		Downgrade
	24-Apr-19	AA	Negative		Maintained
	1-Nov-17	AA	Stable		Upgrade
	02-Nov-16	AA-	Stable		Reaffirmed
08-Jan-16	AA-	Stable		Final	
06-Nov-15	AA-	Stable		Preliminary	
Instrument Structure	Sukuk of Rs. 2.0b carries profit rate of 3months KIBOR plus 1.5% per annum that is payable quarterly. Security structure of the Sukuk entails formation of a debt payment mechanism to progressively retain upcoming installment in an escrow account. Security structure also includes first pari passu charge over specific depots and retail outlets of the company inclusive of a margin of 25%.				
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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