RATING REPORT

Hi-Tech Lubricants Limited

REPORT DATE:
January 18, 2024

RATING ANALYST:
Shaheryar Khan Mangan
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	*January 18, 2024*		*November 28, 2022*	
Rating Action	*Downgrade*		*Maintained*	

COMPANY INFORMATION

Incorporated in 1997	**External auditors:** M/s Riaz Ahmed & Co., Chartered Accountants
Listed Public Limited Company	**Chief Executive Officer:** Mr. Hassan Tahir
Key Shareholders:	**Chairman:** Mr. Shaukat Hassan
Directors and their families – 70.54%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Hi-Tech Lubricants Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Hi-Tech Lubricants Limited (HTL) was initially formed as a partnership firm in March, 1997. In 2011, the firm was converted into a private limited company by the name of Hi-Tech Lubricants (Pvt.) Limited and subsequently converted into a public unlisted company in the same year. In 2016, the company was listed on the Pakistan Stock Exchange (PSX).

Primary activity of HTL involves production and distribution of lubricants and petroleum products. In Jan'20, the company commenced marketing and sale of petroleum products as an OMC under the brand name of HTL Fuel Stations. The company imports lubricants from SK Lubricants, South Korea in Pakistan under the brand name 'ZIC'. Registered office of the company is located at 1-A Danepur Road, GOR-1, and Lahore.

Profile of CEO

Mr. Hassan Tahir holds an MBA degree in banking/financing from Lahore School

Company Profile

- Hi-tech Lubricants Limited (HTL) is in the business of trading of lubricants imported from SK Lubricants, South Korea (SKL) for around two decades. HTL sells almost all of its lubricants under the brand name 'ZIC'.
- Lubricants are sold in the domestic market through designated handlers and distributors across Pakistan including Gilgit and Azad J&K.
- Majority of the revenue is generated from the Punjab region.
- Albeit being small in size, HTL has also signed a Non-Exclusive Distribution Agreement with M/S Osman Ghani Limited (an Afghanistan based company) for export of locally blended ZIC Brand products. However, uncertainty remains due to the ongoing political situation.
- In 2017, the Company established the HTL Express centers, which offers a comprehensive maintenance solution, as a one-stop destination. Currently, the Company operates 13 of such express centers, which are planned to be increased to 22 by end 2025.
- In Jan'20, the Company commenced marketing and sale of petroleum products as an OMC under the brand name of HTL Fuel Stations in the Punjab Province.
- The Company currently has two storage terminals in Sahiwal and Nowshehra, respectively. The one in Sahiwal has storage capacity of 2,040 MT of PMG and 1,860 MT of HSD. Nowshehra's storage capacity stands at 1,401 MT of PMG and 1,551 MT of HSD. During FY23, the entity has also started developing an additional storage facility in Shikarpur (Sindh).
- At end-June'23, the Company had 29 dealer operated fuel stations in Punjab.
- The Company is pursuing expansion in the KP Province and Oil and Gas Regulatory Authority (OGRA) has granted permission through 35 stations with 9 of them already commencing operations after the reporting year. The plan is to increase the fuel stations by 42, totaling it to 80 by end 2025. Also, Shikarpur depot is to go operational by the end of 2024.
- Hi-tech Blending Limited (HTBL)is a wholly-owned subsidiary, which started operations in 2016 as a blending plant. It offers the facility of blending, producing its own bottles, cans, caps, and filling lines for lubricant bulk import. The blending capacity of the plant is 30,000 MT per annum while filing capacity increased from 67.9m MT to 94.3 MT per annum at end-FY23.
- Within HTBL during the year, in an attempt to further diversify its portfolio, polymer segment was launched aimed at providing plastic products for internal use as well as for external customers.

Key Rating Drivers

Business Risk Profile: Elevated Exposure to Global and Local Macroeconomic Factors

The business risk profile of HTL is categorized as high due to vulnerability to macroeconomic conditions and exposure to foreign exchange fluctuations. The Russia-Ukraine conflict and OPEC's decision of production cuts resulted in global supply constraints. Locally, the shrinkage of automobile of Economics (LSE) and is a working professional since 2001. He has set IT operations with back-office processing (BOP) and IT infrastructure for major clients in U/Europe. Mr. Hassan is also the Director of Hi-Tech Blending Pvt. Ltd, Hi-Tch Energy Pvt. Ltd, MAS Infosoft Pvt. Ltd, Haut Buys Pvt. Ltd, and Haut Notch Pvt. Ltd.

sector and high inflation restrained consumer lubricants demand. In addition, petroleum product sales witnessed a YoY decline for the 17th consecutive month of 11% to 1.4mn tons in Nov'23 as sales fell across the board given elevated retail prices of MS/HSD, increased inflow of Iranian fuel through informal sources and continuing economic slowdown amid all time high interest rates and high inflation. Going forward, the risk profile of the oil sector is hence, considered elevated over the next year.

Business diversification in the OMC segment

Overall revenues of the Company recorded a decline of 12% to Rs. 15.6B, primarily led by the lubricant segment. Lubricant segment recorded a sales decrease of 26% to Rs. 7.2B mainly due to volume decline. Given that demand of lubricant is directly related to the sale of vehicles, the weakening of automobile sector (51% down) constrained sales in the lubricant segment. However, the dip in revenues was partly recovered by the uptick in revenues in the petroleum segment. While petroleum volumes across the industry remained subdued, the Company being in an expansion mode yielded higher revenues. On a consolidated group basis, the Company also diversified into the polymer segment, which contributed Rs. 183m to consolidated topline. Albeit small, this diversification provides support to long-term revenue growth of the Company.

	Lubricants			Petroleum			Polymer		TOTAL		
	3MFY24	2023	2022	3MFY24	2023	2022	3MFY24	2023	3MFY24	2023	2022
Net Revenue	1621	7277	9800	2379	8150	7944	81	183	4081	15610	17744
Portion in Sales Mix	**40%**	**47%**	**55%**	**58%**	**52%**	**45%**	**2%**	**1%**	**100%**	**100%**	**100%**
Cost of sales	1208	5096	6731	2269	7917	7275	56	170	3533	13184	14007
GP	413	2181	3069	110	233	668	25	13	548	2427	3737
GP Margin	**25%**	**30%**	**31%**	**5%**	**3%**	**8%**	**31%**	**7%**	**13%**	**16%**	**21%**
Distribution cost	132	761	861	89	310	281	2	4	223	1075	1142
Administration cost	205	877	679	9	20	13	1	4	214	900	693
Other expenses	33	219	507	7	11	31		0	41	231	538
	369	1857	2047	105	340	326	3	5	478	2202	2373
Other Income	92	77	79	19	102	63		0	111	178	142
Profit/loss from operation	*135*	*400*	1101	24	-5	405	22	5	181	399	1506
Operating Margin	**8%**	**5%**	**11%**	**1%**	**0%**	**5%**	**27%**	**2%**	**4%**	**3%**	**8%**
Finance cost	128	*537*	234	33	99	54	40	87	201	722	288
Profit/loss before taxation	7	-137	866	-9	-104	352	-17	-82	-20	-322	1218
Taxation		0	0		0	0	0		37	-75	600
Profit/loss after taxation	7	-137	866	-9	-104	352	-17	-82	-57	-247	617
Net Margin	**0%**	**-2%**	**9%**	**0%**	**-1%**	**4%**	**-21%**	**-45%**	**-1%**	**-2%**	**3%**

Margins adversely impacted

Margins of the Company were adversely impacted during the year and into the Q1'2024, mainly due to erosion of margins in the petroleum segment. On consolidated basis, margins of the lubricant segment remained constant at ~30%. Petroleum segment however recorded a significant dip in margins mainly due to inventory and currency losses. Amidst slowdown in demand, the impact of rising commodity prices and currency fluctuations could not be passed on the customer.

Rising finance costs further constrained margins, reducing to -1.6%. Borrowings secured for expansion of the business had to be serviced at high interest rates, which eroded margins resulting in a red bottom line (FY23: -Rs 246m).

Profitability wise, lubricant segment continued to be the major contributor with 90% gross profits arising from lubricants business. In Q1 FY24, lubricants continued to face pressure on volumes and margins, resulting in overall loss of Rs 57m.

In an effort to mitigate currency exposure, the Company has shifted 90% of its purchases to local refineries, which is expected to help preserve margins. In addition, the increase in OMC margins announced by the Government in September and October is expected to have a positive impact on margins, going forward.

Debt servicing under pressure; Liquidity profile is considered adequate.

On consolidated basis, liquidity metrics remain adequate with current ratio at 1.03x (FY22: 1.04x) and short-term borrowing coverage at 1.48x, albeit declining. Ratings draw comfort from ~Rs 450m of cash and short term investments held by the Company.

Due to lower profitability, Funds from Operations (FFO) significantly reduced, ultimately affecting the Debt service coverage ratio which notably reduced to 0.36x (FY22: 4x) on an unconsolidated basis and to 0.82x (FY22: 3.9x) on a consolidated basis. FFO to long-term debt coverage also dipped to 11% from 148%. While FFO coverages do reflect some improvement on three months FY24 results on annualized basis, recoupment of volume sales and margin improvement will remain imperative in the ongoing year.

Capitalization profile remains constrained

On a timeline basis, higher payouts (FY21-23: 173%, 61%, 298%) has constrained equity growth, which was further impacted by losses posted in FY23 & Q1FY24. Short-term debt also rose in line with the growing working capital requirements. Gearing and leverage ratios were reported at 0.81x (FY22: 0.62x) and 1.17x (FY22:1.45x) respectively. We expect capitalization profile to remain elevated given the expansion in OMC and polymer segment. Going forward, maintenance of capitalization profile will remain a key rating sensitivity.

Hi-Tech Lubricants Limited — Appendix I

FINANCIAL SUMMARY (Unconsolidated)				(PKR Millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**3MFY24**
Fixed assets	1,834	2,590	2,590	2,602
Stock-in-trade	879	2,869	1,103	1,283
Trade debts	103	106	159	240
Cash and bank balances	265	657	239	237
Total Assets	5,586	9,137	7,395	7,683
Trade and Other Payables	1,385	2,726	974	1,389
Long-term Debt (incl. current portion and lease liability)	545	644	643	609
Short term borrowings	461	1,494	1,852	1,867
Total Debt	1,006	2,138	2,494	2,477
Total Liabilities	2,436	4,995	3,572	3,977
Paid up Capital	1,160	1,392	1,392	1,392
Equity (excl. Revaluation Surplus)	3,151	3,438	3,066	2,949
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**3MFY24**
Net Sales	10,589	17,739	15,532	4,000
Gross Profit	1,787	2,720	1,587	305
Operating Profit	443	827	-212	-86
Finance Costs	81	196	475	138
Profit Before Tax	443	1,014	-181	-84
Profit After Tax	300	737	-93	-117
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**3MFY24**
Gross Margin (%)	16.9%	15.3%	10.2%	7.6%
Net Margin (%)	2.8%	4.2%	-0.6%	-2.9%
Funds from Operation (FFO)	582.4	1,353.5	-207.4	-54.3
FFO to Total Debt* (%)	57.9%	63.3%	-8.3%	-8.8%
FFO to Long Term Debt* (%)	106.9%	210.1%	-32.3%	-35.7%
Gearing (x)	0.3	0.6	0.8	0.8
Leverage (x)	0.8	1.5	1.2	1.3
Debt Servicing Coverage Ratio* (x)	2.7	4.1	0.4	0.5
Current Ratio	1.0	1.0	0.9	0.8
(Stock in trade + trade debts) / STD (x)	2.1	2.0	0.7	0.8
Return on Average Assets* (%)	5.7%	10.0%	-1.1%	-6.0%
Return on Average Equity* (%)	9.5%	20.2%	-2.3%	-12.1%

**Annualized, if required*

Hi-Tech Lubricants Limited

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Hi-Tech Lubricants 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				
18-01-2024	A-	A-2	Stable	Downgrade
28-11-2022	A	A-2	Stable	Maintained
03-12-2021	A	A-2	Positive	Maintained
30-12-2020	A	A-2	Stable	Maintained
21-04-2020	A	A-2	Rating Watch – Negative	Maintained
12-09-2019	A	A-2	Stable	Downgrade
22-02-2018	A	A-1	Stable	Initial

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.
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Due Diligence Meetings Conducted	

S.No	Name	Designation	Date
1	Mr. Hisham Iqbal	Senior Manager Financials	December 1, 2023
2	Mr. Hamza Iqbal	Manager - Financials	December 1, 2023